

**REMUNERATION AS PERCEIVED BY THE EMPLOYEES OF A BANKING
INSTITUTION**

by

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o O o

ABSTRACT

Key Terms : remuneration strategy, rewards, compensation, ability to pay, motivation, employee expectations, business goals, pay for performance, labour cost, productivity, psychological contract, labour markets, economic principles, market rate, unions

This study contains the results of an investigation that was undertaken to monitor the performance of the implementation of broadbanding and the flexible, performance-based remuneration strategy of a banking institution in South Africa.

In the chapters dealing with the theoretical aspects, the author has defined the concept remuneration management. The author has also theorised a basic understanding and checklist of areas of importance and considered the intricacies pertaining to rewards. The psychology of remuneration, posing answers into aspects of employee motivation, expectations and attitude towards work and money with deliberations relating to the psychological contract between employer and employee, have been discussed. The principles pertaining to remuneration management, in system design as well as economic and market principles have been closely examined in order to illustrate the link with business strategy and goals. Finally, the author presents an overview of wage bargaining and the impact thereof for business.

Subsequently the implementation of the new remuneration strategy was analysed critically as a tool for institutionalising change in the organisation.

The main hypothesis was set that the employees in the Logistics and Properties Division of ABSA Bank will experience the implementation of the new remuneration strategy as positively influencing and assisting in the establishing of a culture in the Division in terms of the strategic focus on business, learning and legitimacy.

In order to ascertain the validity of the hypothesis a questionnaire was completed by employees of this Division countrywide, where the new strategy was implemented over a two year period. The respondent could therefore indicate the degree of satisfaction with a particular aspect(s) of the remuneration strategy. The answers were classified in terms of a set of dimensions identified focusing the change strategy, to determine the level of performance on core cultural dimensions.

The questionnaire addressed the cultural dimensions of business, learning and legitimacy, assessing whether the deliverables are in place as well as the impact/benefits of the new reward strategy on the cultural dimensions and climate (attitudinal and behaviour norms) of the organisation. The discussions around the findings have been to state the monitoring of performance in terms of the successes achieved and challenges facing management.

The general conclusion to which the author came as a result of the opinions, is that the Logistics and Properties Division has been successful in influencing and promoting a culture focused on business, learning and legitimacy and that the implementation of the reward strategy have positively influenced the climate of the Division.

The positive acceptance of the hypothesis furthermore indicated that the Division will be in a position to comfortably attract, retain and motivate their employees, ultimately the objectives of any organisation's remuneration strategy.

Recommendations as to areas for remedial action have been outlined and indicated in terms of the challenges requiring effort at level of implementation. The relevance of the remuneration strategy as the powerful tool in the transformation process of any organisation as seen from the findings of a sector of the banking industry, have been hypothesised by the author and indicated as an opportunity for future research.

OPSOMMING

Sleuteltermes : vergoedingstrategie, motivering, werknemer verwagtinge, besigheidsdoelwitte, betaling vir prestasie, arbeidskoste, vergoeding, produktiwiteit, sielkundige kontrak, arbeidsmark, ekonomiese beginsels en markpryse, vakbonde

Hierdie studie bevat die resultate van 'n ondersoek wat onderneem is om die prestasie van die implementering van “breë bande” (broadbanding) en die buigsame, prestasie gebaseerde vergoedingstrategie van 'n bankinstelling in Suid Afrika, te monitor.

In die hoofstukke wat handel oor die teoretiese aspekte, het die skrywer die konsep van vergoedingsbestuur gedefinieer. Die skrywer teoretiseer verder 'n basiese begrip en areas van belangrikheid, en oorweeg die ingewikkeldhede wat verband hou met vergoeding. Die sielkunde van vergoeding, wat antwoorde stel rakende aspekte soos werknemer motivering, verwagtinge en houdings teenoor werk en geld met die oorweging van die sielkundige kontrak tussen werkgewer en werknemer, word bespreek. Die beginsels rakende vergoedingsbestuur, in stelselontwerp asook ekonomiese en markbeginsels, word van naderby beskou, om sodoende die verband met besigheidstrategie en doelwitte te illustreer. Ten slotte gee die skrywer 'n oorsig van loononderhandelinge en die uitwerking daarvan op besigheid.

