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How different pay-for-performance remuneration plans affect executive performance

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Abstract

Orientation: The design of remuneration plans and pay-for-performance is recognised as a long-standing management practice. Almost all remuneration plans include incentive and bonus schemes in order to motivate the desired performance of individuals by rewarding them based on performance.

Research purpose: The primary aim of the study was to assess how different pay-for-performance remuneration plans affect performance.

Motivation for the study: Research and literature indicates that pay-for-performance can indeed influence employee performance; however there are instances where there are negative effects associated with pay-for-performance. Pay-for-performance is in instances considered controversial owing to the large remuneration packages that executives in particular receive.

Research design, approach and method: The research methodology that was utilised was a quantitative study, by undertaking a structured cross sectional survey of executives and managers. The survey was distributed to 201 potential respondents and the results of 118 respondents were utilised in the data analysis. Four different types of pay-for-performance plans were assessed, namely Merit Pay, Bonus Pay, Full Shares, and Share Appreciation Rights. Expectancy Theory was utilised as a basis in an attempt to explain the

motivation of executives and managers with respect to the influence that different types of pay-for-performance plans have on performance.

Main findings/results: All of the pay-for-performance plans were found to have a positive effect on the motivation of employees; however it was found that the most significant factor relating to motivation of employees was expectancy as opposed to the preference of the type of reward (valence). The rewards preferences, as determined by this study, in order of preference were Merit Pay, Full Shares, Bonus Pay, and Share Appreciation Rights.

Practical/Managerial implications: This study confirms that it is more important to understand individuals and what motivates them than the actual rewards offered. Different rewards have different motivational effects, however the reward itself is not the dominant determinant with regards to motivational as a whole.

Contribution/value-add: This study further clarifies the influence that different pay-for-performance remuneration plans have on the future performance of executives and managers.

Key words: Pay-for-performance, remuneration, motivation, expectancy, valence.

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

_____ 9 November 2011

Michael Bouwmeester Date

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To my wife Claudine and my son Jared, thank you for understanding and for giving me the opportunity and time to be able to pursue my studies.

To my parents, thank you for the sacrifices that you have made to provide for Diane and I, and thank you for bringing us up in the manner you have.

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1. Chapter 1: Introduction to Research Problem

1.1. Introduction

Attracting, retaining, developing and motivating employees is one of the most critical challenges facing organisations today (Banker, Lee, Potter, & Srinivasan, 2000; Schuler, Jackson, & Tarique, 2010), and as such pay or remuneration is regarded as a key issue in any employment relationship between an organisation and an employee (Gerhart, Milkovich, & Murray, 1992).

The design of remuneration plans and pay-for-performance is recognised as a long-standing management practice (Turner, 2006), that has been used as an attempt:

- To motivate individuals to increase their effort to achieve and sustain greater levels of performance, by meeting specific performance objectives
- To ensure the attraction and retention of good employees within the organisation
- To encourage innovation and development of employees within the organisation, and
- To focus the attention of employees in better aligning their efforts to the organisation's financial and strategic objectives (Bussin, 2003; Lawler, 1989; Park & Sturman, 2009; Rost & Osterloh, 2009)

Research by Gerhart *et al*. (1992) has shown that organisations that have relied more heavily on pay-for-performance in the form of variable pay (pay mix as opposed to pay level) have outperformed those organisations that have relied more heavily on the more traditional fixed pay systems (single type of pay mix such as base pay only).

The two general types of effects of pay mix, based on the research undertaken by Gerhart *et al*. (1992), on employee and organisation performance relate firstly to the fact that pay-for-performance can provide incentives and reinforcement of desired behaviour among employees, and secondly that pay-for-performance can influence the composition of the workforce through sorting ability, shirking/ maintaining, and employee turnover.

However, there are negative issues associated with pay-for-performance and one of these, as identified by Gerhart *et al*. (1992), is the appropriate level or degree of individual versus group teamwork emphasis in pay-for-performance design. Many view the individual focus as being discouraging towards teamwork. This is particularly important at higher levels within an organisation due to the roles and responsibilities that executives and managers hold as well as the nature and size of the rewards on offer.

The use of pay purely as a motivator has been questioned. Therefore, it is necessary to understand the relationship between pay and motivation.

1.2. The Relationship between Pay and Motivation

As stated by Green (2000, pg. 4) “Motivation is the fuel for performance.”, it is apparent that employees must have the motivation in order to perform, and to ensure optimum performance it is necessary to understand the relationship between motivation and performance.

As individuals are motivated to perform in a manner that they believe will be in their best interests (Bruce & Pepitone, 1999), it is necessary to understand the individual. From a management perspective, it is important to realise that individuals are different, and that one type of reward will not motivate all employees.

As described by Glassman *et al.* (2010), there are considered to be two broad approaches that can be used to explain the relationship between pay and motivation, the needs theory approach and the process theory (cognitive theory) approach (Glassman *et al.*, 2010). The needs theory approach, views motivation as residing as an internal drive whereby an individual seeks to satisfy various internal levels of needs, and argues that because motivation is an internal drive it generally cannot be influenced by extrinsic rewards (Glassman *et al.*, 2010).

Process theory (cognitive theory) on the other hand is primarily concerned with the processes by which behaviour is initiated and sustained, and argues that extrinsic rewards and incentives are important to motivate people (Glassman *et al.*, 2010). For there to be a strong relationship between motivation and pay

there must be a belief from employees that rewards are allocated fairly and consistently. Further, the rewards themselves must be valued by the employee, performance expectations must be considered reasonable, and the reward must be given when the performance has been achieved (Glassman *et al.*, 2010).

It was been proposed, by Vroom (1995) that the level of performance of an individual, with respect to a job or task, is a direct function of the individual's ability and motivation to perform the job or task effectively. In terms of motivation, performance increases with an increase in the value attributed to the preference of the reward offered for successful performance (Vroom, 1995). It therefore follows, and is expected, that the more valued the reward is, the greater the motivation and the greater the performance will be.

1.3. Remuneration and the Financial Reward Processes

Almost all remuneration plans include incentive and bonus schemes in order to motivate the desired performance of individuals by rewarding them based on performance (Armstrong & Murlis, 1998). For executives and managers, these plans typically value long-term incentives over short-term incentives, and provide additional and often substantial remuneration in addition to base pay. The attainment of company growth, profitability targets, and individual objectives are typically the basis for such rewards (Armstrong & Murlis, 1998).

The primary aim of incentive schemes is to increase motivation, thereby improving company performance (Armstrong & Murlis, 1998). Variable remuneration, as a part of a remuneration scheme, is therefore considered an

important part of remuneration and over the years has become a significant cost of employment (De Swardt, 2006).

Executive remuneration, in particular, has for many years been considered to be controversial (Edmans & Gabaix, 2009; O'Reilly & Main, 2010), and several conflicting studies exist concerning the effectiveness of pay-for-performance incentives at the executive level (Rost & Osterloh, 2009). Excessive remuneration levels have been severely criticised and are considered by many to be unjustified by the contribution of individual executives (Armstrong & Murlis, 1998).

1.4. Research Scope

The scope of this research study is directed towards executives and managers. Executives, for the purpose of this study, are defined as individuals that hold directorship positions in either public listed or private organizations and are registered as directors of such organisations. Managers, for the purpose of this study, are defined as individuals that hold managerial positions in either public listed or private organisations.

Since not all executives and managers can be engaged through this research, the Gordon Institute of Business Science MBA class of 2010/2011 and the class of 2011/2012, students were approached to participate in this research, as well as to canvass executives and managers in their respective organisations. This ensured the provision of a good breadth of industries as well as types of

organisations. The study is limited to those executives and managers that were approached.

1.5. Research Motivation

Executive remuneration, as already mentioned, is regarded as a controversial topic, due primarily to the significant and substantial increase in executive pay over the past few years (Edmans & Gabaix, 2009; O'Reilly & Main, 2010). The controversy extends to the fact that executive remuneration has vastly outpaced the rise in average wages over the past few years, as well as the well-publicised wage differential between the highest paid and lowest paid employees within any one organisation.

Further, owing to the recent 2008-2009 financial crisis, much emphasis has been placed on executive and managerial remuneration as it has been suggested that the structure thereof and focus on short-term results can, and may have, incentivised executives to take unnecessary risks (Bebchuk & Fried, 2010).

Research and literature indicates that pay-for-performance can indeed influence employee performance (Park & Sturman, 2009) by helping to achieve desired results at both the individual level, and the organisation level. However, there would appear to be instances where pay-for-performance plans do not affect performance (Park & Sturman, 2009).

Further, there is research and opinion that proposes that pay-for-performance is considered a management fad that does not induce the behaviour intended, in particular when evaluating the performance of executives (Rost & Osterloh, 2009).

Rost and Osterloh (2009) argue that executive pay-for-performance programmes fail to meet the anticipated expectations and are dysfunctional due to the fact that:

- There is no actual relation between the performance of the organisation and the performance related salary of the executive
- There is no market conformity to the rise in executive salaries, and
- On average, pay-for-performance plans do not replace part of the fixed income of an executive's salary with that of variable components

Several studies have offered a variety of theories to explain the concept of pay-for-performance in organisations as well as relating these theories to the impact of pay-for-performance in organisations (Gerhart, Rynes, & Fulmer, 2009). Amongst these theories, Expectancy Theory has been utilised by Park and Sturman (2009) to predict employee behaviour by approximating how pay-for-performance plans differ concerning the characteristics of reward and expectancy thereof.

The purpose of this study is to evaluate how different pay-for-performance remuneration plans affect executive and managers performance. This study differs from previous studies (Park & Sturman, 2009) in the context of

evaluating *executive and manager's* remuneration, and the combination of different types of pay-for-performance plans.

Expectancy Theory is utilised as a basis in an attempt to predict/ explain the motivation of executives and managers with respect to the influence that different types of pay-for-performance plans have on performance.

The subsequent evaluation of the performance outcomes of such pay-for-performance plans and whether executives and managers actually do perform to expectation is outside the scope of this study. This study is based purely on evaluating how different pay-for-performance plans motivate and affect performance.

This chapter has provided and introduction to the research being undertaken, as well as the scope of the research and the motivation for undertaking the research. The next chapter provides a review of the literature relating to pay-for-performance and the development thereof with respect to performance and motivation.

2. Chapter 2: Literature Review

Pay-for-performance and the development thereof form part of the broader subject of reward management. Reward management is concerned with, among other things, the development of appropriate organisational cultures, core values, and increasing the motivation and commitment of employees to the organisation (Armstrong & Murlis, 1998). The development of pay-for-performance remuneration strategies are primarily based on the theories of motivation, reward, and performance management, the basis of which resides in the work of authors such as Maslow, Herzberg, Vroom, Alderfer, McClelland and Locke (Bassett-Jones & Lloyd, 2005).

The literature review is structured in a manner in order to understand how different pay-for-performance remuneration plans affect performance. The literature review commences with a review of Agency Theory, to illustrate the importance of appropriate incentives, in order to positively affect behaviour. The necessity of managing rewards, and the management of expectations, is addressed through understanding and appreciating the psychological contract between employers and employees as well as the reward management principles applicable to pay-for-performance plans.

A description of the relationship between pay and motivation, including some of the more common types of pay-for-performance remuneration strategies is provided. This includes an assessment of the two primary views of rent extraction versus optimal contracting, and the problems experienced with pay-

for-performance systems. Lastly, the status quo concerning pay-for-performance is addressed.

Motivation Theory seeks to understand the extent of the different types of motivation theories and how they can be used to explain an individual's motivation to perform. Specifically, Expectancy Theory is introduced as a possible explanation through which the motivation of executives and managers to perform can be assessed.

2.1. Agency Theory

"If a person wants to influence the decision of another person then he attempts to set up a system of rewards (positive or negative) in order to influence that decision" (Berhold, 1971, pg. 482).

Over time and through the evolution and development of organisations, there has been a concern about the growth in the separation of control and ownership in large organisations. This has resulted in the need to examine the relationship between shareholders/ owners and executives/ managers, in order to address what is termed the principal agent problem (Jensen & Meckling, 1976). One of the suggested manners in which to address this problem, is by providing appropriate incentives to the agent (executive/ manager), based on the measurement of observable outcomes (Jensen & Meckling, 1976).

Agency Theory, and the incentivising of agents, focuses on addressing the two principal problems that occur in an agency relationship (Eisenhardt, 1989):

- Firstly, the agency problem where the agent's and principal's interests are not aligned in terms of desires and risk, and
- Secondly, the fact that it may be very expensive and difficult for the principal to actually verify what the agent is doing

Agency Theory is concerned with how the principal can best motivate the agent to perform in a manner consistent with the interests of the principal, bearing in mind that the principal may have difficulty in monitoring the agent's activities (Sappington, 1991). Further, it is likely that the agent will not always act in the best interests of the principal because of the self-interest of the agent (Jensen & Meckling, 1976). The basis of Agency Theory is that monetary rewards can solve agency problems, and that shareholders can therefore influence executives and managers' behaviour by controlling their incentives (Eisenhardt, 1989). One of the problems though is the determination of the level and type of remuneration awarded to the agent (Nourayi & Daroca, 2008).

Agency theory remains the foundation on which the vast majority of pay-for-performance executive remuneration research relies, by attempting to bridge the separation of ownership and control by aligning the interests of shareholders and managers (Dalton, Hitt, Certo, & Dalton, 2007; O'Reilly & Main, 2010; Rost & Osterloh, 2009). The manner in which this is achieved relates to how executives and managers are motivated to align themselves to the interests of the principal. It is therefore necessary to understand how motivation theory relates to pay-for-performance and how this fits into reward management strategies.

2.2. Reward Management

Reward management, as defined by Armstrong and Murlis (1998, pg. 1), is "about the development, implementation, maintenance, communication and evaluation of the reward process. These processes deal with the assessment of relative job values, the design and management of pay structures, performance management, paying for performance, competence or skill, the provision of employee benefits and pensions, and the management of reward procedures." Reward management relates to the total reward process, which includes the financial reward processes, performance management processes, and non-financial reward processes. As per the above definition, it is evident that pay-for-performance is just one part of the total reward management process.

The basis of managing rewards, as per Armstrong and Murlis (1998), is primarily related to managing the expectations of employees and well as the expectations of employers. Employees expect to be remunerated for their contribution, while employers expect employees to contribute meaningfully in return. The relationship between employers and employees can be broadly characterised as being either transactional or relational in form (Armstrong & Murlis, 1998). Transactional contracts tend to be well described in terms of what is expected by both parties and are typically expressed in the form of an employment contract. Relational contracts on the other hand tend to be less well described, if at all, and are described as a psychological contract (implied contract) between the parties.

The significance of the psychological contract concerning reward management, and in particular pay-for-performance plans, relates to defining and meeting expectations concerning pay, performance and the development of skills (Armstrong & Murlis, 1998). The psychological contract can be further described as the combination of beliefs that an individual and employer have about one another and what they expect of one another (Armstrong & Murlis, 1998).

Schein has (Armstrong & Murlis, 1998) suggested that the extent to which people work effectively and are committed to the organisation depends on two factors:

- Their expectations of what the organisation will provide them, and what they owe the organisation in comparison to the expectations of the organisation in terms of what they will give the individual and what they will get in return, and
- The type of reward that is exchanged, for the work and effort provided

2.3. Pay-for-Performance

The rationale, according to Armstrong and Murlis (1998), for using pay-for-performance incentives relate to three basic reasons namely:

- Motivation, which relates to paying individuals based on performance and the fact that this motivates them to achieve higher levels of performance

- Message, which relates to the message or indication that the organisation regards performance, competence or skill as important, and
- Equity, which refers to the fact that the organisation regards it reasonable that pay should be related to performance, contribution, competence and skill and that the assessment thereof is undertaken in a fair and equitable manner

Armstrong and Murlis (1998), argue that pay can only motivate performance if a number of stringent conditions are satisfied. Two types of criteria are differentiated by Armstrong and Murlis (1998), namely individual criteria, and 'line of sight' criteria.

Individual criteria relate to employees knowing what targets are required to be met in order to be rewarded, that the reward is closely linked to effort, that assessment is fair and consistent, that individuals can influence their performance, that rewards are meaningful, and that rewards closely follow performance. The 'line of sight' concept relates to the ability of individuals to clearly see the link between what they do and the reward that they will get for doing it.

Both the individual criteria and line of sight concept are clearly linked to the concept of the psychological contract and performance of individuals.

2.3.1. Why use Pay-for-Performance

Pay-for-performance continues to be a very popular within organisations, and forms the basis of most bonus schemes (Armstrong & Murlis, 1998), this even despite the many negative reports regarding pay-for-performance over the years. The overall objectives of pay-for-performance are to provide incentives and rewards which will improve the performance of individuals and subsequently improve the performance of the organisation (Armstrong & Murlis, 1998).

There are a number of reasons why organisations may be interested in using pay-for-performance remuneration plans, even when there may be additional cost involved. Two such reasons are the provision of incentives and the sorting role (Lemieux, MacLeod, & Parent, 2009). The provision of performance pay provides an incentive for employees to exert more effort, while also attracting employees that are more able (skilled). This is achieved by paying a wage that better reflects their productivity and skills, thereby sorting employees across different organisations and/ or jobs (Lemieux *et al*., 2009).

Pay-for-performance incentives are designed to motivate employees, ensure retention of good employees, encourage innovation, and focus the attention of employees in aligning themselves to the organisation's objectives (Lawler, 1989). Rost & Osterloh (2009) substantiate and further elaborate that pay-for-performance incentives are intended to

compensate staff for their individual actions, and meet specific performance objectives, and to motivate them to continue doing so.

There would appear to be considerable disagreement though, regarding the existence and the effectiveness of pay-for-performance among employees, with studies indicating that pay-for-performance seems capable of producing spectacularly good results as well as spectacularly poor results (Gerhart *et al.,* 2009; Glassman, Glassman, Champagne, & Zugelder, 2010). Armstrong and Murlis (1998) argue that the effectiveness of money as a motivator is questionable, however regardless thereof, it is fair to pay people what they are worth.

While this may be the case, it is known that pay-for-performance incentives are considered to be an integral part of both private sector and public sector remuneration policies (Bussin, 2003), and the importance thereof has increased over the past few years.

Pay-for-performance incentives and remuneration research has traditionally been focussed on reward (fixed reward in the form of salary and variable reward in the form of bonus and incentives), as opposed to the reward mix (Chapman & Kelliher, 2011). Executives and management have typically been compensated through a combination of fixed pay and variable pay. Fixed pay can be described as base pay or salary, while variable pay can be described by short term and long term incentives (Bussin, 2011). Presently the main components of executive

pay are salary, merit pay (annual merit raise), bonus pay, and long term incentives made up of various equity incentives based on the organisation's shares/ stock (Frydman & Jenter, 2010).

Variable remuneration is considered to be beneficial to employees through providing higher compensation if the desired behaviour is displayed and objectives are achieved by translating business strategy into tangible goals (De Swardt, 2006). Increasing the ratio of variable remuneration to fixed remuneration is considered to add flexibility to the organisation by placing the organisation in a better position to pay higher remuneration when the organisation performs better (De Swardt, 2006). Likewise variable remuneration provides the organisation the opportunity of paying lower remuneration when the organisation performs poorly.

The different types of pay-for-performance remuneration categories are described below.

2.3.2. Merit pay (annual merit raise)

Merit pay, commonly known as an annual merit raise or increase, normally applies to the fixed component of a remuneration plan. Merit pay is typically based on the individual performance of employees, and is often determined by performance appraisals undertaken by supervisors (Salimäki & Jämsén, 2010). Merit pay is differentiated from bonuses and long-term incentives in that the increase in merit pay is permanent, whereas the others are considered to be once off payments/ rewards

(Park & Sturman, 2009). As merit pay has a significant influence on lifetime earnings, the estimated link between pay and performance is usually higher as this is typically reflected as guaranteed long-term pay (Gerhart *et al.,* 1992).

Although merit pay is by and large the most popular method of incentivising and motivating employees to achieve improved performance/ productivity, there are some that believe that merit pay is problematic because of the perceived ineffectiveness in producing the desired outcomes (Salimäki & Jämsén, 2010). This may be due to the perceived implementation problems with a performance-based system. These problems relate to the subjective nature of appraisals, the bias that may be apparent within such systems, the difficulty in linking merit pay to an employee's actual performance (job characteristics), available funding, and appropriate feedback mechanisms (Glassman *et al.*, 2010; Park & Sturman, 2009; Salimäki & Jämsén, 2010).

2.3.3. Bonus pay

Bonus pay or an annual bonus is normally referred to as a monetary reward that is given to employees, firstly when the organisation can afford to, and secondly in recognition of some or other goal or achievement (Sturman & Short, 2000). Bonus pay has to be earned every year (Gerhart *et al.,* 1992), and is normally in addition to an employee's fixed remuneration, it is not guaranteed, and does not contribute to the long term fixed costs of the organisation as merit pay

would (Sturman & Short, 2000). Under a pay-for-performance bonus plan, an employee is typically compensated for achievement of a predetermined target, stated performance criteria, or a predetermined threshold (Rost & Osterloh, 2009). Bonus Pay is considered to be less desirable than Merit Pay, since Bonus Pay is a once off payment and therefore has less economic value than Merit Pay (permanent raise) (Park and Sturman, 2009).

It has been suggested that the use of a bonus as a performance incentive may encourage manipulation to reach targets, for example earnings management and/ or budget smoothing (Rost & Osterloh, 2009). Further, it has been suggested by Gerhart *et al.,* (1992), that although there is an increased performance through motivation to achieve desired targets, there is a negative effect with regards to employee/ employer relationship and long term commitment as employees tend to be only interested in achieving the next bonus or target.

2.3.4. Long-Term Incentives

Long-term incentives are a form of remuneration that link an organisation's long-term growth to the performance of an individual, and may be utilised to attract highly motivated and entrepreneurial employees (Hall & Murphy, 2003).

Long-term incentives have also been used to promote employee retention (Rynes, Gerhart, & Bono, 2000), as long-term incentives are typically structured to benefit those that remain with the organisation for a period of time. These long-term incentives in many instances take the form of equity based remuneration, which is very common in executive remuneration contracts (Sigler, 2009) and is considered by some as the largest and most important component of executive pay arrangements (Bebchuk & Fried, 2010).

The intention of long-term incentives is to motivate employees to act in the best interests of the organisation and positively link individual's performance to organisational performance. However, there needs to be a strong link between individuals influence and organisational performance (line of sight) for this to be effective (Gerhart *et al.,* 1992).

The main argument in favour of equity remuneration would appear to be the belief that these provide executives a greater incentive to act in the interest of shareholders by encouraging risk taking and mitigating problems with risk aversion (Hall & Murphy, 2003; Eisenhardt, 1989). However, incentives provided by equity remuneration may also encourage excessive risk taking, due to a fixation on share prices and the escalation of option grants (Madrick, 2003).

Many different types of long-term incentives exist. Two of the more common types of long term incentives are full shares and share

appreciation rights. With the award of full shares, employees receive the full value of the share after a pre-determined time period has lapsed. The value to the employee is the share price at the time of vesting, normally in the form of the share itself (Olivier, 2008).

Share appreciation rights are different in that the value of the reward is linked to the performance of the shares themselves and the employee receives only the increase in value of the share between award and vesting (appreciation). This is normally after a pre-determined time period has lapsed and may be in the form of cash or equity (Olivier, 2008).

Although long-term incentives have become more common in recent times, research has found that employees generally underestimate the value of these types of benefits (Gerhart *et al.,* 1992), as they tend to be intangible to a large degree.

Figure 1: Summary of remuneration/ pay structures (Bussin, 2011)

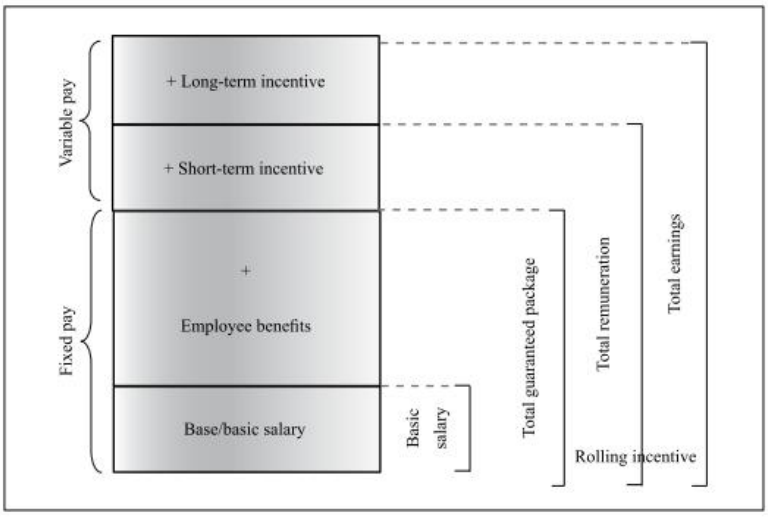


Figure 1, above, provides a summary of the relationship between the typical remuneration structures that are in place in most organisations. Fixed pay relates to base/ basic salary as well as any employee benefits such as medical aid, allowances and pension contributions, commonly referred to as total guaranteed package. The variable portion of pay relates to short term incentives and long term incentives which may include among others, merit pay, bonus pay and equity based remuneration (shares).

2.4. The Relationship between Pay and Motivation

Both the level and the remuneration of executive and senior management in organisations have changed dramatically over time (Frydman & Jenter, 2010), and pay-for-performance for executives and managers is widespread and has been growing (De Swardt *et al.*, 2006). There are generally considered to be two schools of thought with regards to the development (nature) of executive and managerial remuneration and the outcomes that are produced (Frydman & Jenter, 2010).

The first school of thought relates to powerful executives and managers setting their own pay and extracting rents from organisations, the second school of thought relates to optimal contracting in a competitive market for managerial talent. Frydman and Jenter (2010) found in their review of literature that many of the theoretical studies can be consistent with both rent extraction and optimal contracting theories, and their review suggests that both managerial power and

competitive market forces are important determinants of executive and managerial pay.

2.4.1. Rent Extraction

In the past, it has been postulated that executive and managerial wealth appears to bear little relation to an organisation's performance and executives and managers effectively seek to maximise their own wealth rather than shareholder value (Bebchuk & Fried, 2004). Executives are in this view, considered to be self-interested and maximise their own wealth through their salaries, bonuses, share options and enhancing their own career paths (Sigler, 2009). This behaviour, by executives, of maximising their own wealth is more commonly known as rent-seeking behaviour or rent extraction (Sigler, 2009).

The rent extraction view suggests that weak corporate governance and submissive/ consenting boards allow executives and managers to have a significant influence in setting their own pay, which has ultimately resulted in higher levels of remuneration– referred to as the managerial power hypothesis (Bebchuk & Fried, 2004).

2.4.2. Optimal Contracting

In contrast to the managerial power hypothesis, other theories have been proposed that indicate that the increase in executive remuneration is the efficient result of the market demanding increasingly scarce executive

skills and managerial talent (Frydman & Jenter, 2010). Research by Frydman and Jenter (2010) has found that executive and managerial remuneration increases with increasing organisation size and market capitalisation. Further research, by Xavier and Landier (2008), reasons that the recent increase in executive remuneration may be due to the result of changed organisation characteristics, improved technology, significant changes in product markets, and an increased effect of executive effort and talent. It has also been proposed that there has been a shift in type of skills and that the growth in pay is as a result of stricter corporate governance and improved monitoring by boards (Xavier & Landier, 2008).

Edmans and Gabaix, (2009) have challenged the rent seeking view through the evaluation of optimal contracting theories to show that optimal contracting theories can indeed explain the rapid increase in pay, the low sensitivity to organisation performance, and high sensitivity to luck. Further, recent research by Nyberg, Fulmer, Gerhart, and Carpenter (2010) indicate that based on a new conceptualisation of CEO return, there is a statistically significant and meaningful relationship between CEO return and shareholder value. This suggests stronger alignment between CEO return and shareholder alignment than found in previous work (Nyberg *et al.*, 2010). Hall and Murphy (2003) find that organisation's boards have become more independent over time, board sizes have decreased, the ratio of outside to inside board members has increased, remuneration committees have been established and the

general strengthening in corporate governance has made it far more difficult for executives to extract rents from boards.

2.5. Problems with Pay-for-Performance

In theory, executive and manager's remuneration plans should be designed to maximise value on behalf of shareholders (Edmans & Gabaix, 2009). It has been suggested that effective remuneration plans should consider the targets against which employees are being measured, the fact that employees must be able to influence the achievement of the target, that potential rewards should be significantly higher than the median, and there should be a choice of reward type such as cash, shares or additional benefits.

Rost and Osterloh (2009) find that pay-for-performance does not provide the solutions to its intended goals, especially in the case of executives, where pay-for-performance has counterproductive effects. Rost and Osterloh (2009) argue that apart from the empirical findings that support their view, Agency Theory has been incorrectly applied in many instances. The incorrect application relates to the crowding out effect of intrinsic motivation, and the counterproductive effects of pay-for-performance which are reinforced by self-selection, the influence of remuneration consultants, and budget gaming.

Further, Armstrong and Murlis (1998) have suggested that undue focus on tasks that will reward performance; result in the neglect of others, such as quality, and too much emphasis on individual performance, results in teamwork suffering.

There is a significant amount of literature that suggests that the use of incentives and attempts to persuade employees, may be interpreted as controlling or pressuring, and those attempts may have significant negative consequences (Turner, 2006).

As has been described by Park and Sturman (2009), another way to assess pay-for-performance remuneration is through the use of Expectancy Theory in order to understand the potentially different effects that different forms of pay-for-performance incentives have on employee performance.

2.6. Successful Pay-for-Performance Plans

The successful implementation of pay-for-performance plans has been the subject of many research studies/ articles. Research by De Swardt, Veldsman and Roodt (2006), indicates that in order for pay-for-performance plans to be successful:

- It is necessary to create a performance culture within the organisation
- Organisations must make certain that employees can influence performance metrics and the distribution of rewards, and
- There must be a minimum level of instrumentality, congruency and performance that must be implemented for variable remuneration to influence the outcome of a remuneration scheme

Where pay-for-performance plans have failed, it has been found that (De Swardt *et al.*, 2006):

- Organisations lack a performance climate, including the absence of proper performance management processes. In these instances, there is:
    - A general lack of understanding among participants
    - An inability of participants to influence outcomes, and
    - There may be a lack of trust of the custodians among the participants (De Swardt *et al.*, 2006)

Gerhart *et al.,* (1992) substantiates this and found that communication and employee participation in the pay-for-performance plan is critical to the successful implementation of such plans. The importance of pay, the accompanying processes, and the communication of that information to employees may have a significant effect on attitude and behaviour.

2.7. Motivation Theory

Motivation is and has been for many years, a much-discussed topic in the field of management and remains an elusive and complex concept (Mackay, 2007). Motivation theory itself has a very long history, and many different authors have contributed to the development of the field. This has resulted in the development of many different types of theories to explain/ understand an individual's motivation to perform, as evidence from as early as 1918 (Turner, 2006). In essence, the purpose of motivational theories is to be able to predict behaviour.

De Swardt (2006) has provided a succinct summary of the major types of theories that have evolved over time. These theories are divided into five broad categories namely:

- People assumption models:
  - These are models that deal with assumptions we make about people, and refer to our belief systems/ mental models that we hold about people and how to motivate them
  - These theories include Theory X (McGregor), Theory Y (McGregor), Social Assumptions (Schein), and the Scientific Approach (Taylor)
- Needs theories:
  - These theories describe people as having needs ranging from lower order needs (such as necessities to live e.g. food) to higher order needs (such as self-actualisation). In needs based theory, motivation is explained through the behaviour of individuals that leads to the reduction of needs, in other words the achievement of lower order needs first, before realising higher order needs
  - These theories include Maslow's Hierarchy of Needs, ERG theory (Alderfer), Two-factor theory (Herzberg), and Acquired Needs theory (McClelland)
- Cognitive theories:
  - These theories explain motivation as a form of rational behaviour directed at achieving goals, which people value.

These are based on people's expectations, and their interaction with their environment

- These theories include Expectancy Theory (Vroom), Equity Theory (Adams), Goal Setting Theory (Locke and Latham), and Reinforcement Approaches (Skinner)

- Systems or contextual theories:
  - These theories relate to the motivational behaviour of individuals from the point of view of a broader context, as opposed to just a response to stimuli
  - These theories include Job Characteristics Model and Job Design theory
- Lastly, there are those theories that consider culture:
  - These theories assess what the influence of culture is, and the effect that culture has on motivation
  - These theories include Hofstede's Cultural Dimensions, and Culture Diversity in Global Businesses

Many studies have utilised the motivational theories described above in an attempt to explain the concept of pay-for-performance in organisations as well as relating these theories to the impact of pay-for-performance (Gerhart *et al*., 2009). For the purposes of this study the cognitive approach, which considers motivation as a form of rational behaviour directed at achieving goals which people value, and in particular, Expectancy Theory, forms the basis of the assessment between pay and motivation.

2.8. Expectancy Theory

Expectancy theory, originally developed by Victor Vroom, suggests that behaviour results from conscious choices to maximise pleasure and minimise pain (Mackay, 2006). Expectancy theory states that an individual will tend to act in a certain way, based on the expectation that the act will result in a given outcome, and whether the outcome of the act is attractive to the individual (Vroom, 1995).