Vervolgens is die implementering van die nuwe vergoedingstrategie as 'n instrument vir die bevordering van verandering in die organisasie, krities evalueer.

Die hoofhipotese is gestel dat die werknemers in die Logistiek en Eiendomme Divisie van ABSA Bank die implementering van die nuwe strategie positief sal ervaar in terme van die bydrae en invloed in die vestiging van 'n kultuur in die Divisie in terme van die strategiese fokus op besigheid, leer en legitimiteit.

In 'n poging om die geldigheid van die hipotese vas te stel is 'n vraelys landwyd deur werknemers in die Divisie, waar die nuwe strategie oor 'n tweejaar tydperk

geïmplementeer is, voltooi. Die respondente kon sodoende die graad van tevredenheid met sekere aspekte van die vergoedingstrategie aandui. Die response is geklassifiseer in terme van 'n stel geïdentifiseerde dimensies wat op die veranderingsproses konsentreer, om sodoende die vlak van prestasie op die kern dimensies te bepaal.

Die vraelys adresseer die kulturele dimensies van besigheid, leer en legitimiteit, en poog om vas te stel of die doelwitte (deliverables) in plek is asook die invloed en voordele van die nuwe vergoedingstrategie op die kulturele dimensies en klimaat (houdings en gedragsnorme) van die organisasie te bepaal. Die bespreking rondom die bevindinge was om die monitering van prestasie in terme van (a) die suksesse behaal en (b) die uitdagings aan bestuur, te stel.

Die algemene gevolgtrekking van die skrywer as gevolg van die opinies van die respondente, is dat die Logistiek en Eiendomme Divisie suksesvol daarin geslaag het om 'n kultuur gefokus op besigheid, leer en legitimiteit te beïnvloed en bevorder, en dat die implementering van die vergoedingstrategie 'n positiewe invloed op die klimaat in die Divisie het.

Die positiewe aanvaarding van die hipotese gee verder 'n aanduiding dat die Divisie in 'n gemaklike posisie behoort te wees om werknemers te trek, motiveer en te behou, uiteindelik dan die doelwit van 'n organisasie se vergoedingstrategie.

Aanbevelings ten opsigte van probleemareas is uitgelig in terme van die uitdagings wat 'n betekenisvolle poging op vlak van implementering van bestuur sal verg. Die relevansie van die vergoedingstrategie as die instrument in die transformasieproses van enige organisasie, soos gesien vanuit die bevindinge van 'n sektor van die bankwese, word ten slotte deur die skrywer hipoteseer en voorts aangedui as 'n geleentheid vir toekomstige navorsing.

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HAPTER ONE: BACKGROUND AND SYNOPSIS OF STUDY

1.1 INTRODUCTION

Though remuneration has always stood at the heart of the employer-employee relationship, strategic remuneration management is by and large a twentieth-century phenomenon, the product of a complex web of corporate, social, economic and political forces (Kravetz, 1988:21; Mbigi & Westbrook, 1998:23).

Its evolution from an agent of internal equity to a powerful strategic management tool parallels the rapid expansion of industry, and its history is, therefore, rich with insights into the changing landscape worldwide and specifically that of corporate South Africa.

The primary catalyst for the emergence of the remuneration management profession was the changing relationship between business owner and the white collar employee, which shifted from one of daily interpersonal contact to a more distant chain of command within the space of a few decades.

Most nineteenth century managers were personally familiar with their employees' individual contributions, needs and expectations and therefore, positioned to structure compensation packaging but, twentieth-century managers, more removed from their staff by expanded corporate hierarchies, do not always share this advantage (Saunders, 1998:31; Schuster & Zingheim, 1992:28).