Expectancy Theory implies that individuals have different goals and can be motivated if they believe that:

- "There is a positive correlation between effort and performance
- Favourable performance will result in a desirable reward
- The reward will satisfy an important need
- The desire to satisfy the need is strong enough to make the effort worthwhile." (Mackay, 2006, pg. 63)

Vroom's Expectancy Theory is based on three beliefs, namely valence, expectancy and instrumentality, which when combined create a motivational force which determines the manner in which individuals act (Mackay, 2006). Expectancy theory proposes that choices are made according to two considerations:

- What is the probability that this outcome will be achieved (measurement of expectancy and instrumentality), and
- How much the expected outcome is valued (valence of the reward)

Multiplying these two components, the action that is appraised as being the largest, is the one that is most likely to be pursued. It has been proposed that this motivational force can be used to predict among other things job satisfaction, occupational choice, the likelihood of staying in a job and the effort that an individual might expend at work (Mackay, 2006).

It has been suggested by Park and Sturman (2009), that Expectancy Theory can be used to predict work related behaviour if it can approximate how pay-for-performance plans differ with regards to the characteristics of valence and expectancy.

2.8.1. Expectancy

Expectancy Theory predicts that employee performance can be increased through a pay-for-performance plan (Vroom, 1995). The pay-for-performance plan though is required to have a link between an individual's effort in terms of performance and a belief that increased effort on the part of the employee will result in a reward, and that the reward is desirable to the employee. Further, it makes sense that the stronger this link is between performance and the desired reward, the better the performance of the individual will be.

The strength of the association or link between an individual's performance and reward is the key differentiator between different plans. It is expected that different pay-for-performance plans will produce

different expectations, based on the characteristics of the plan in question.

With respect to the above, the following definition of Expectancy is utilised for the purposes of this study. Expectancy as defined by Vroom "expectancy is defined as a monetary belief concerning the likelihood that a particular act will be followed by a particular outcome". Expectancy, as defined, is a combination of instrumentality and expectation:

- Instrumentality refers to the *perception* of individuals whether they will actually get what they desire, a belief that performance will lead to rewards (Turner, 2006; Mackay, 2006)
- Expectation refers to the *level of confidence and expectation* that will lead to an outcome or performance (Van Eerde & Thierry, 1996; Mackay, 2006), and
- Expectancy is therefore a combination of instrumentality and expectation, and concerns the likelihood that a certain action will be followed by a particular outcome. Expectancy is considered to be zero when there is a belief that the outcome will not follow from the action, while an expectancy of one occurs when there is a belief that the outcome will certainly follow from the action (Vroom, 1995)

2.8.2. Valence

Valence relates to the attitude that individuals hold with respect to rewards or outcomes, in particular the importance, attractiveness, desirability or anticipated satisfaction of the rewards (Vroom, 1995).

Using this as a basis, it is apparent that owing to the difference in the nature of the different types of pay-for-performance plans, there is expected to be a difference with regards to the perception of the attractiveness of each of the plans, or the value attached to the different types of plans.

With respect to the above, the following definition of Valence is utilised for the purposes of this study:

- Valence refers to the attitude that individuals hold with respect to rewards or outcomes. In particular, the importance, attractiveness, desirability or anticipated satisfaction of rewards, and the preference of one outcome over another (Van Eerde & Thierry, 1996; Mackay, 2006), and
- An outcome is said to be positively valent when a person prefers attaining it as opposed to not attaining it, while negative valence refers to an outcome which a person prefers to not attain, and an outcome has zero valence when the person is indifferent to attaining the outcome (Vroom, 1995)

2.8.3. The use of Expectancy Theory

As a theory, Expectancy Theory has its critics, as it is considered by some not to be a good measure of motivation over time, as the theory fails to include time as a variable (Steel & Konig, 2006). The reason for this relates to the difficulty of accounting for behaviour over time, as expectancy and valence can and do vary over time. Further, Expectancy Theory with its strong theoretical grounding has been criticised as not having much practical value in direct application (Green, 2000).

However, there are others that wholeheartedly endorse Expectancy Theory, and promote it as the most theoretically sound approach to motivation and performance (Green, 2000).

The relevance of motivational theories with regards to pay-for-performance plans is illustrated through Agency Theory, Reward Management, and the assessment of Pay-for-Performance plans.

2.9. Status Quo

While it is apparent that there are a number of different theoretical principles that can be, and have been, utilised in the development of remuneration and reward plans, there continues to be significant disagreement concerning which principles result in the optimal structure of remuneration as evidenced by the recent work of Chapman and Kelliher (2011). Chapman and Kelliher's (2011)

research indicates up to 34 different theories have been identified as having been used in remuneration/ reward research.

Park and Sturman (2009) argue, that despite the abundance of pay-for-performance plans there are relatively few instances of research that have examined the potentially different effects that different forms of pay-for-performance incentives have on employee performance. One such instance is the Kahn and Sherer (1989) investigation into the relationship between financial incentives and performance, which investigated the relationship between bonuses and fixed pay. The findings from Kahn and Sherer (1989) research indicate that bonuses appear to be awarded on a different basis across managerial levels, locations, and seniority levels, and differences in the sensitivity of performance levels to bonus pay appear to have a significant effect on future performance.

Further it was found, that in contrast to bonuses, merit pay does not follow the same basis and there would appear to be no significant effect on future performance (Kahn & Sherer, 1989).

Park and Sturman (2009) have contributed to this body of knowledge through their study of the relative effects of merit pay, bonuses, and long-term incentives on future job performance. The findings of their study have established that the effects of different pay-for-performance plans can be explained using Expectancy Theory (Park & Sturman, 2009).

The emphasis of this study is to build on the work undertaken by Park and Sturman (2009) by further clarifying the influence that different pay-for-performance remuneration plans have on the future performance of *executives*. The basis of this study, as for Park and Sturman (2009) study, is the use of Expectancy Theory to understand the strength of the pay-for-performance relationship of the plan, and whether the nature of the type of reward influences motivation for future executive performance.

The literature review undertaken in this chapter has provided an overview of the relationship between pay-for-performance remuneration plans and individual performance, including the applicability of Agency Theory and reward management. A description of some of the more common types of pay-for-performance remuneration strategies was provided. Motivation theory, and in particular Expectancy Theory, was introduced as a possible explanation through which the motivation of executives and managers to perform could be assessed.

The next chapter introduces the research questions in order to address how different pay-for-performance plans affect performance.

3. Chapter 3: Research Question

3.1. Research Question

The research question that is addressed in this study is:

- How do different pay-for-performance remuneration plans affect performance?

In order to address this research study question using Expectancy Theory, it is necessary to break the question down further into a number of sub-questions. The following research sub-questions investigate whether Expectancy Theory can indeed answer the research study question. The research sub-questions are as follows:

3.1.1. Sub-question 1

Research sub-question 1: Is the positive motivation effect associated with a pay-for-performance plan relationship greater for merit pay than for bonus pay?

The following survey questions relate to this sub-question:

- Question 21, and
- Question 22

3.1.2. Sub-question 2

Research sub-question 2: Is the positive motivation effect associated with a pay-for-performance plan relationship greater for merit pay than for full shares?

The following survey questions relate to this sub-question:

- Question 23, and
- Question 24

3.1.3. Sub-question 3

Research sub-question 3: Is the positive motivation effect associated with a pay-for-performance plan relationship greater for merit pay than for share appreciation rights?

The following survey questions relate to this sub-question:

- Question 25, and
- Question 26

3.1.4. Sub-question 4

Research sub-question 4: Is the positive motivation effect associated with a pay-for-performance plan relationship greater for bonus pay than for full shares?

The following survey questions relate to this sub-question:

- Question 27, and
- Question 28

3.1.5. Sub-question 5

Research sub-question 5: Is the positive motivation effect associated with a pay-for-performance plan relationship greater for bonus pay than for share appreciation rights?

The following survey questions relate to this sub-question:

- Question 29, and
- Question 30

3.1.6. Sub-question 6

Research sub-question 6: Is the positive motivation effect associated with a pay-for-performance plan relationship greater for full shares than for share appreciation rights?

The following survey questions relate to this sub-question:

- Question 31, and
- Question 32

3.1.7. Sub-question 7

Research sub-question 7: Is the strength of the link between pay and performance positively associated with motivation of increased executive performance?

In order to answer this sub-question, the following survey questions relate to the reported motivation as a result of the link between pay and performance:

- Question 8
- Question 9, and
- Question 14

The following survey questions relate to the calculated motivation as a result of the link between pay and performance:

- Results of sub-questions 1, 2, 3, 4, 5, and 6
- Question 13
- Question 15, and
- Question 18

Together these questions assess whether there is a positive association between pay and performance.

The research question and sub-questions form the basis of the methodology of the research undertaken. The research methodology is detailed in the next chapter.

4. Chapter 4: Research Methodology

4.1. Introduction

The research questions and sub-questions in the previous chapter, along with the literature review provide the basis of the research methodology design. This chapter provides a detailed assessment of the research methodology used for the research study. This includes the research design, the method of data collection and the method of analysing the data. Further, the limitations of the research are discussed.

4.2. Research Methodology and Design

The research methodology that was utilised was an empirical quantitative research study, using a deductive approach, by undertaking a survey of executives and managers in order to predict the effect of different pay-for-performance plans on performance (Blumberg, Cooper, & Schindler, 2008).

The research design is classified as a formal study, starting with a descriptive account of the current state of pay-for-performance research, followed by the development of the research questions.

The data collection is interrogative in nature whereby executives and managers were questioned and responses were collected by means of a structured survey. The survey is classified as being cross sectional since it was undertaken at a point in time. The analysis of the data was undertaken using statistics in order to explain behaviour by making inferences from the sample.

The study was based on actual conditions as opposed to controlled or laboratory conditions. The fact that the executives and managers that were surveyed were aware that research was being conducted may have influenced the outcomes of the research through perceptions or attempts to try to 'please' researchers by successful hypothesis guessing (Blumberg, *et al*., 2008).

4.3. Universe and Population

The universe for the research study was defined as executives and managers of both public listed and private organisations, and as such was considered an infinite group (Zikmund, 2000). Since it was not possible to engage all executives and managers through this research, a target population was defined for the purposes of this study. The target population was defined as the Gordon Institute of Business Science MBA Modular class of 2010/2011, the Gordon Institute of Business Science MBA Evening class of 2011/ 2012, and the 21st Century Payroll Solutions Global Rewards training class undertaken in July 2011. The target population comprised, in total 201 individuals. This provided a good breadth of industry types as well as different organisations within any one industry. Executives and managers, for the purpose of this study, were defined as individuals that held directorship or senior positions in such organisations.

4.4. Sampling Method

As a sample is considered to be a subset or some part of a larger population (Zikmund, 2000), by selecting some elements of the population in the process

of sampling, it is possible to draw conclusions about the whole of the population, provided the sample is representative of the population (Blumberg, *et al*., 2008).

The sampling frame for the purposes of this study was executives and senior managers. The selection of the members of the target population classified the sampling method as being restricted, non-probability, convenience sampling when evaluating the relationship to all executives and managers. The sample could further be described as being judgemental whereby the selected sample members conformed to the criteria defined in terms of the unit of analysis and definition of an executive or manager.

In order for the study to be able to answer the research questions posed it was anticipated that a minimum of 100 responses would be required.

4.5. Data Gathering Process

The data gathering process was undertaken by the compilation and distribution of a self-administered survey/ questionnaire to the target population. The use of a web-based survey was considered to be effective in terms of cost as well as having the most rapid availability of data once the survey was completed (Blumberg, *et al*., 2008). In addition to the web-based survey, printed hand distributed surveys were personally administered to the Gordon Institute of Business Science MBA Evening class of 2011/ 2012, and the 21st Century Pay Solutions Group, Global Rewards training class undertaken in July 2011.

4.6. Survey Design and Scale Construction

The survey was designed and constructed in three parts. The first part related to capturing the demographics of the survey respondents, where categorical data was collected to group respondents into categories.

The second part of the survey related to the assessment of the strength of the link between pay and performance, and whether this is positively associated with increased motivation to perform (expectancy and instrumentality). The third part of the survey related to the assessment of the preference of respondents to and between various incentives/ rewards (valence).

For the second and third parts of the survey, an interval measurement scale was utilised, whereby data was classified, ordered, and incorporated the concept of equality of interval. The selection of a five-point attitude scale was utilised as the principal measurement tool to evaluate preference and opinion relating to the stated research questions (Blumberg, *et al*., 2008), while a ranking scale was utilised to directly compare different types of pay-for-performance plans.

4.6.1. Attitude scales

Attitude scales (Zikmund, 2000) are typically used to measure preference and opinion between different options or statements. Attitude scales are considered to be a hypothetical construct, as in many instances attitudes are not directly observable, but are measured indirectly through an

expression of an attitude or opinion (Zikmund, 2000). As defined by Zikmund (2000, pg. 288) "attitude is an enduring disposition to consistently respond in a given manner to various aspects of the world; composed of affective, cognitive, and behavioural components." To measure this attitude, weights were assigned to the alternative responses as indicated in Table 1 below.

Table 1: Attitude scale coding

Valence	
Rating	**Value**
Strongly agree	5
Agree	4
Neither agree nor disagree	3
Disagree	2
Disagree strongly	1

As illustrated in Table 1 above, the attitude scale coding attributed a score of five (5) to Strongly agree, down to a score of one (1) for Disagree strongly.

4.6.2. Paired ranking

In order to be able to compare preference between different rewards, paired ranking was utilised in the third part of the survey. The results of the paired ranking were scored as described below in the analysis approach in order to determine a reward preference.

4.7. Analysis Approach

Prior to the analysis of the data, the data were edited to ensure complete and consistent data (Zikmund, 2000). The editing process was conducted prior to coding and storage of the data. Once completed, the coded and cleaned data were firstly analysed by utilising descriptive statistics and cross tabulations to summarise the data obtained, and secondly using inferential statistics to answer the research questions.

4.7.1. Data coding

Expectancy

Expectancy, relates to a belief that the effort that an individual puts in will result in the desired goals being achieved and the reward thereof. Expectancy is influenced by situational variables and relates to past experiences where targets have been achieved and whether rewards were indeed forthcoming, the present probability of achievement of targets and the expectancy of being rewarded, and the communicated future probability that a reward will follow the achievement of a target.

Expectancy is therefore relevant to the past, present and future expectations of an individual. This is normally expressed in terms of a probability of achieving the desired goals, and as such is attributed a value between zero and one (Vroom, 1995). The questions relating to expectancy (Questions 13, 15, and 18) were coded as described in Table 2.

Table 2: Expectancy coding

Expectancy	
Rating	**Probability**
5	1.00
4	0.75
3	0.50
2	0.25
1	0.00

Individual expectancy ratings were determined for each respondent, based on Table 2 for the past, present and future. A mean expectancy rating was determined using the past, present and future probabilities.

Valence

Valence refers to the attractiveness of a particular reward. Measurement was undertaken by comparative judgement or a judgement scale. An outcome is considered to be positively valent when a person prefers to attain the reward (strongly agree, and agree), neutral or indifference has a zero valence, and an outcome is negatively valent when a person prefers not to attain it (disagree, and disagree strongly) (Vroom, 1995). The scale provides an indication of the degree of preference. Questions 21, 23, 25, 27, 29 and 31 relating to a stated preference between two reward types were attributed values according to Table 3, depending on the preference stated, relating to each of the rewards.

Table 3: Valence coding

Valence	
Rating	**Value**
Strongly agree	+2
Agree	+1
Neither agree nor disagree	0
Disagree	-1
Disagree strongly	-2

The overall preference rating for each of the rewards was determined by summing the individual ratings from specific questions. In this manner, a preference rating was determined for each respondent.

Motivation

The motivation of respondents, as measured by the responses to questions 8, 9 and 14, relate to the expectancy that a certain effort will lead to a desired outcome. The rating scale in Table 4 was utilised to provide an indication of the reported motivation of individuals.

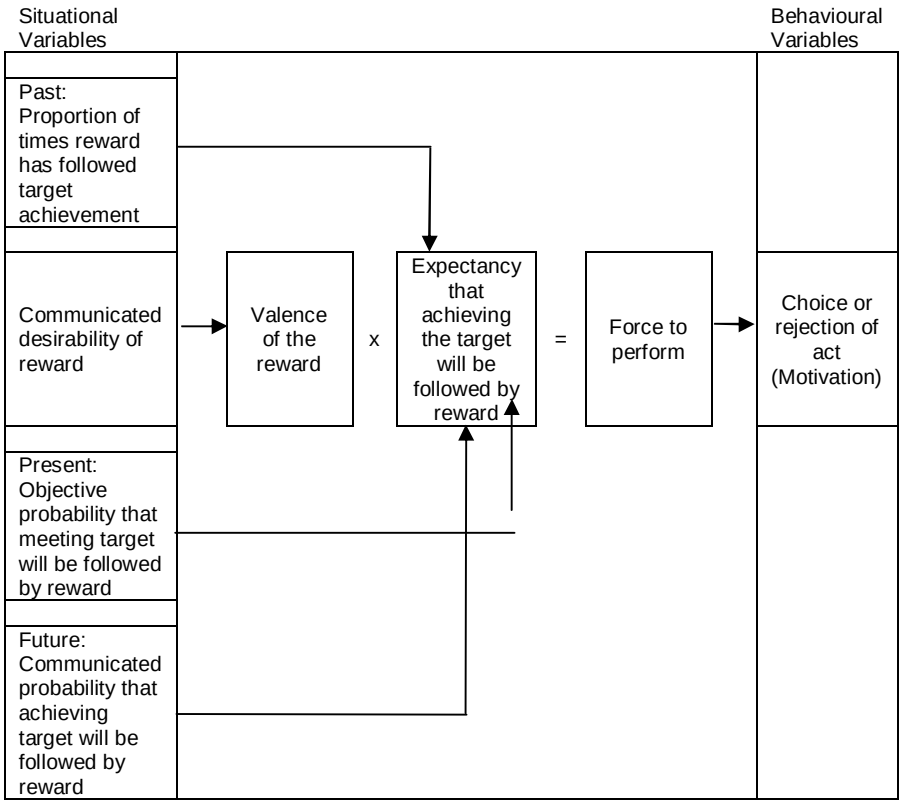
The mean of the combined responses to the questions relating to motivation was used to provide an indication of the overall motivation of respondents to perform.

Table 4: Motivation coding

Motivation	
Rating	**Value**
Strongly agree	5
Agree	4
Neither agree nor disagree	3
Disagree	2
Disagree strongly	1

Figure 2 below provides a graphical illustration of the Expectancy Theory Model that was utilised for the purposes of this research study, and provides an indication of the relationship between expectancy, valence and motivation.

Figure 2: Expectancy Theory Model (Vroom, 1995)



The Valence of the reward was assessed by the communicated desirability of the reward. The Expectancy that achieving the target will be followed by reward was assessed by evaluating the past proportions of occurrence, and the present and future probabilities of occurrence. The combination of the Valence of the reward and the Expectancy that achieving the target will be followed by reward provide a Force to perform. This Force to perform was evaluated against the reported Motivation, the Choice or rejection to act in a particular manner.

4.7.2. Descriptive Statistics

Demographic information

The nominal data describes the demographic profile of the sample and descriptive statistics of this data is limited to reporting of the demographics of the survey respondents through counts of responses, frequency tables, percentages and graphical representation thereof (Albright, Winston, & Zappe, 2009).

Motivation and reward preference

The natural ordering of the categorical data, relating to questions on motivation and reward preferences, in the form of the opinion data captured on an attitude rating scale classifies the data as ordinal in nature (Albright, *et al*., 2009). The descriptive statistics that can be undertaken on this type of data are limited to frequency tables, percentages, graphical representation thereof, reporting of the mode, range and percentile ranking.

Typically ordinal data ranks objects or alternatives to their magnitudes or preference rankings and does not indicate by how much a person prefers X to Y (Zikmund, 2000). However using an attitude rating scale it is possible to convert ordinal data to an interval scale. The order and magnitude of difference of the scale is assumed to be in equal units, and utilises rank ordering and weighting of the scale. Using this type of ranking it is possible to comment on the magnitude of difference or

compare the average differences on attributes measured; it is however not possible to determine the actual strength of attitudes towards an object in this instance (Zikmund, 2000).

Interval data, through an attitude ranking scale was utilised to directly compare different types of pay-for-performance plans and provided descriptive statistics in the form of mean, standard deviation and variance of responses.

4.7.3. Inferential Statistics

Inferential statistics are used to be able to infer from evidence found in samples, conclusions that can be made about the population and the degree of confidence with which this can be made.

Research sub-questions 1 to 6

In order to answer research sub-questions 1 through 6, a T-test was undertaken to determine whether there was indeed a difference between the mean of the preference ranking for each reward type. The p-value, resulting from this analysis, was used to determine whether there was enough evidence to indicate that the mean of the preference for the various pay-for-performance plans were significantly different or not. A sufficiently small p-value leads to the conclusion, with some degree of confidence, that the means are not equal (Albright, *et al*., 2009) and there is a statistically significant difference between preferences of pay-for-performance plans. Further analysis of the results was undertaken by

determining which pay-for-performance plan (reward) had the highest mean, and together with the T-test was used to answer the research question.

Research sub-question 7

By assessing expectancies and valences, and coding them accordingly, the motivational force for each pay-for-performance plan was determined by multiplying the expectancy and valence scores thereby giving the expected value of the combination. The motivational force for each of the different pay-for-performance plans was determined and evaluated against the reported motivation to assess how different pay-for-performance plans influence performance and to answer research sub-question 7.

In order to answer research sub-question 7, the relationship between calculated motivation and reported motivation was evaluated. By undertaking this assessment, it was possible to assess whether expectancy and valence were indeed predictors of reported motivation. This was undertaken by least squares regression analysis, where reported motivation was defined as the dependent variable and expectancy and valence were defined as the independent variables.

Correlation was determined for the various variables, to provide an indication of the strength of the linear relationship between the pairs of variables. The coefficient of determination, or R squared value, was

determined in order to evaluate the percentage of variation of the dependent variable explained by the independent variables (Albright, *et al*., 2009).

The validation of the overall fit continued with the assessment of the regression coefficients, through the test of Analysis Of Variance (ANOVA). The ANOVA test, of assessing the mean of the regression coefficients, is used to establish whether or not the regression coefficients have at least some explanatory power for the relationship (Albright, *et al*., 2009). The further analysis of individual regression coefficients by means of the T-test and the subsequent p-value, were used to establish whether the individual regression coefficients were indeed suitable explanatory variables that belonged in the regression equation (Albright, *et al*., 2009).

4.8. Sources of Error

Typically, survey research is subject to two major sources of errors, namely random sampling error and systematic error (Zikmund, 2000). Most surveys try to portray a representative cross section of a particular target population.

4.8.1. Random sampling error

Random sampling error relates to the sample not being truly representative of the target population due to variation of the population (Zikmund, 2000),

4.8.2. Systematic Error

Systematic error relates to some or other aspect of the research design or execution, other than random sampling error (Blumberg, *et al.,* 2008). Respondent or participant error includes non-response error.

Non-response error is typically described as the error that results between the opinions/ responses of those that did respond to the survey versus the opinions/ responses of those that did not respond to the survey (Zikmund, 2000). A non-respondent is classified as a person who is not contacted or failed to participate/ take part in the research (Zikmund, 2000). Non-response error may indeed be present in the sample, as people who feel more strongly about pay-for-performance are more likely to have completed the survey than those who are indifferent to pay-for-performance, and therefore results may be unduly biased to those that have strong opinions regarding the topic.

4.9. Research Limitations

As with all forms of research, there are limitations to this research study. Limitations include, but are not limited to:

- A sampling frame that may not be truly representative of the population of executives (sampling frame error)
- A limited number of responses received (low response rate)
- Possible misinterpretation of a survey question

- Possibility of skewed responses (non-response error)
- Limitation of a cross sectional research design due to limited time frame
- A limitation on the type and amount of information that can be secured, and
- Rating scale errors (leniency, central tendency, and halo effect)

The preceding methodology section provided a suitable framework within which the research was undertaken to ensure that the research questions posed were addressed. The research findings are presented in the following chapter.

5. Chapter 5: Results

This chapter presents the results of the data collected, as well as the results of the statistical analysis undertaken. The first part of the chapter relates to the demographics of the respondents to the survey, while the remainder of the chapter presents the results of the survey clustered around the research questions.

5.1. Data Analysis

The data set was analysed as described in the previous chapter detailing the methodology. In order to establish the internal consistency/ reliability of the data, the Cronbach alpha statistical test was undertaken (UCLA, 2011). The Cronbach alpha statistic is presented in Table 5 and Table 6 below, firstly for the entire questionnaire, and secondly for each question indicating the effect thereof on the overall Cronbach alpha score should the question be included or not.

Table 5: Cronbach's alpha all questions

Reliability Statistics	
Cronbach's Alpha	**No. of Items**
0.819	25

The results indicate that the internal consistency for the questionnaire, with a result of 0.819, is acceptable. Results greater than 0.80 are considered to be good, results of less than 0.70 are considered to be questionable (UCLA, 2011).

Table 6: Cronbach's alpha individual questions

Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Question 8	81.09	103.47	0.560	0.804
Question 9	81.22	105.81	0.530	0.807
Question 10	82.23	108.41	0.277	0.817
Question 11	82.05	108.88	0.301	0.815
Question 12	81.41	108.19	0.423	0.811
Question 13	81.03	106.70	0.415	0.810
Question 14	81.07	102.76	0.608	0.802
Question 15	81.21	101.77	0.583	0.802
Question 16	81.63	103.41	0.554	0.804
Question 17	82.03	104.64	0.447	0.809
Question 18	81.10	103.73	0.543	0.805
Question 19	81.58	105.87	0.466	0.808
Question 20	81.92	107.19	0.338	0.814
Question 21	81.59	112.12	0.102	0.825
Question 22	82.47	111.75	0.177	0.820
Question 23	81.91	106.30	0.337	0.814
Question 24	82.56	111.59	0.208	0.818
Question 25	81.70	108.75	0.258	0.818
Question 26	82.60	111.59	0.222	0.818
Question 27	81.86	106.85	0.296	0.817
Question 28	82.50	111.02	0.214	0.818
Question 29	81.66	105.37	0.395	0.811
Question 30	82.61	110.58	0.245	0.817
Question 31	81.28	113.53	0.088	0.823
Question 32	82.58	109.83	0.301	0.815

From Table 6 above, it can be seen that the Cronbach alpha for each individual question is acceptable, and no significant differences are noted if one question is deleted from the questionnaire.

5.2. Demographic Profile of Respondents

A total of 139 completed surveys were returned by participants. This includes data collected by means of the electronic survey as well as the hard copy survey (hand distribution) methods which were personally distributed and

collected after completion. Of the 139 surveys completed, 21 surveys could not be utilised, as the participants did not complete these in full. The incomplete questionnaires related to the failure of respondents to complete all required information fields, and not answering some of the questions. The response rate for the completion of the survey, including both the electronic distribution and hand distribution methods, amounts to 58.7%.

Tables 7 through 13 below provide a summary of the demographic information of the respondents.

Table 7: Question 1 responses: Job level/ position of respondents

Question 1: Please indicate your job level/ position	Response Percent	Response Count
Director/ Executive Director	15.3%	18
Non Executive Director	2.5%	3
Chief Executive Officer	2.5%	3
Chief Financial Officer	0.8%	1
Chief Operating Officer	2.5%	3
Chairperson	0.0%	0
Senior Management	29.7%	35
General Management	16.1%	19
Other	30.5%	36
answered question		**118**

The majority of respondents classified themselves as “Other”, as indicated in Table 7. The most common responses included project manager, financial manager, general manager, executive associate, middle management, consultant, HR manager. These could conceivably be included in the general management category.

Table 8: Question 2 responses: Job family of respondents

Question 2: What 'job family' best describes your current position?	Response Percent	Response Count
Human Resources	17.8%	21
Administrative	0.8%	1
Sales & Service	4.2%	5
Information Technology	7.6%	9
Process & Project Management	10.2%	12
Investment banking	3.4%	4
Marketing	4.2%	5
Finance	12.7%	15
Consulting	22.0%	26
Other	19.5%	23
answered question		**118**

The most common job family of respondents is that of consulting followed by other and then human resources.

Table 9: Question 3 responses: Age group of respondents

Question 3: Please indicate your age group	Response Percent	Response Count
<35	51.7%	61
35-44	31.4%	37
45-54	6.8%	8
55-64	10.2%	12
>65	0.0%	0
answered question		**118**

The vast majority of respondents, as indicted in Table 9 above, are below the age of 35 and is in line with expectations with regards to the target population.

Table 10: Question 4 responses: Gender of respondents

Question 4: Please indicate your gender	Response Percent	Response Count
Male	71.2%	84
Female	28.8%	34
answered question		**118**

Table 10 indicates that the majority of respondents were male.

Table 11: Question 5 responses: Ethnic group of respondents

Question 5: Please indicate your ethnic group	Response Percent	Response Count
Black	16.1%	19
Coloured	5.9%	7
Indian	11.9%	14
White	66.1%	78
answered question		**118**

The ethnicity of the respondents is indicated in Table 11 above.

Table 12: Question 6 responses: Years in current position of respondents

Question 6: Please indicate the number of years in your current position	Response Percent	Response Count
0-4	65.3%	77
5-9	22.9%	27
10-14	4.2%	5
>15	7.6%	9
answered question		**118**

As indicated in Table 12, 65.3% of the respondents have been in their current position for less than four years.

Table 13: Question 7 responses: Type of company of respondents

Question 7: Please indicate the type of company that you work for	Response Percent	Response Count
Listed on stock exchange	49.2%	58
Private company	50.8%	60
answered question		**118**

The distribution of the types of companies that the respondents work for are indicated in Table 13, no respondents from the public sector were included in this research.

In summary, the demographic profile of the survey respondents indicate that the majority of the respondents classify themselves as having:

- A job level or position described as “Other”
- A job family described as “Consulting”
- Are white males
- Are younger than 35 years of age
- Have been in their current position for no more than 4 years; and
- Work for a private company that is not listed on the stock exchange

5.3. Reward Preferences (Research sub-questions 1, 2, 3, 4, 5, and 6)

The questions relating to reward preferences were grouped into four categories, namely merit pay, bonus pay, full shares and share appreciation rights. The questions were posed in the form of a series of statements relating to reward preference and respondents were required to indicate the degree to which they agreed or disagreed with the statement.

5.3.1. Preference Merit Pay vs. Bonus Pay (Research Sub-question 1)

The responses to the questions relating to preference between merit pay and bonus pay are included in Tables 14 and 15 below, and illustrated in Figure 3.

Table 14: Responses to Questions 21 and 22: Merit Pay vs. Bonus Pay

Question 21: I prefer merit pay to bonus pay as a motivator Question 22: I am indifferent to merit pay compared to bonus pay as a motivator								
	Disagree strongly	**Disagree**	**Neither agree nor disagree**	**Agree**	**Agree strongly**	**N/A**	**Rating Average**	**Response Count**
Question 21	5	20	16	48	27	2	3.56	118
Question 22	5	48	38	21	3	3	2.66	118

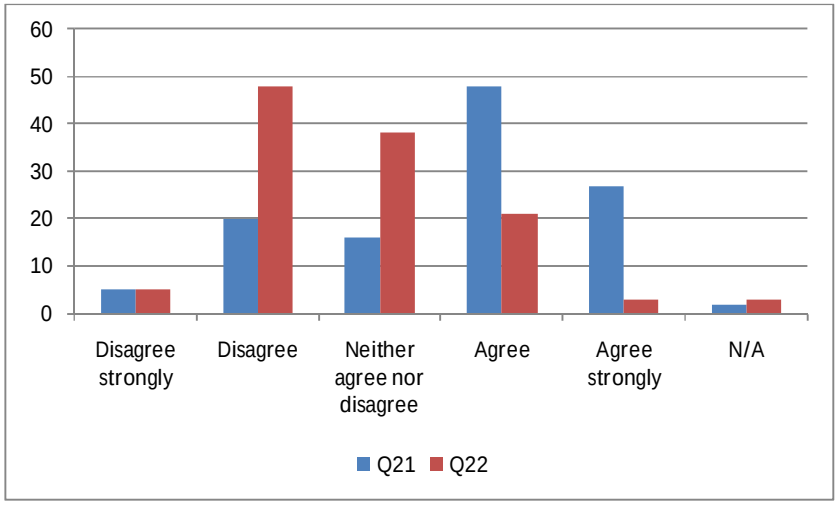
Table 14 above, indicates that most respondents prefer merit pay to bonus pay as a motivator. Further, most respondents are not indifferent to merit pay compared to bonus pay as a motivator.

Table 15: Descriptive statistics for Questions 21 and 22: Merit Pay vs. Bonus Pay

Descriptive statistics	***Question 21***	***Question 22***
Mean	3.559	2.661
Standard Error	0.113	0.091
Median	4	3
Mode	4	2
Standard Deviation	1.230	0.989
Sample Variance	1.514	0.978

The descriptive statistics in Table 15 indicate that merit pay is preferred to bonus pay as a motivator with a mean preference score of 3.559, and a mode of 4 indicating most respondents agree that merit pay is preferred as a motivator as opposed to bonus pay.

Figure 3: Response to Questions 21 and 22: Merit Pay vs. Bonus Pay



The responses to the questions relating to preference between merit pay and bonus pay indicate that merit pay is much preferred to bonus pay, as illustrated in Figure 3.

5.3.2. Preference Merit Pay vs. Full Shares (Research Sub-question 2)

The responses to the questions relating to preference between merit pay and full shares are included in Tables 16 and 17 below, and illustrated in Figure 4.