Today, with the emergence of the communications revolution and information explosion this has a deep-seated impact on remuneration management and on corporate human relations in general (Hamel & Prahalad, 1994:56; Kravetz, 1988:76; Matthews, 1997:18). Employees demand explanations as to why jobs are paid the way they are, the fundamental right to equal pay for comparable work, the right to structure their own remuneration, remuneration package information and insights into facts such as the overall ability of the company to pay, how jobs are structured, business strategy, top management remuneration relative to their own, etc, etc.

Companies on the other hand find themselves in a current revolution referred to as the so-called modern "renaissance" or "globalisation", triggered by the unleashing of information

processing and distribution capabilities and the microchip and satellite technology worldwide (Miller, 1993:91; Vermaak & Stumpf, 1997:33). They need to balance a magnitude of environment forces that impact them, as well as juggle the pieces of the puzzle, relating to the biggest operating expense ie investment in human capital, in order to be flexible, successful businesses competing in the global marketplace.

1.2 PROBLEM STATEMENT(S)

For any organisation intent on surviving in today's competitive environment, it is essential to become a worldclass competitor. In today's more dynamic business environment, strategy has become correspondingly dynamic (Waitley, 1995:11; Wickens, 1995:56).

Therefore, the factor that will not only ensure survival but true competitive advantage, is embodied in adaptability. Another key factor spurring a revolution in the workplace, but also resultant from the revolution in the workplace, is the composition of the workforce itself with a different set of expectations. Therefore, organisational change and development encompasses a strategic, systems and structural realignment to support strategic and environmental requirements (Drenman, 1992:31; Kravetz, 1998:43; Nel, 1997:18).

According to Armstrong and Murlis (1988:23) the role of remuneration management and the underlying strategies must define the intentions of the organisation, to ensure that it continues to obtain, motivate and retain committed and competent people it needs in order to accomplish its mission.

Remuneration management was once a relatively placid profession in which remuneration was usually seen more as an expense than an investment. Year upon year employees collected generous benefit packages and reaped yet another merit-pay and/or inflation-related salary increase, ultimately leading to a growing sense of entitlement, an unwritten quid pro quo (Huysamen, 1997:22; Rock & Berger, 1991:13).

The containment of labour costs, within a process of optimally matching business objectives to employee needs, was therefore, difficult to achieve. Labour costs were soaring.

It is also evident that with the social and political uncertainty, the general state of the economy, technological developments, etc. organisations have been jolted out of this entitlements era - to the affordability and performance era (Waitley, 1995:25).

When talking to employees in general about the challenges they face and their attitudes towards pay and organisational remuneration strategies, one theme emerges boldly and bluntly : loyalty and commitment have given way to mistrust and looking out for oneself. Employees do not regard management as having their best interests at heart, specifically regarding their remuneration issues (Baard, 1998:20; Bews & Martins, 1999:43; Hofmeyr,1997:32; Martins, 1998:26).

Employees feel that inflation is eroding their spending powers and that the company increases fall short. They do not feel that their contributions are being recognised and that the organisation they work for do not know, or for that matter, care about their needs. They say that the company is wasting money. Employees do not seem to want to be committed towards their work - they expect extra monies for every additional bit of effort they put in. Cynicism is on the rise with fellow feeling on the wane.

It is therefore necessary not only to know how to balance the realities of the changing workplace, but also to know what to balance, to be able to pinpoint what employees' needs and expectations are. Business will have to know what is on the minds and in the hearts of employees today. Organisations must be in a position to by means of some or other system, formal or informal, gain insight into employees' changing needs and expectations towards remuneration strategy (Huysamen, 1996:34; Lawler, 1992:65).

The forces of change have shattered familiar framework, rendering traditional approaches to remuneration management irrelevant. It is a new environment demanding new methodologies and tools (Stalk, Evans & Schulman, 1992:134; Waitley, 1995:67). But to truly implement change of these dimensions, managers and employees, must both change the way they think about their workplace dramatically and fundamentally.