Table 16: Response to Question 23 and 24: Merit Pay vs. Full Shares

Question 23: I prefer merit pay to full shares as a motivator Question 24: I am indifferent to merit pay compared to full shares as a motivator								
	Disagree strongly	**Disagree**	**Neither agree nor disagree**	**Agree**	**Agree strongly**	**N/A**	**Rating Average**	**Response Count**
Question 23	8	26	22	39	19	4	3.20	118
Question 24	7	45	44	13	2	7	2.47	118

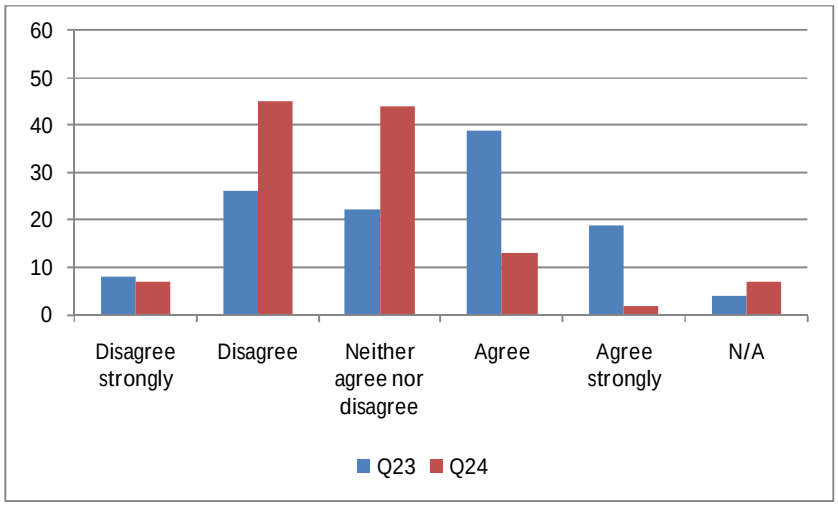
Table 16 above, indicates that most respondents prefer merit pay to full shares as a motivator. Further, most respondents are not indifferent to merit pay compared to full shares as a motivator.

Table 17: Descriptive statistics for Question 23 and 24: Merit Pay vs. Full Shares

Descriptive statistics	*Question 23*	*Question 24*
Mean	3.195	2.466
Standard Error	0.122	0.095
Median	3	2.5
Mode	4	2
Standard Deviation	1.322	1.027
Sample Variance	1.748	1.054

The descriptive statistics in Table 17 indicate that merit pay is preferred to full shares as a motivator with a mean preference score of 3.195, and a mode of 4 indicating most respondents agree that merit pay is preferred as a motivator as opposed to full shares.

Figure 4: Response to Question 23 and 24: Merit Pay vs. Full Shares



The responses to the questions relating to preference between merit pay and full shares indicate that merit pay is preferred to full shares, as illustrated in Figure 4.

5.3.3. Preference Merit Pay vs. Share Appreciation Rights (Research Sub-question 3)

Responses to the questions relating to preference between merit pay and share appreciation rights are included in Tables 18 and 19, and illustrated in Figure 5.

Table 18: Response to Question 25 and 26: Merit Pay vs. Share Appreciation Rights

Question 25: I prefer merit pay to share appreciation rights as a motivator Question 26: I am indifferent to merit pay compared to share appreciation rights as a motivator								
	Disagree strongly	**Disagree**	**Neither agree not disagree**	**Agree**	**Agree strongly**	**N/A**	**Rating Average**	**Response Count**
Question 25	4	23	17	48	21	5	3.37	118
Question 26	5	52	41	11	2	7	2.42	118

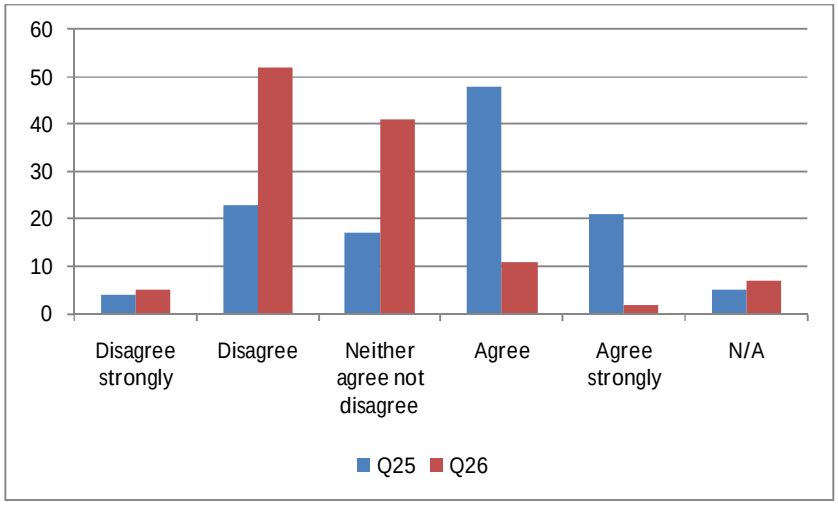
Table 18 above, indicates that most respondents prefer merit pay to share appreciation rights as a motivator. Most respondents are not indifferent to merit pay compared to share appreciation rights as a motivator.

Table 19: Descriptive statistics for Question 25 and 26: Merit Pay vs. Share Appreciation Rights

Descriptive statistics	*Question 25*	*Question 26*
Mean	3.373	2.424
Standard Error	0.120	0.091
Median	4	2
Mode	4	2
Standard Deviation	1.306	0.991
Sample Variance	1.706	0.981

The descriptive statistics in Table 19 indicate that merit pay is preferred to share appreciation rights as a motivator with a mean preference score of 3.373, and a mode of 4 indicating most respondents agree that merit pay is preferred as a motivator as opposed to share appreciation rights.

Figure 5: Response to Question 25 and 26: Merit Pay vs. Share Appreciation Rights



The responses to the questions relating to preference between merit pay and share appreciation rights indicate that merit pay is much preferred to share appreciation rights, as illustrated in Figure 5.

5.3.4. Preference Bonus Pay vs. Full Shares (Research Sub-question 4)

The responses to the questions relating to preference between bonus pay and full shares are included in Tables 20 and 21 below, and illustrated in Figure 6.

Table 20: Response to Question 27 and 28: Bonus Pay vs. Full Shares

Question 27: I prefer bonus pay to full shares as a motivator Question 28: I am indifferent to bonus pay compared to full shares as a motivator								
	Disagree strongly	**Disagree**	**Neither agree nor disagree**	**Agree**	**Agree strongly**	**N/A**	**Rating Average**	**Response Count**
Question 27	5	34	15	33	26	5	3.22	118
Question 28	6	47	41	14	5	5	2.58	118

Table 20 above, indicates that there is no clear preference between bonus pay and full shares as a motivator. Most respondents are not indifferent to bonus pay compared to full shares as a motivator, which is not entirely in agreement with the responses received for question 27.

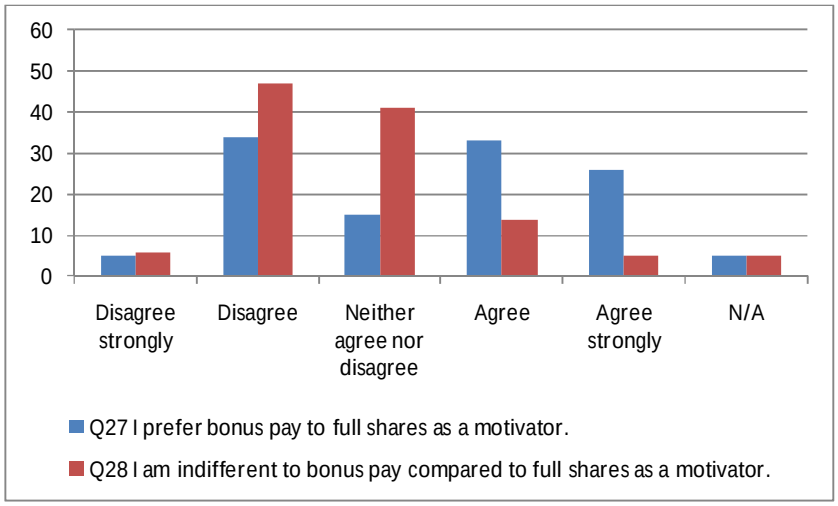
Table 21: Descriptive statistics for Question 27 and 28: Bonus Pay vs. Full Shares

Descriptive statistics	***Question 27***	***Question 28***
Mean	3.220	2.576
Standard Error	0.129	0.097
Median	3.5	3
Mode	2	2
Standard Deviation	1.403	1.049
Sample Variance	1.968	1.101

The descriptive statistics in Table 21 indicate that bonus pay is preferred to full shares as a motivator with a mean preference score of 3.220, and

a mode of 2 indicating most respondents disagree that bonus pay is preferred as a motivator as opposed to full shares.

Figure 6: Response to Question 27 and 28: Bonus Pay vs. Full Shares



The responses to the questions relating to preference between bonus pay and full shares indicate that there would appear not to be a significant preference between bonus pay and full shares, as illustrated in Figure 6.

5.3.5. Preference Bonus Pay vs. Share Appreciation Rights (Research Sub-question 5)

Responses to the questions relating to preference between bonus pay and share appreciation rights are included in Tables 22 and 23 below, and in Figure 7.

Table 22: Response to Question 29 and 30: Bonus Pay vs. Share Appreciation Rights

Question 29: I prefer bonus pay to share appreciation rights as a motivator Question 30: I am indifferent to bonus pay compared to share appreciation rights as a motivator								
	Disagree strongly	**Disagree**	**Neither agree nor disagree**	**Agree**	**Agree strongly**	**N/A**	**Rating Average**	**Response Count**
Question 29	4	23	18	43	26	4	3.44	118
Question 30	7	54	35	12	4	6	2.44	118

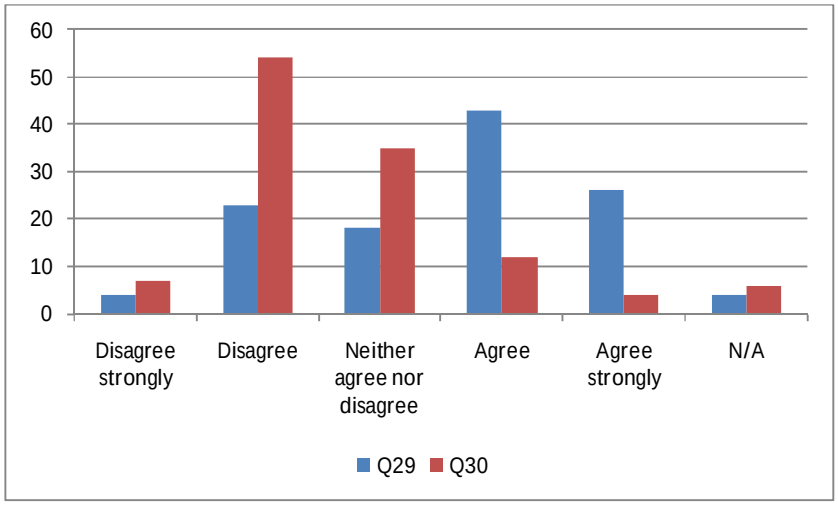
Table 22 above, indicates that most respondents prefer bonus pay to share appreciation rights as a motivator. Further, most respondents are not indifferent to bonus pay compared to share appreciation rights as a motivator.

Table 23: Descriptive statistics for Question 29 and 30: Bonus Pay vs. Share Appreciation Rights

Descriptive statistics	***Question 29***	***Question 30***
Mean	3.441	2.441
Standard Error	0.120	0.096
Median	4	2
Mode	4	2
Standard Deviation	1.304	1.042
Sample Variance	1.702	1.086

The descriptive statistics in Table 23 indicate that bonus pay is preferred to share appreciation rights as a motivator with a mean preference score of 3.441, and a mode of 4 indicating most respondents agree that bonus pay is preferred as a motivator as opposed to share appreciation rights.

Figure 7: Response to Question 29 and 30: Bonus Pay vs. Share Appreciation Rights



The responses to the questions relating to preference between bonus pay and share appreciation rights indicate that bonus pay is much preferred to share appreciation rights, as illustrated in Figure 7.

5.3.6. Preference Full Shares vs. Share Appreciation Rights (Research Sub-question 6)

Responses to the questions relating to preference between full shares and share appreciation rights are included in Table 24 and 25 below, and in Figure 8.

Table 24: Response to Question 31 and 32: Full Shares vs. Share Appreciation Rights

Question 31: I prefer full shares to share appreciation rights as a motivator Question 32: I am indifferent to full shares compared to share appreciation rights as a motivator								
	Disagree strongly	**Disagree**	**Neither agree nor disagree**	**Agree**	**Agree strongly**	**N/A**	**Rating Average**	**Response Count**
Question 31	1	6	19	57	30	5	3.80	118
Question 32	6	50	39	10	4	9	2.40	118

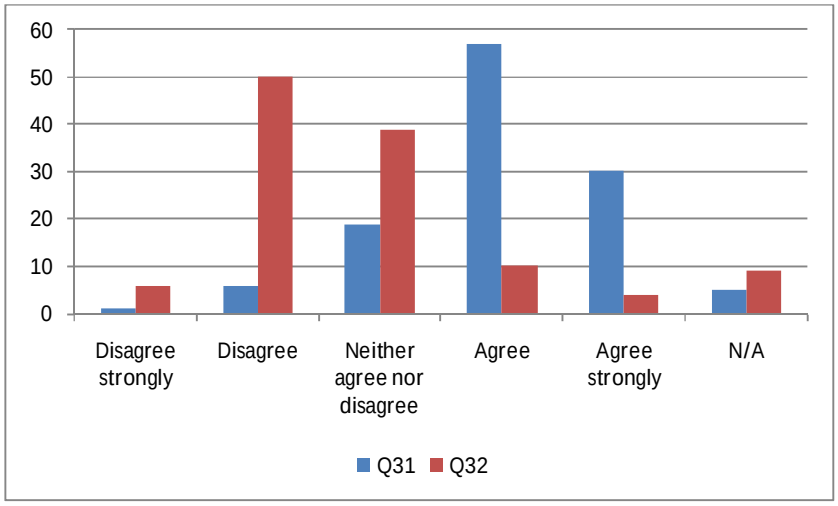
Table 24 above, indicates that most respondents prefer full shares to share appreciation rights as a motivator. Most respondents are not indifferent to full shares compared to share appreciation rights as a motivator.

Table 25: Response to Question 31 and 32: Full Shares vs. Share Appreciation Rights

Descriptive statistics	***Question 31***	***Question 32***
Mean	3.797	2.398
Standard Error	0.107	0.100
Median	4	2
Mode	4	2
Standard Deviation	1.159	1.087
Sample Variance	1.343	1.182

The descriptive statistics in Table 25 indicate that full shares are preferred to share appreciation rights as a motivator with a mean preference score of 3.797, and a mode of 4 indicating most respondents agree that full shares are preferred as a motivator as opposed to share appreciation rights.

Figure 8: Response to Question 31 and 32: Full Shares vs. Share Appreciation Rights



The responses to the questions relating to preference between full shares and share appreciation rights indicate that full shares are much preferred to share appreciation rights, as illustrated in Figure 8.

5.3.7. Valence

In undertaking the data analysis for determining valence and preference of rewards, all N/A (not applicable) responses were coded as neither agree nor disagree.

The maximum possible value for valence for any one individual response with respect to reward type, using the methodology described, is +6 with a minimum possible value of -6. The value of the valence for a particular reward type indicates the strength of preference of the reward. The preferred combination of rewards was determined for each respondent, and the count thereof is provided in Tables 26 and 27 below.

Table 26: Preference of reward

Preference of reward	Count	Distribution
Bonus pay	20	17.0%
Full shares	26	22.0%
Merit pay	69	58.5%
Share appreciation rights	3	2.5%
Grand Total	**118**	**100.0%**

The results, as summarised in Table 26 above, indicate that the reward preference is Merit Pay, followed by Full Shares, Bonus Pay and Share Appreciation Rights. .

Table 27: Descriptive statistics for preference of reward

	Valence: Merit pay	*Valence: Bonus pay*	*Valence: Full shares*	*Valence: Share appreciation rights*
Mean	1.407	0.280	0.280	-1.966
Standard Error	0.253	0.211	0.216	0.207
Median	2	1	0	-2
Mode	3	1	-1	-3
Standard Deviation	2.746	2.302	2.346	2.253
Sample Variance	7.543	5.297	5.502	5.076
Kurtosis	-0.384	-0.626	-0.199	-0.332
Skewness	-0.390	-0.101	0.214	0.121
Range	12	10	12	10
Minimum	-6	-5	-6	-6
Maximum	6	5	6	4

The mean preference of reward for Full Shares and Bonus Pay are equal, however more respondents indicate a preference to Full Shares as opposed to Bonus Pay.

The responses to the questions relating to indifference (question 22, 24, 26, 28, 30, and 32) were not utilised in the data analysis as it was found that the results thereof were not consistent. The wording of the

questions would appear to have caused some confusion and may be considered too vague.

A paired samples correlation for valence was undertaken to establish whether the reward preferences were in any way correlated to one another. Table 28 below illustrates the results of the paired samples correlation for the various types of rewards.

Table 28: Paired samples correlations for valence

Paired Samples Correlations				
		N	Correlation	Significance
Pair 1	Valence: Merit pay - Bonus pay	118	0.179	0.052
Pair 2	Valence: Merit pay - Full shares	118	-0.701	0.000
Pair 3	Valence: Merit pay - Share appreciation rights	118	-0.672	0.000
Pair 4	Valence: Bonus pay - Full shares	118	-0.602	0.000
Pair 5	Valence: Bonus pay - Share appreciation rights	118	-0.613	0.000
Pair 6	Valence: Full shares - Share appreciation rights	118	0.428	0.000

The results of the paired samples correlation, as indicated in Table 28 above, indicate that there is no significant correlation between the reward preferences.

A paired sample T-test was undertaken in order to establish whether the preference ratings for the various reward schemes were indeed the same. Table 29 below provides a summary of the test for difference for the paired samples test for reward preference.

Table 29: Paired samples test for valence

Paired Samples Test									
		Paired Differences					t	Df	Significance (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Valence: Merit pay - Valence: Bonus pay	1.127	3.252	0.299	0.534	1.720	3.765	117	0.000
Pair 2	Valence: Merit pay - Valence: Full shares	1.127	4.699	0.433	0.270	1.984	2.606	117	0.010
Pair 3	Valence: Merit pay - Valence: Share appreciation rights	3.373	4.576	0.421	2.539	4.207	8.007	117	0.000
Pair 4	Valence: Bonus pay - Valence: Full shares	0.000	4.159	0.383	-0.758	0.758	0.000	117	1.000
Pair 5	Valence: Bonus pay - Valence: Share appreciation rights	2.246	4.091	0.377	1.500	2.992	5.964	117	0.000
Pair 6	Valence: Full shares - Valence: Share appreciation rights	2.246	2.460	0.226	1.797	2.694	9.918	117	0.000

Based on the paired samples test for reward preference, it can be seen that the only pair of rewards in which there is not a significant difference in preference between reward types is Bonus Pay vs. Full Shares (significance level 1.0).

5.4. Motivation to Perform (Research Sub-question 7)

The questions relating to respondents motivation to perform have been grouped into four categories, namely *general* questions, questions relating to the *past*, questions relating to the *present*, and questions relating to the *future*. The questions were posed in the form of a series of statements relating to expectancy, motivation and performance. Respondents were required to indicate the degree to which they agreed or disagreed with the statement.

5.4.1. General question relating to performance and incentives

The tables below (Tables 30 and 31) provide a summary of the responses collected for the general question relating to performance and incentives.

Table 30: Question 8 responses: Link between performance and rewards

Question 8:	My performance is better when there is an incentive plan that links my performance to rewards							
	Disagree strongly	**Disagree**	**Neither agree nor disagree**	**Agree**	**Strongly agree**	**N/A**	**Rating Average**	**Response Count**
Question 8	0	14	10	41	52	1	4.08	118

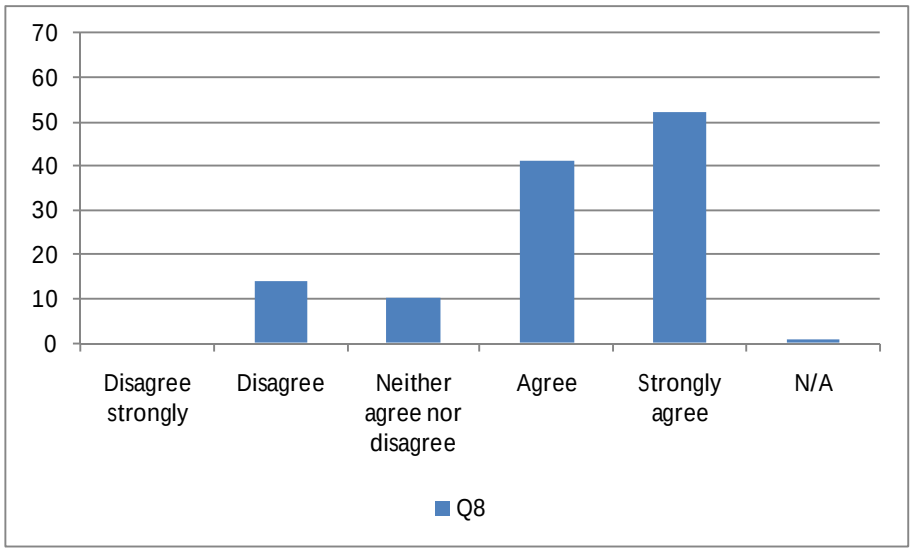
The responses, as reported in Table 30 above, indicate that there is strong agreement that individual performance is better when there is an incentive plan that links performance to rewards.

Table 31: Question 8 descriptive statistics: Link between performance and rewards

Descriptive statistics	***Question 8***
Mean	4.085
Standard Error	0.098
Median	4
Mode	5
Standard Deviation	1.067
Sample Variance	1.138

The descriptive statistics in Table 31 indicate that individual performance is better when there is an incentive plan that links performance to rewards with a mean preference score of 4.085, and a mode of 5 indicating most respondents strongly agree with the statement.

Figure 9: Response to Question 8: Link between performance and rewards



The responses to the question indicate that performance is better when there is an incentive plan that links performance to rewards, as illustrated in Figure 9.

5.4.2. Questions relating to the past

The tables below (Tables 32 and 33) provide a summary of the responses collected for questions relating to the past.

Table 32: Responses to Questions 9, 10, 11, 12, and 13: Link between performance and rewards in the past

Question 9:	In the past I have been positively influenced by incentives.
Question 10:	In the past I have been positively influenced by incentives, even when I have reached all of my targets and did not receive a reward.
Question 11:	In the past, I have been positively influenced by incentives, even when I have reached only some of my targets and did not receive a reward.
Question 12:	In the past, I have been positively influenced by incentives, even when I have reached some of my targets and did receive a reward.
Question 13:	In the past, I have been positively influenced by incentives, when I have reached all of my targets and did receive a reward

	Disagree strongly	Disagree	Neither agree nor disagree	Agree	Agree strongly	N/A	Rating Average	Response Count
Question 9	0	9	17	59	33	0	3.98	118
Question 10	9	38	21	41	6	3	2.90	118
Question 11	3	32	28	44	6	5	3.02	118
Question 12	0	10	20	68	18	2	3.75	118
Question 13	1	9	11	41	54	2	4.12	118

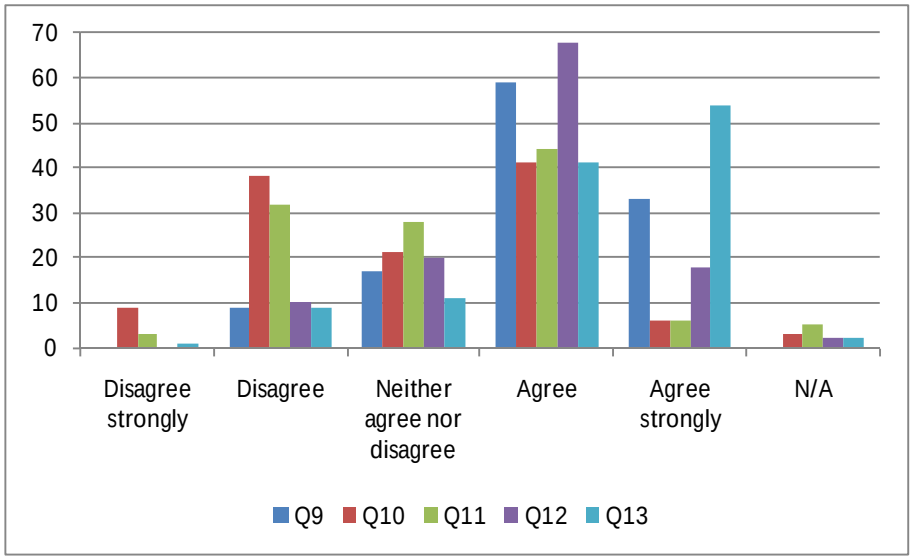
Table 32 provides a summary of the responses relating to performance and rewards in the past. Past performance has been positively influenced by incentives, more so when rewards have been forthcoming.

Table 33: Descriptive statistics for Questions 9, 10, 11, 12, and 13: Link between performance and rewards in the past

Descriptive statistics	*Question 9*	*Question 10*	*Question 11*	*Question 12*	*Question 13*
Mean	3.983	2.898	3.025	3.746	4.119
Standard Error	0.079	0.109	0.107	0.086	0.101
Median	4	3	3	4	4
Mode	4	4	4	4	5
Standard Deviation	0.857	1.187	1.158	0.935	1.095
Sample Variance	0.735	1.408	1.341	0.875	1.199

The descriptive statistics in Table 33 indicate that most respondents agree that in the past incentives have positively influenced performance.

Figure 10: Responses to Questions 9, 10, 11, 12, and 13: Link between performance and rewards in the past



The responses to the questions indicate that based on past experiences, respondents have been positively influenced by incentives, even when they have reached their goals and have not received rewards, as indicated in Figure 10 above.

5.4.3. Questions relating to the present

The tables below (Tables 34 and 35) provide a summary of the responses collected for questions relating to the present.

Table 34: Responses to Questions 14, 15, 16, and 17: Link between performance and rewards in the present

Question 14:	Incentives motivate me to perform.
Question 15:	Incentives have a positive influence on my performance, when I have 100% certainty of achieving my targets.
Question 16:	Incentives have a positive influence on my performance, when I have 50% certainty of achieving my targets.
Question 17:	Incentives have a positive influence on my performance, when I am uncertain of achieving my targets

	Disagree strongly	Disagree	Neither agree nor disagree	Agree	Agree strongly	N/A	Rating Average	Response Count
Question 14	1	11	11	43	52	0	4.14	118
Question 15	3	13	14	40	48	0	3.99	118
Question 16	3	20	18	60	17	0	3.58	118
Question 17	6	33	24	44	11	0	3.18	118

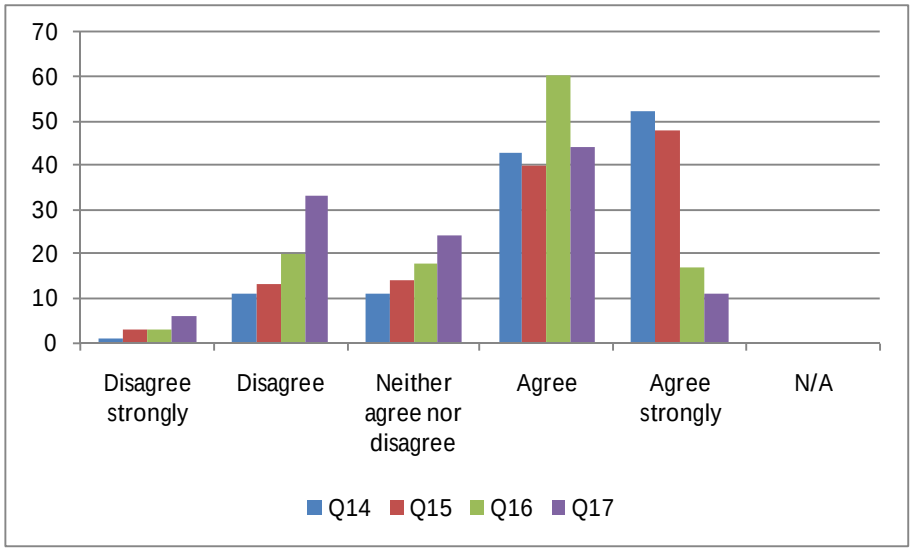
Table 34 provides a summary of the responses relating to performance and rewards in the present. Present performance is positively influenced by incentives, more so when there is more certainty that rewards will be forthcoming.

Table 35: Descriptive statistics for Questions 14, 15, 16, and 17: Link between performance and rewards in the present

Descriptive statistics	*Question 14*	*Question 15*	*Question 16*	*Question 17*
Mean	4.136	3.992	3.576	3.178
Standard Error	0.091	0.101	0.094	0.101
Median	4	4	4	3
Mode	5	5	4	4
Standard Deviation	0.986	1.098	1.016	1.099
Sample Variance	0.973	1.205	1.033	1.207

The descriptive statistics in Table 35 indicate that most respondents agree that at present incentives positively influenced performance.

Figure 11: Response to questions 14, 15, 16, and 17: Link between performance and rewards in the present



The responses to the questions indicate that based on present experiences, incentives motivate respondents to perform, even when there is uncertainty with regards to reaching their goals, as illustrated in Figure 11 above.

5.4.4. Questions relating to the future

The tables below (Tables 36 and 37) provide a summary of the responses collected for questions relating to the future.

Table 36: Responses to Questions 18, 19, and 20: Link between performance and rewards in the future

Question 18:	In future, incentives will have a positive influence on my performance, when I have 100% certainty of achieving my targets.
Question 19:	In future, incentives will have a positive influence on my performance, when I have 50% certainty of achieving my targets
Question 20:	In future, incentives will have a positive influence on my performance, when I am uncertain of achieving my targets

	Disagree strongly	Disagree	Neither agree nor disagree	Agree	Agree strongly	N/A	Rating Average	Response Count
Question 18	1	12	12	42	51	0	4.10	118
Question 19	3	15	20	65	15	0	3.63	118
Question 20	2	35	23	42	15	1	3.26	118

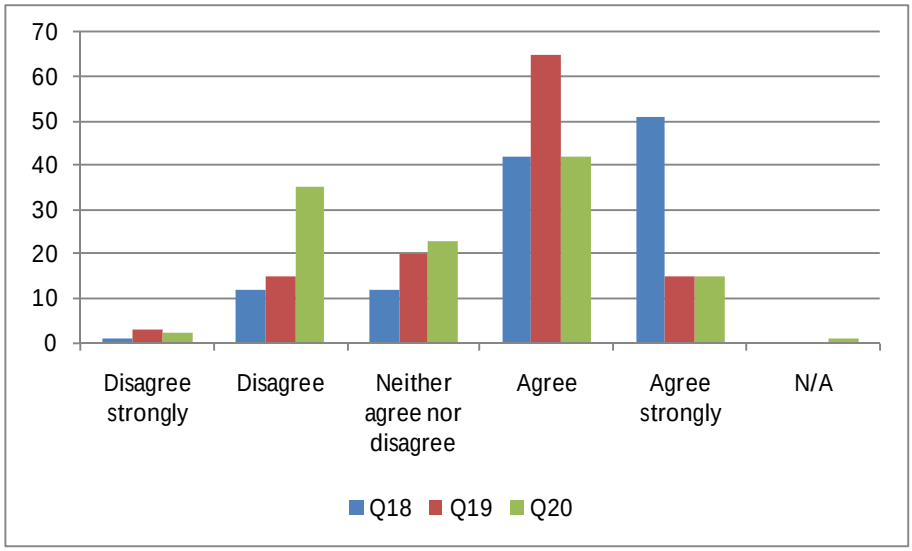
Table 36 provides a summary of the responses relating to performance and rewards in the future. Future performance is reported to be positively influenced by incentives, more so when there is more certainty that rewards will be forthcoming.

Table 37: Descriptive statistics for Questions 18, 19, and 20: Link between performance and rewards in the future

Descriptive statistics	*Question 18*	*Question 19*	*Question 20*
Mean	4.102	3.627	3.254
Standard Error	0.093	0.087	0.103
Median	4	4	3
Mode	5	4	4
Standard Deviation	1.008	0.950	1.119
Sample Variance	1.015	0.903	1.251

The descriptive statistics in Table 37 indicate that most respondents agree that at incentives positively influence future performance even when there is some uncertainty regarding whether targets will be achieved.

Figure 12: Response to questions 18, 19, and 20: Link between performance and rewards in the future



The responses to the questions indicate that in future incentives will have a positive influence on performance, even when there is uncertainty with regards to reaching their goals, as illustrated in Figure 12.

5.4.5. Expectancy

In undertaking the data analysis for determining expectancy, respondents were categorised according to the combined mean expectancy as per the methodology described in the previous chapter. The descriptive statistics for expectancy are described in Table 38.

Table 38: Descriptive statistics for Expectancy

Expectancy combined	
Mean	0.772
Standard Error	0.020
Median	0.833
Mode	1
Standard Deviation	0.219
Sample Variance	0.048

The mean combined expectancy of 0.772 indicates that the combined expectancy for past, present and future expectancy is considered to be relatively high, 77% of respondents expect to be rewarded based on performance.

5.4.6. Motivation

In undertaking the data analysis for determining motivation, respondents were categorised according to the combined mean motivation as per the methodology described in the previous chapter. The descriptive statistics for motivation are reported in Table 39. Further, motivation was calculated as per Expectancy Theory utilising the expectancy score calculated in the previous section and the maximum valence score calculated as per the methodology described. The descriptive statistics of the calculated motivation are reported in Table 39.

Table 39: Descriptive statistics for calculated motivation and reported motivation

	Motivation (calculated)	*Motivation (reported)*
Mean	2.527	4.076
Standard Error	0.136	0.077
Median	2.250	4.333
Mode	1.50	5.00
Standard Deviation	1.476	0.832
Sample Variance	2.179	0.692

In determining the relationship between calculated motivation and reported motivation, a relationship was found to exist and is described in Table 40 below.