Managers need to understand the reasons for change, the nature of the change and most important of all, the opportunities created by the change so as to run profitable, successful businesses, gaining competitive leverage from organisational culture and capabilities, derived from how people are managed, as the comparatively vital factor. Management must therefore aim for profit and success through change (Fenton, 1998:37; Hofmeyr, 1998:16; Manning, 1996:16).

1.2.1 Research Statements

In view of this background it is possible to state the following problem areas for research :

- (a) Management are more removed from their staff to a distant chain of command, resulting in a need to formally gain insight into employee needs and expectations.
- (b) Companies find themselves in a current technology revolution with a need to balance a magnitude of environmental forces as well as juggle the pieces of the human resources puzzle to ensure survival.
- (c) The composition of the workforce itself is changing rapidly with a different set of expectations, resulting in a need to pinpoint changes relating to the workforce and its behaviours.
- (d) Organisations have been jolted out of the remuneration entitlements era into the affordability and performance era, with a need to change and adapt human resources systems and practices accordingly.
- (f) Loyalty and commitment have given way to mistrust with cynicism on the rise and fellow feeling on the wane. Organisations have to address this issue of trust in order to retain motivated employees.
- (g) With the emergence of the communications revolution and information explosion, employees demand explanations into organisational strategy and practices. For a 21st century organisation to have legitimacy of its strategies and practices, it will need informed and developed employees.

1.3 SCOPE OF THE STUDY

1.3.1 Literature Study

The literature study, as set out in Chapters 2, 3 and 4, poses to give an overview of remuneration management and all its intricate facets in general, as would a completed jigsaw puzzle indicate how the pieces fit together.

It does therefore not pose to indicate a specific manner in which organisations should conduct their deliberations into remuneration management, but merely poses to give a basic understanding and checklist of areas of importance for consideration when dealing with this extremely emotional and vital issue in the workplace.

It furthermore does not pose to be in-depth and absolute on all aspects. This is not possible, as views on this subject change in focus sporadically as organisations experience first hand, customize and adopt new methodology, and therefore rather tries to indicate fundamentals when approaching remuneration and the management thereof.

Various references have been consulted in this regard, from textbooks to articles to personal discussions with experts on remuneration issues. This study field is vast and therefore extensive opinions on the subject matter exist, but goes back to the principle of being relevant.

1.3.2 Research Study

Although ABSA (Amalgamated Banks of South Africa) has always had a sound and solid remuneration system with a strong focus which assisted in the successes of the past, it was seen to be slow in enabling ABSA to respond to the quantum leap demanded by the business environment today.

Therefore ABSA embarked on a process of change to broaden and maintain its competitive advantage in the marketplace. This change process emphasising ABSA's strategy to become a worldclass competitor entailed focusing on certain strategic areas, inter alia the establishment of a business and learning culture.

The following areas of focus with implications for remuneration were identified:

- * Business Culture
- * Results-driven Culture
- * Learning Culture
- * Legitimacy of the organisation

According to Kravetz (1988:30) one of the common denominators of true world class organisations is the introduction of what is labelled as progressive human resources practices. Organisations high in human resources progressiveness understand the critical importance of people to the bottom line and operates with this in mind. In terms of the total change process, ABSA reviewed their Human Resources Strategy to support the new business focus, strategy and values.

For ABSA to transform its culture, it was of crucial importance to focus the habits and behaviour of the people in ABSA. Motivational Theory has proven that people will only change if it proves rewarding to do so. The key is not money itself. Rather, it is viewing money as the language of business - as a tool of communication. Translating strategic business objectives into earning opportunities is what strategic remuneration is all about: it speaks business strategy in a way that employees understand.

Remuneration is a formidable communicator, and sends powerful messages as to what behaviour and results an organisation wishes to reward. It is the vehicle that integrates the organisation's values into the business and reinforces understanding of organisational goals. It is a tool with which to empower employees as partners in achieving business success, to strengthen the organisation values and strategies, to create the cultural change needed to compete in the global workplace (Kravetz, 1988:91; Swart, de Beer & Kruger, 1997:34).

For the transformation of ABSA to being a flexible, worldclass competitor to succeed, their remuneration strategy needed to be adapted drastically from tradition, as a prerequisite for change to occur or be institutionalised, to follow ABSA's strategic agenda. Simply copying the pay practices of successful, progressive organisations was not the right thing to do, as remuneration practices must fit with the way an organisation is managed and structured (Lawler, 1992:88).

In order to ensure alignment of the newly developed, flexible remuneration strategy with ABSA's corporate and human resources strategies and goals, they developed the ABSA Remuneration and Reward Model, with broadbanding and performance-based rewards as fundamental principles. This was implemented during 1995. (The theoretical background outlining the benefits of this approach are given in Chapter 4 of the literature study).

It is ABSA's belief that, while some degree of stability is required, seeking improvements or focus changes to human resources systems is fundamental in ensuring adaptability to business change, as the realities of the environment and the competitiveness of the marketplace leave you no choice (Hardijzer, 1998:18; Prahalad & Hamel, 1993:101). Since implementation of the strategy, they have continuously been in a process of refining the remuneration model.

The ABSA approach, in their opinion, has been empirical, based on sound theoretical principles and practical research, experimentation and analysis of experience; and has been a drastic departure from tradition.

1.4 OBJECTIVE OF THE RESEARCH STUDY

The overall objective of this research study is to assess the "performance" of the implementation of broadbanding and the flexible, performance-based remuneration strategy in terms of the desired change strategy, for the Logistics and Properties Division in ABSA. This Division of ABSA has offices countrywide, offering a national perspective.

The aim of the study is not to assess the empirical and theoretical foundation of the ABSA Remuneration Strategy and Model. It assumes as such. Nor will the study monitor the ABSA Group's "performance", related to the implementation of strategy. ABSA have since the 1995 implementation monitored their progress in various ways ie questionnaires/interviews/focus groups/business results feedback.

This research study will specifically aim to assess:

- * whether specific expected deliverables are in place and at what level, and
- * the impact of strategy implementation on climate (attitudinal and behavioural norms) and cultural (business/learning/legitimacy) dimensions

using the ABSA reward strategy performance monitoring model.

The research methodology for gaining employee input, as set out in Chapter Five, has been to use a combined survey design approach, consisting of both focus groups and a survey questionnaire. The responses, findings and discussion of the study is presented in Chapter Six.

These conclusions do not pose to provide recommendations as to refinement of the ABSA Remuneration Strategy, but specifically summarise and discuss significant achievements and deviations relating to expected deliverables and perceived features and benefits of the remuneration strategy for the Logistics and Properties Division of ABSA.

It therefore tends to focus on effort and level of implementation of strategy with conclusions regarding the successes and implementation challenges. It is a food for thought discussion, and finally hypothesises the principle/theory of remuneration strategy as a primary support mechanism to institutionalise an organisation's transformation process.

1.5 CHAPTER PRESENTATION OF STUDY

Chapter Two : Remuneration Management - The Concept

Chapter Three : The Psychology of Remuneration

Chapter Four : Principles in Remuneration Management

Chapter Five : Empirical Research Study - Methodology

Chapter Six : Findings and Conclusions

CHAPTER TWO: REMUNERATION MANAGEMENT - THE CONCEPT

Chapter two deliberates the *definition of remuneration management* or reward management as it is also commonly referred to in business terms and lays the *ground rules* to the development of a successful reward system. The initial phase to an effective reward system, ie the *development of the remuneration philosophy* reflected in terms of *core principles statement* and achievement of *remuneration objectives*, and ultimately linked to the business strategy, is discussed extensively. The *development of a total compensation strategy* with its various implications for business, for example *basic policy decisions* and *key steps* involved, is contemplated.