Table: 40 Correlation statistics for calculated motivation and reported motivation

Correlations			
		Motivation (calculated)	**Motivation (reported)**
Motivation (calculated)	Pearson Correlation	1	0.421**
	Sig. (2-tailed)		0.000
	N	118	118
**. Correlation is significant at the 0.01 level (2-tailed).			

The reported R value for Pearson's correlation coefficient is significant and indicates that there is indeed a positive linear relationship between calculated motivation and reported motivation.

Expectancy and valence as predictors of reported motivation

A regression analysis was undertaken between calculated motivation and reported motivation in order to determine whether expectancy and valence (calculated motivation) were indeed predictors of reported motivation. Tables 41, 42 and 43 below summarise the findings.

Table: 41 Regression model summary for expectancy and valence as predictors of reported motivation

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	0.730[a]	0.532	0.524	0.574
a. Predictors: (Constant), Valence: Max, Expectancy combined				

The regression model results indicate that with an R square value of 0.532, 53.2% of reported motivation is explained by expectancy and valence.

Table: 42 ANOVA for expectancy and valence as predictors of reported motivation

ANOVA[b]						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Significance**
1	Regression	43.112	2	21.556	65.461	0.000[a]
	Residual	37.869	115	0.329		
	Total	80.980	117			
a. Predictors: (Constant), Valence: Max, Expectancy combined b. Dependent Variable: Motivation (reported)						

The ANOVA table for expectancy and valence indicate that the predictor terms of expectancy and valence are indeed not equal to zero. With a reported significance level of <0.001, expectancy and valence are therefore considered to be explanatory variables for reported motivation.

Table: 43 Coefficients for expectancy and valence as predictors of reported motivation

Coefficients[a]						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Significance**
		B	**Std. Error**	**Beta**		
1	(Constant)	1.940	0.217		8.926	0.000
	Expectancy combined	2.767	0.243	0.730	11.374	0.000
	Valence: Max	-1.239E-5	0.037	0.000	0.000	1.000
a. Dependent Variable: Motivation (reported)						

The individual explanatory variables of expectancy and valence and their suitability as explanatory variables for reported motivation were evaluated. Expectancy is considered to be a suitable explanatory variable with a reported significance level of <0.001. However, valence is not considered to be a suitable explanatory variable with a reported significance level of 1.000.

5.5. Cross Tabulation

5.5.1. Reward type and gender

Cross tabulation was undertaken between preferred reward type and gender, to evaluate whether there is indeed a difference between gender and preference of reward type. Tables 44 and 45 provide the results thereof.

Table: 44 Cross tabulation between reward type and gender

Preference of reward	Male	Distribution	Female	Distribution	Grand Total	Distribution
Bonus pay	15	17.9%	5	14.7%	20	17.0%
Full shares	19	22.6%	7	20.6%	26	22.0%
Merit pay	47	56.0%	22	64.7%	69	58.5%
Share appreciation rights	3	3.5%	0	0.0%	3	2.5%
Grand Total	**84**	**100.0%**	**34**	**100.0%**	**118**	**100.0%**

As indicated in Table 44, the distribution of reward preference between male and female suggests that there is no preference of reward type between the different genders.

Table: 45 ANOVA between reward type and gender

Anova: Single Factor						
Source of Variation	***SS***	***df***	***MS***	***F***	***P-value***	***F crit***
Between Groups	5.55E-17	1	5.55E-17	8.75E-16	1	5.987
Within Groups	0.381	6	0.063			
Total	0.381	7				

Based on the results of the ANOVA between reward type and gender in Table 45, it would appear that there is no statistical difference of reward preference between genders with a reported significance level of 1.000.

5.5.2. Reward type and company type

Cross tabulation was undertaken between preferred reward type and company type, to evaluate whether there is indeed a difference between the type of company respondents work for and preference of reward type. Tables 46 and 47 provide the results thereof.

Table: 46 Cross tabulation between reward type and company type

Preference of reward	Listed company	Distribution	Private company	Distribution	Grand Total	Distribution
Bonus pay	10	17.3%	10	16.7%	20	17.0%
Full shares	13	22.4%	13	21.7%	26	22.0%
Merit pay	34	58.6%	35	58.3%	69	58.5%
Share appreciation rights	1	1.7%	2	3.3%	3	2.5%
Grand Total	**58**	**100.0%**	**60**	**100.0%**	**118**	**100.0%**

As indicated in Table 46, the distribution of reward preference between different types of organisations suggests that there is no preference of reward type between different organisations.

Table: 47 ANOVA between reward type and company type

Anova: Single Factor						
Source of Variation	***SS***	***df***	***MS***	***F***	***P-value***	***F crit***
Between Groups	0	1	0	0	1	5.987
Within Groups	0.340	6	0.057			
Total	0.340	7				

Based on the results of the ANOVA between reward type and type of organisation in Table 47, it would appear that there is no statistical difference of reward preference between different types of organisations with a reported significance level of 1.000. Based on the cross tabulation it would appear that there is no preference of reward between private companies and listed companies.

5.5.3. Reward type and age group

Cross tabulation was undertaken between preferred reward type and age group, to evaluate whether there is indeed a difference between the age group of respondents and preference of reward type. Table 48 provides the results thereof.

Table: 48 Cross tabulation between reward type and age group

	Age Group					
Reward Type	**<35**	**35-44**	**45-54**	**55-64**	**>65**	**Grand Total**
Bonus pay	7	7	3	3		20
Full shares	16	7		3		26
Merit pay	37	20	5	6	1	69
Share appreciation rights		3				3
Grand Total	**60**	**37**	**8**	**12**	**1**	**118**

As indicated in Table 48, the distribution of reward preference between different types age groups suggests that there is no preference of reward type between different age groups.

This chapter has presented the results of the data collected, as well as the results of the statistical analysis undertaken. An in-depth discussion and interpretation of the results is provided in the next chapter.

6. Chapter 6: Discussion of Results

This chapter presents a discussion of the results of the data collected, as well as a discussion of the statistical analysis undertaken in the previous chapter. The discussion of the results is clustered around the research questions and results.

6.1. Research Sub-question 1

Research Sub-question 1: Is the positive motivation effect associated with a pay-for-performance plan relationship greater for merit pay than for bonus pay?

The data analysis for research sub-question 1 indicates that the paired sample correlation between Merit Pay and Bonus Pay is not significant at a 95% confidence level with a reported p value of 0.052. This indicates that the linear relationship between Merit Pay and Bonus Pay is very weak. In terms of the strength of the evidence in favour of the relationship, the proximity to a p value to 0.05 would suggest that there is moderate evidence that there is no linear relationship to speak of between Merit Pay and Bonus Pay.

The data analysis for research sub-question 1 indicates that the T-test for equal means is statistically significant with a reported p value of <0.001 at a significance level of 0.05. Therefore, the mean difference between Merit Pay and Bonus Pay is not equal to zero. There is a statistical difference between the mean preference for Merit Pay as opposed to Bonus pay.

The mean preference rating for Merit Pay is reported as 1.407, while the mean preference rating for Bonus Pay is reported as 0.280. This indicates that Merit Pay is preferred over Bonus Pay. With regards to the motivational effect of Merit Pay versus Bonus Pay, holding constant for expectancy, the motivational effect of Merit Pay is greater than the motivational effect for Bonus Pay.

Therefore, it can be concluded that the positive motivational effect associated with a pay-for-performance plan is indeed greater for Merit Pay than for Bonus Pay.

This finding is in agreement with the findings of Gerhart *et al.,* (1992), that indicates that as merit pay has a significant influence on lifetime earnings, the estimated link between pay and performance is usually higher, than for other types of rewards as this is typically reflected as guaranteed long-term pay.

Further, this is in agreement with the research undertaken by Park and Sturman (2009), which found that the positive motivational effect of Merit Pay was greater than that of Bonus Pay. This is because Bonus Pay is considered to be less desirable than Merit Pay, since Bonus Pay is a one off payment and therefore has less economic value than a permanent raise.

6.2. Research Sub-question 2

Research Sub-question 2: Is the positive motivation effect associated with a pay-for-performance plan relationship greater for merit pay than for full shares?

The data analysis for research sub-question 2 indicates that the paired sample correlation between Merit Pay and Full Shares is significant at a 95% confidence level with a reported p value of <0.001. This indicates that the linear relationship between Merit Pay and Full Shares is non-existent. There is no linear relationship between Merit Pay and Full Shares.

The data analysis for research sub-question 2 indicates that the T-test for equal means is statistically significant with a reported p value of 0.010 at a significance level of 0.05. Therefore, the mean difference between Merit Pay and Full Shares is not equal to zero. There is a statistical difference between the mean preference for Merit Pay and Full Shares.

The mean preference rating for Merit Pay is reported as 1.407, while the mean preference rating for Full Shares is reported as 0.280. This indicates that Merit Pay is preferred over Full Shares. With regards to the motivational effect of Merit Pay versus Full Shares, holding constant for expectancy, the motivational effect of Merit Pay is greater than the motivational effect for Full Shares.

Therefore, it can be concluded that the positive motivational effect associated with a pay-for-performance plan is indeed greater for Merit Pay than for Full Shares.

This finding is in agreement with the literature, which indicates that although long-term incentives have become more common in recent times, employees generally underestimate the value of these types of benefits (Gerhart *et al.,*

1992), as they tend to be intangible to a large degree and therefore preference of more tangible rewards is expected.

This is in agreement with the research undertaken by Park and Sturman (2009), which found that the positive motivational effect of Merit Pay was greater than that of Long Term Incentives.

This finding may be attributed to the fact that Merit Pay is more common than the award of Full Shares, specifically in relation to the sample that was utilised for this survey. The mode of the age group for the sample indicated that the majority of the respondents were under 35 years of age and therefore may not be in a position where they have been awarded Full Shares and therefore are not able to provide an accurate representation of preference between Merit Pay and Full Shares, therefore defaulting to a preference of Merit Pay as this is more tangible and has been experienced.

6.3. Research Sub-question 3

Research Sub-question 3: Is the positive motivation effect associated with a pay-for-performance plan relationship greater for merit pay than for share appreciation rights?

The data analysis for research sub-question 3 indicates that the paired sample correlation between Merit Pay and Share Appreciation Rights is significant at a 95% confidence level with a reported p value of <0.001. This indicates that the linear relationship between Merit Pay and Share Appreciation Rights is non-

existent. There is no linear relationship between Merit Pay and Share Appreciation Rights.

The data analysis for research sub-question 3 indicates that the T-test for equal means is statistically significant with a reported p value of <0.001 at a significance level of 0.05. Therefore, the mean difference between Merit Pay and Share Appreciation Rights is not equal to zero. There is a statistical difference between the mean preference for Merit Pay and Share Appreciation Rights.

The mean preference rating for Merit Pay is reported as 1.407, while the mean preference rating for Share Appreciation Rights is reported as -1.966. This indicates that Merit Pay is preferred over Share Appreciation Rights. With regards to the motivational effect of Merit Pay versus Share Appreciation Rights, holding constant for expectancy, the motivational effect of Merit Pay is greater than the motivational effect for Share Appreciation Rights.

Therefore, it can be concluded that the positive motivational effect associated with a pay-for-performance plan is indeed greater for Merit Pay than for Share Appreciation Rights.

This finding is in agreement with the literature, which indicates that although long-term incentives have become more common in recent times, employees generally underestimate the value of these types of benefits (Gerhart *et al.,*

1992), as they tend to be intangible to a large degree and therefore preference of more tangible rewards is expected.

This is in agreement with the research undertaken by Park and Sturman (2009), which found that the positive motivational effect of Merit Pay was greater than that of Long Term Incentives.

This finding may be attributed to the fact that Merit Pay is more common than the award of Share Appreciation Rights, specifically in relation to the sample that was utilised for this survey. The mode of the age group for the sample indicated that the majority of the respondents were under 35 years of age and therefore may not be in a position where they have been awarded Share Appreciation Rights and therefore are not able to provide an accurate representation of preference between Merit Pay and Share Appreciation Rights, therefore defaulting to a preference of Merit Pay as this is more tangible and has been experienced.

6.4. Research Sub-question 4

Research Sub-question 4: Is the positive motivation effect associated with a pay-for-performance plan relationship greater for bonus pay than for full shares?

The data analysis for research sub-question 4 indicates that the paired sample correlation between Bonus Pay and Full Shares is significant at a 95% confidence level with a reported p value of <0.001. This indicates that the linear

relationship between Bonus Pay and Full Shares is non-existent. There is no linear relationship between Bonus Pay and Full Shares.

The data analysis for research sub-question 4 indicates that the T-test for equal means is not statistically significant with a reported p value of 1.000 at a significance level of 0.05. Therefore, the mean difference between Bonus Pay and Full Shares is equal to zero. Statistically there is no difference between the mean preference for Bonus Pay and Full Shares.

The mean preference rating for Bonus Pay is reported as 0.280, and the mean preference rating for Full Shares is reported as 0.280. This indicates that there is no preference to Bonus Pay over Full Shares. With regards to the motivational effect of Bonus Pay versus Full Shares, holding constant for expectancy, the motivational effect of Bonus Pay is not greater than the motivational effect for Full Shares.

Therefore, it cannot be concluded that the positive motivational effect associated with a pay-for-performance plan is indeed greater for Bonus Pay than for Full Shares.

This finding is not in agreement with the literature, as the literature indicates that it is expected that the employees generally underestimate the value of long-term incentives (Gerhart *et al.,* 1992), as they tend to be intangible to a large degree and therefore preference of more tangible rewards is expected.

Further, this is not in agreement with the research undertaken by Park and Sturman (2009), which indicated that the positive motivational effect of Bonus Pay was greater than that of Long Term Incentives.

This may be due to the relatively small sample size which may not be truly reflective of the preference of the population as a whole. Alternatively this may be reflective of a movement towards preference of Full Shares as opposed to Bonus Pay as Full Shares become more commonly utilised as incentives and employees become more familiar with these reward schemes.

6.5. Research Sub-question 5

Research Sub-question 5: Is the positive motivation effect associated with a pay-for-performance plan relationship greater for bonus pay than for share appreciation rights?

The data analysis for research sub-question 5 indicates that the paired sample correlation between Bonus Pay and Share Appreciation Rights is significant at a 95% confidence level with a reported p value of <0.001. This indicates that the linear relationship between Bonus Pay and Share Appreciation Rights is non-existent. There is no linear relationship between Bonus Pay and Share Appreciation Rights.

The data analysis for research sub-question 5 indicates that the T-test for equal means is statistically significant with a reported p value of <0.001 at a significance level of 0.05. Therefore, the mean difference between Bonus Pay

and Share Appreciation Rights is not equal to zero. There is a statistical difference between the mean preference for Bonus Pay and Share Appreciation Rights.

The mean preference rating for Bonus Pay is reported as 0.280, while the mean preference rating for Share Appreciation Rights is reported as -1.966. This indicates that Bonus Pay is preferred over Share Appreciation Rights. With regards to the motivational effect of Bonus Pay versus Share Appreciation Rights, holding constant for expectancy, the motivational effect of Bonus Pay is greater than the motivational effect for Share Appreciation Rights.

Therefore, it can be concluded that the positive motivational effect associated with a pay-for-performance plan is indeed greater for Bonus Pay than for Share Appreciation Rights.

This finding is in agreement with the literature, which indicates that although long-term incentives have become more common in recent times, employees generally underestimate the value of these types of benefits (Gerhart *et al.,* 1992), as they tend to be intangible to a large degree and therefore preference of more tangible rewards is expected.

This is further in agreement with the research undertaken by Park and Sturman (2009), which indicated that the positive motivational effect of Bonus Pay was greater than that of Long Term Incentives.

This finding is however in contrast with research sub-question 5 which found that the positive motivational effect associated with a pay-for-performance plan is not greater for Bonus Pay than for Full Shares.

This may be attributed to the lack of familiarity with Share Appreciation Rights and the potential benefits thereof as opposed to the issue of Full Shares which tend to be more common and are more easily understood.

6.6. Research Sub-question 6

Research Sub-question 6: Is the positive motivation effect associated with a pay-for-performance plan relationship greater for full shares than for share appreciation rights?

The data analysis for research sub-question 6 indicates that the paired sample correlation between Full Shares and Share Appreciation Rights is significant at a 95% confidence level with a reported p value of <0.001. This indicates that the linear relationship between Full Shares and Share Appreciation Rights is non-existent. There is no linear relationship between Full Shares and Share Appreciation Rights.

The data analysis for research sub-question 6 indicates that the T-test for equal means is statistically significant with a reported p value of <0.001 at a significance level of 0.05. Therefore, the mean difference between Full Shares and Share Appreciation Rights is not equal to zero. There is a statistical

difference between the mean preference for Full Shares and Share Appreciation Rights.

The mean preference rating for Full Shares is reported as 0.280, while the mean preference rating for Share Appreciation Rights is reported as -1.966. This indicates that Full Shares are preferred over Share Appreciation Rights. With regards to the motivational effect of Full Shares versus Share Appreciation Rights, holding constant for expectancy, the motivational effect of Full Shares is greater than the motivational effect for Share Appreciation Rights.