Furthermore, an overview of the *myths and mistakes* commonly associated with remuneration management in general, is given. And finally, with a view of the *trends* pertaining to the changing world of work, this chapter poses to give the reader a general overview of the concept of remuneration management.

2.1 A DEFINITION OF REMUNERATION MANAGEMENT

Reward Management is the process of developing and implementing strategies, policies and systems which help the organisation to achieve its objectives by obtaining and keeping the people it needs, and by increasing their motivation and commitment (Armstrong & Murlis, 1991:17; Myers & Miller, 1997:50; Swart, de Beer & Kruger, 1997:32).

Reward Management is above all a dynamic concept. It is based on the proposition that organisations are in a constant state of change, and any system of management they practice must therefore be capable of adapting and responding quickly to new circumstances.

Armstrong and Murlis (1991:17) further states that reward management is not just about money. It is concerned with intrinsic as well as extrinsic motivation - it is about rewarding people for their actual or potential value to the organisation as measured by their contributions.

It is also about recognising that individuals have their own needs and goals, and that the organisation must be constantly aware that it has to match its incentives and rewards to those needs.

Rock and Berger (1991:25) define remuneration as a critical piece of overall human-resources strategy. Because remuneration is both visible and important to employees, a remuneration program designed to communicate and reward strategic goals increase the probability that employees not only will understand what those goals are but will also achieve them.

Because employees also understand that the remuneration amount is important to the organisation, the strategic intent of other human-resource efforts is also clearer if their designs are consistent with the remuneration program.

Milkovich and Newman (1987:3) refer to remuneration as all forms of financial returns and tangible services and benefits employees receive as part of an employee relationship. They also go a little further and define remuneration by viewing the perceptions of society, employees and managers where:

- (a) society might view it as a measure of equity and justice;
- (b) employees may see it as a return for services rendered or as a reward for satisfactory or meritorious work. Remuneration to some reflect the value of their personal skills and abilities, or the return for the education and training they have acquired;
- (c) managers view it from two perspectives. First, it is a major expense and secondly, as a possible influence on employee work attitudes and behaviors.

From the above definitions it is now possible to define Remuneration Management as follows:

A dynamic process in which the organisation's strategic goals are understood and achieved by means of the attraction and retention of motivated and committed employees through a process of developing and implementing reward strategies balancing strategic business goals and individual needs.

2.2 GROUND RULES IN REMUNERATION MANAGEMENT

Dr Petrus Claassen, Executive Director, ABSA (1995) states that for any organisation to develop a successful reward system that enables it to achieve its business objectives it is important to take into consideration certain ground rules :

2.2.1 Business Strategy

Claassen (1995) believes that the starting point for the development of a remuneration management system is ultimately the organisation's mission, values, strategy and objectives. From this (a) the appropriate behaviour and output that needs to be enhanced; (b) the quality employee to be attracted, motivated and retained; (c) the organisation's chosen structure(ing) principles; (d) the organisation's management philosophy; and (e) the organisation's cost and investment philosophy, needs to be derived (Milkovich & Newman, 1987:14; O'Neil, 1993:76; Rock & Berger, 1991:24; Waitley, 1995:67).

2.2.2 Core Remuneration Principles

Furthermore, decisions regarding the structure of the remuneration system must be related to a set of core principles derived from the organisation's business strategy (Claassen, 1995; Lawler, 1990:37; O'Neil, 1993:76).

2.2.3 Behaviour related to Risk Taking, Entrepreneurship, Creativity and Innovation

The individual's motivation towards a certain task is influenced by both the successful and unsuccessful end result thereof. An individual might decide not to engage in a certain task merely because of the potential negative end result if unsuccessful although the potential reward for success will be greater, states Claassen (1995).

Lawler (1990:33) also indicates that the key is finding those approaches to remuneration that fit the behaviours that are needed for the organisation to be effective.

2.2.4 Motivation

According to Claassen (1995) effective reward systems can increase the individual's motivation to perform with so much as 40%. It must be a remuneration system that motivates, rewards the appropriate behaviour or output consequently, and where non-acceptable behavior or output is not rewarded or punished.