Therefore, it can be concluded that the positive motivational effect associated with a pay-for-performance plan is indeed greater for Full Shares than for Share Appreciation Rights.

6.7. Research Sub-question 7

Research Sub-question 7: Is the strength of the link between pay and performance positively associated with motivation of increased executive performance?

The data analysis for research sub-question 7 indicates that there is indeed a positive linear relationship between pay and performance as determined through expectancy and valence, and motivation of increased executive performance (reported motivation). The Pearson correlation is significant at a 99% confidence level for a two-tailed distribution, with a reported value of 0.421.

Further, the data analysis indicates that expectancy and valence are indeed predictors of motivation. The reported data indicates that the R value for the relationship between expectancy and valence, and reported motivation is 0.730.

The coefficient of determination for the relationship is reported as 0.532, which indicates that 53% of the variance of the dependent variable (reported motivation) is explained by expectancy and valence.

6.7.1. A test for the overall fit, the ANOVA table

A test to determine the overall fit of the data can be undertaken by testing for the Analysis Of Variance (ANOVA) of the predictors. Testing whether the predictors (expectancy and valence) of reported motivation are equal to zero provides an indication whether or not these terms as a group have some explanatory power. If the terms are determined to be equal to zero then they provide no explanatory power for the relationship. However, if the predictors are determined to not be equal to zero if would indicate that as a group they provide at least some explanatory power for the relationship.

The results indicate that the ANOVA for expectancy and valence as predictors of reported motivation are indeed not equal to zero with a reported p value of <0.001 at a significance level of 0.05. Therefore it can be stated that at least one of the coefficients is not equal to zero, and as a group the explanatory variables provide at least some explanatory power for the regression.

The questions that need to be answered relate to how much explanatory power, and which explanatory variables provide the best explanation. The degree of explanatory power, and which variables provide the best explanation are addressed in the next section.

6.7.2. Inferences about the regression coefficients

In order to assess the explanatory power of the variables of expectancy and valence, we assess whether the individual regression coefficients are zero. A regression coefficient with a value of zero will cancel its effect on the dependent variable and therefore will not contribute to the regression equation.

In undertaking the test of whether a coefficient is equal to zero, we test the probability of the coefficient being equal to zero. A probability of greater than 0.05 indicates that there is not enough convincing evidence to suggest that the coefficient is not equal to zero; therefore we conclude that the coefficient is indeed equal to zero. A probability of less than 0.05 provides convincing evidence that the coefficient is not equal to zero, and therefore is an explanatory variable for the regression equation.

By testing whether the regression coefficient is zero, for expectancy the probability is <0.001 for a 95% confidence interval, therefore we can say with 95% certainty that the regression coefficient for expectancy is not zero.

For valence, the probability is 1.0 for a 95% confidence interval, and we conclude that the regression coefficient for valence is therefore zero. Based on the aforementioned result, there is therefore no argument to include the variable for valence in the regression equation. This indicates that the regression equation for predicting motivation to perform is related to the expectancy of receiving a reward as opposed to the valence of the reward. This suggests that even though there are clear preferences concerning the types of rewards, the effect thereof on the prediction of performance is not significant. The relationship that was determined is as follows;

Motivation = 1.940 + 2.767(expectancy) - 1.239E-5*(Valence)*

Therefore, it can be concluded that the strength of the link between pay and performance is positively associated with motivation of increased executive performance; however it would appear that the significant determining factor is the Expectancy of the reward as opposed to the Valence of the reward. This is in agreement with Green (2000, pg. 5), who indicates that the most important part of performance is related to expectancy as opposed to the reward itself – in his words “What employees *believe* is infinitely more important than what is being offered to motivate them.”.

It was established through the results that there is indeed a distinct preference of reward. However motivation based on the offer of only one type of specific reward was not investigated.

6.8. Cross Tabulation

6.8.1. Reward type and gender

From the results of the cross tabulation between preferred reward type and gender, statistically there is no significant preference between gender with regards to preference of reward type.

6.8.2. Reward type and company type

From the results of the cross tabulation between preferred reward type and company type, statistically there is no significant preference between company types with regards to preference of reward type.

6.8.3. Reward type and age

The results of the preference of reward type compared to age group refer. For the age groups <35 and 35-44, there is a difference in the number of respondents preference between the <35 age group and the 35-44 age group. Both groups prefer Merit Pay over all other types of pay, the <35 age group prefers full shares over Bonus Pay, however the 35-44 age group rates Full Shares and Bonus Pay as equal preference. Both groups rate Share Appreciation Rights as the lowest preference,

however it should be noted that the only age group with any preference of Share Appreciation Rights was the 35-44 age group.

6.9. Concerns Related to the Sample

Concerns relating to the sample achieved include the small number of some of the preference ratings e.g. share appreciation rights. In this instance, it was not possible to perform any statistical analysis on this data with regards to the motivational effect thereof. Even the analysis of the bonus pay and full share preference as an explanatory variable for reported motivation may be questionable as the sample size for these preferences are 26 and 20 responses respectively, which are too small to provide any significant statistical relationship between reward preference and motivational effect.

Further, the majority of the respondents that form part of the sample are younger than 35, are classified as management level middle management or other, and therefore may adversely affect and bias the results in some respects.

6.10. Conclusion to Discussion of Results

The research question ***"How do different pay-for-performance remuneration plans affect performance?"*** has been addressed through the use of Expectancy Theory. This was achieved by breaking this main question into a number of sub-questions. All of the research sub-questions have been addressed and discussed in the preceding sections.

In answering the Research question, it can be said that different pay-for-performance remuneration plans do indeed affect performance, with a distinct preference shown for different reward types.

In terms of the theory, expectancy was predicted as the primary influence with regards to motivation and performance as opposed to the reward type on offer. The research indicates that the expectancy of receiving the reward is a stronger and far more significant predictor of performance than the type of rewards associated with various pay-for-performance plans. The strength of the effect of reward type on motivation was however unexpectedly low. The preference of reward type does agree with the expected theoretical basis between different rewards, except for the preference of bonus pay over full shares, which is in contradiction with expectations.

This chapter has presented a discussion of the results relating to the research sub-questions and the research question as a whole, and has provided an understanding an explanation thereof. The next chapter provides conclusions of the research study and recommendations for further research.

7. Conclusion

This chapter presents the main findings of the research, after which recommendations are presented relating to future research.

7.1. Research Objectives

The purpose of this study was to assess how different pay-for-performance remuneration plans affect executive performance. Four different types of pay-for-performance plans were assessed, namely Merit Pay, Bonus Pay, Full Shares, and Share Appreciation Rights.

Expectancy theory proposes that choices are made according to two considerations:

- What is the probability that this outcome will be achieved (expectancy), and
- How much the expected outcome is valued (valence of the reward)

7.2. Research Findings

Expectancy Theory predicts that pay-for-performance plans with greater expectancy and valence will motivate employees to perform better. Expectancy Theory, predicts that there will indeed be a different motivational effect as a result of different pay-for-performance plans, and it is possible to differentiate between the effects expected from each pay-for-performance plan. The results of the study are for the most part in agreement with this. The exception being

the motivational effect of Bonus Pay versus the motivational effect of Full Shares was found not to be statistically different, and therefore it could not be concluded that the motivational effect of Bonus Pay was greater than Full Shares as expected.

All of the pay-for-performance plans were found to have a positive effect on the motivation of employees; however it was found that the most significant factor relating to motivation of employees was expectancy as opposed to the preference of the type of reward (valence). This finding was somewhat unexpected in that the effect of valence was found to be statistically insignificant in explaining the relationship between calculated motivation (based on expectancy and valence) and reported motivation. The fact that expectancy is the most significant factor though is in itself not surprising, this has been highlighted by Green (2000) who indicated that what employees believe (expectancy) is far more important than the rewards that are offered to motivate them.

With the increase in importance of pay-for-performance systems (Bussin, 2003), and the fact that pay-for-performance incentives are considered to be an integral part of both private sector and public sector remuneration policies, it is believed that pay-for-performance can indeed be effective in providing motivation to individuals to perform in the interests of the principal, thereby addressing the major concern of Agency Theory.

The research study shows that this motivation is critically dependent on the expectancy of the individual as to whether the reward will actually be received, based on the assumption of achievement of the goals set, as indicated by Armstrong & Murlis, (1998), and likened to individual criteria and line of sight. The type of reward, although important and with a definite preference existing, is not as important as the expectancy thereof.

Increasing the ratio of variable remuneration to fixed remuneration is considered to add flexibility to the organisation (De Swardt, 2006) and the use of pay-for-performance systems aids this. Typically, with the focus on reward as opposed to reward mix (Chapman & Kelliher, 2011), the results of this study would suggest that there may be an optimum reward mix based on the preferences between rewards.

Pay-for-performance systems though, as indicated through the research of current literature, rely on effective implementation systems to ensure that they produce the desired outcomes (Salimäki & Jämsén, 2010). This is confirmed by De Swardt, Veldsman and Roodt (2006), who find that that in order for pay-for-performance plans to be successful:

- It is necessary to create a performance culture within the organisation
- Organisations must make certain that employees can influence performance metrics and the distribution of rewards, and
- There must be a minimum level of instrumentality, congruency and performance that must be implemented for variable remuneration to influence the outcome of a remuneration scheme

The findings of the research can be summarised as follows:

- The positive motivational effect associated with a pay-for-performance plan is indeed greater for Merit Pay than for Bonus Pay
- The positive motivational effect associated with a pay-for-performance plan is indeed greater for Merit Pay than for Full Shares
- The positive motivational effect associated with a pay-for-performance plan is indeed greater for Merit Pay than for Share Appreciation Rights
- It cannot be concluded that the positive motivational effect associated with a pay-for-performance plan is indeed greater for Bonus Pay than for Full Shares
- The positive motivational effect associated with a pay-for-performance plan is indeed greater for Bonus Pay than for Share Appreciation Rights
- The positive motivational effect associated with a pay-for-performance plan is indeed greater for Full Shares than for Share Appreciation Rights
- The strength of the link between pay and performance is positively associated with motivation of increased executive performance, however it would appear that the significant determining factor is the Expectancy of the reward as opposed to the Valence of the reward
- Statistically there is no significant preference between gender with regards to preference of reward type, and
- Statistically there is no significant preference between company type with regards to preference of reward type

The rewards preferences, as determined by this study, are as follows (in order of preference):

- Merit Pay
- Full Shares
- Bonus Pay, and
- Share Appreciation Rights

Table 49 below provides a summary of the findings of the research undertaken.

Table 49: Summary of findings

Motivational factors affecting executive performance	Importance	Criteria	Controlling for gender	Controlling for company type
Expectancy	Most important	Expectancy that reward is attainable and will be received	No difference	No difference
Valence	Least important	Preference with regards to type of reward	No difference	No difference
		(1) Merit pay	No difference	No difference
		(2) Full shares		
		(3) Bonus pay		
		(4) Share appreciation rights		

It is more important to understand individuals and what motivates them than the actual rewards offered. Different rewards have different motivational effects, however the reward itself is not the dominant determinant with regards to motivational as a whole.

7.3. Recommendations for Future Research

Future research may include a wider sample; with more responses to be able to conclusively assess the motivational effect of the different reward types i.e. bonus pay versus full shares.

Future research may include longitudinal data and therefore be conducted over time to assess whether the findings are consistent over time.

Further it may be of interest to note how age and motivational factors, as well as reward preferences are likely to change over time. An assessment to monitor this change over time would be interesting.

The motivational effect of the award of only a single type of reward could be assessed to determine the effect thereof on motivation to perform.

The assessment of other reward types could be included in future research, such as additional leave, flexi time, weekends away, or other non-financial rewards.

7.4. Conclusion

Expectancy Theory predicts that employee performance can be increased through a pay-for-performance plan (Vroom, 1995). The pay-for-performance plan though is required to have a link between an individual's effort in terms of performance and a belief that increased effort on the part of the employee will result in a reward, and that the reward is desirable to the employee.

This research study has shown that Expectancy Theory can indeed be utilised to understand how different pay-for-performance remuneration plans affect executive performance.

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9. Appendices

9.1. Questionnaire

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA
Denkleiers • Leading Minds • Dikgopolo tša Dihlalefi

PAY-FOR-PERFORMANCE QUESTIONNAIRE

INSTRUCTIONS: Please tick one box only

SECTION 1: DEMOGRAPHIC INFORMATION						
Please indicate your job level/ position	Director/ Executive Director	Non Executive Director	Chief Executive officer	Chief Financial Officer		
	Chief Operating Officer	Chairperson	Senior Management	General Management		
	Other - please specify					
What 'job family' best describes your current position?	Human Resources	Administrative	Sales & Service	Information Technology	Process & Project Management	
	Investment banking	Marketing	Finance	Consulting	Other	
Age	<35	35-44	45-54	55-64	>65	
Gender	Male	Female				
Ethnicity	Black	White	Indian	Coloured		
Number of years in current position	0-4	5-9	10-14	>15		
Company	Listed on stock exchange	Private company				

	GENERAL	**Disagree strongly**	**Disagree**	**Neither Agree Nor Disagree**	**Agree**	**Agree strongly**	**N/A**
1	My performance is better when there is an incentive plan that links my performance to rewards						
	PAST	**Disagree strongly**	**Disagree**	**Neither Agree Nor Disagree**	**Agree**	**Agree strongly**	**N/A**
2	In the past, I have been **positively** influenced by incentives						
3	In the past, I have been **positively** influenced by incentives, even when I have reached ***all*** of my targets, and did **not** received a reward						
4	In the past, I have been **positively** influenced by incentives, even when I have reached only ***some*** of my targets, and did **not** received a reward						
5	In the past, I have been **postively** influenced by incentives, even when I have reached ***some*** of my targets, and did receive a reward						
6	In the past, I have been **positively** influenced by incentives, when I have reached ***all*** of my targets, and did receive a reward						
	PRESENT	**Disagree strongly**	**Disagree**	**Neither Agree Nor Disagree**	**Agree**	**Agree strongly**	**N/A**
7	Incentives motivate me to perform						
8	Incentives have a **positive influence** on my performnce, when I have ***100% certainty*** of achieving my targets						
9	Incentives have a **positive influence** on my performance, when I have ***50% certainty*** of achieving my targets						
10	Incentives have a **positive influence** on my performance, when I am ***uncertain*** of achieving my targets						
	FUTURE	**Disagree strongly**	**Disagree**	**Neither Agree Nor Disagree**	**Agree**	**Agree stongly**	**N/A**
11	In future, incentives will have a **positive influence** on my performance, when I have ***100% certainty*** of achieving my targets						
12	In future, incentives will have a **positive influence** on my performance, when I have ***50% certainty*** of achieving my targets						
13	In the future, incentives will have a **positive influence** on my performance, when I am ***uncertain*** of achieving my targets						

For the following section the definitions below apply:
MERIT PAY = Pay increase over and above salary, and is a permanent increase in pay based on performance
BOUNS PAY = Cash payment over and above salary, once off cash payment based on performance
FULL SHARES = Full value of share awarded based on performance
SHARE APPRECIATION RIGHTS = Appreciation of share value between time of award and time of exercise, based on performance

	PREFERENCE Merit pay vs Bonus Pay	**Disagree strongly**	**Disagree**	**Neutral**	**Agree**	**Agree strongly**	**N/A**
14	I prefer **merit pay** to **bonus pay** as a motivator						
15	I am **indifferent** to **merit pay** compared to **bonus pay** as a motivator						
	PREFERENCE Merit Pay vs Full Shares	**Disagree strongly**	**Disagree**	**Neutral**	**Agree**	**Agree strongly**	**N/A**
16	I prefer **merit pay** to **full shares** as a motivator						
17	I am **indifferent** to **merit pay** compared to **full shares** as a motivator						
	PREFERENCE Merit Pay vs Share Appreciation Rights	**Disagree strongly**	**Disagree**	**Neutral**	**Agree**	**Agree strongly**	**N/A**
18	I prefer **merit pay** to **share appreciation rights** as a motivator						
19	I am **indifferent** to **merit pay** compared to **share appreciation rights** as a motivator						
	PREFERENCE Bonus Pay vs Full Shares	**Disagree strongly**	**Disagree**	**Neutral**	**Agree**	**Agree strongly**	**N/A**
20	I prefer **bonus pay** to **full shares** as a motivator						
21	I am **indifferent** to **bonus pay** compared to **full shares** as a motivator						
	PREFERENCE Bonus pay vs Share Appreciation Rights	**Disagree strongly**	**Disagree**	**Neutral**	**Agree**	**Agree strongly**	**N/A**
22	I prefer **bonus pay** to **share appreciation rights** as a motivator						
23	I am **indifferent** to **bonus pay** compared to **share appreciation rights** as a motivator						
	PREFERENCE Full Shares vs Share Appreciation Rights	**Disagree strongly**	**Disagree**	**Neutral**	**Agree**	**Agree strongly**	**N/A**
24	I prefer **full shares** to **share appreciation rights** as a motivator						
25	I am **indifferent** to **full shares** compared to **share appreciation rights** as a motivator						