For the system to motivate, the requirements will be *firstly*, that output or appropriate behaviour must be able to be identified and be evaluated by the organisation.

Secondly, outputs must be seen as realistic, attainable, fair, and measurable by employees.

Thirdly, individuals should be able to see the link between rewards and their performance clearly. *Also*, rewards as motivator must be enhanced through intrinsic rewards and *lastly*, a balance between short and long term incentive schemes must be maintained (Appelbaum, 1991:22; Stern, 1996:50).

2.2.5 Attracting and Retaining of Employees

Claassen (1995) feels that employees' perceptions around their remuneration are based around the evaluation of total remuneration levels of others. This seems to be more important viz a viz what they earn in absolute terms. If employee perceptions evolve positively around internal parity they are more likely to stay on with the organisation.

Lawler (1990:24) is of the same opinion and goes further to state that even if internal pay comparisons are felt to be bad, an individual is not likely to leave an organisation as long as the external comparisons are favourable.

2.2.6 Satisfaction

Claassen (1995) says that employees tend to look for negative evaluation of remuneration levels. It would therefore be unrealistic to say that employees generally view their remuneration levels as not being fair. Dissatisfaction is only a problem when employees in general are more dissatisfied in one organisation than in another organisation, and/or the performers are more unhappy than the non-performers. Milkovich and Newman (1987:40) further notes that satisfaction is linked to each of the basic policies in the pay model.

2.2.7 Organisation Development

Because the reward of behaviour through remuneration is immediate, remuneration can be an important aid in organisation development in that appropriate behaviour and outputs may be rewarded in a concrete manner with the desired positive end results (Claassen, 1995; Lawler, 1990:22).

2.2.8 Operating Cost

Remuneration cost is the only operating cost where upward adjustment thereof is constantly under pressure. This is because remuneration is a personal and emotional issue to the individual. In any remuneration system there must be mechanisms in place to manage this cost effectively.

This must be done through sound decision making processes and the fostering of understanding and realism by employees with regards to this operating expense and also the control and management thereof (Claassen, 1995; Huysamen, 1997:22).

Lawler (1990:34) further states that ultimately there must be a balance in terms of the organisation's ability to pay and taking into account the expectations of the employees. The balance should affect a fair return on investment in the remuneration levels for employees but also prove profitable for the organisation.

2.3 REMUNERATION PHILOSOPHY

2.3.1 Introduction

What is a philosophy? Claassen (1995) states that a remuneration philosophy directs remuneration in contributing towards the attaining of the organisation's mission, strategic objectives and values.

The philosophy embodies the values and beliefs of the organisation. It serves as the basic architecture for guiding the design of programs and measuring their effectiveness, also defining what role each element should play in the delivery of total remuneration (Milkovich & Newman, 1987:17; Wickens, 1995:56).

According to Armstrong and Murlis (1991:33) there is a remuneration philosophy behind every remuneration system - it is the step towards creating a structure which assists in recruiting and retaining of high quality employees. It governs the organisation's approach in how it rewards employees, the objectives the reward system should underpin and the way in which it wants to manage the system, ultimately reflected in core principles.

2.3.2 Core Remuneration Principles Statement

The development and communication of a set of core remuneration principles by an organisation is merely the first step towards having an effective reward system. Essentially, the core principles must drive the practices and policies of the organisation. If they do not, the organisation will be worse off because of its development and statement of core principles. In essence, the organisation has then committed itself to something that was not delivered (Claassen, 1995).

According to Lawler (1990:37) the strategic management of pay requires the design and building of a basic rewards system. Creating this structure involves deciding how the organisation will position itself on key reward system issues. Decisions about the structure of the reward system should take the form of core principles that indicate how the organisation intends to operate.

Lawler (1990:37) states that there is no magic number of core principles needed by an organisation, nor is there a definitive list of issues that core principles must address. There are, however, some critical areas that demand attention when core principles of the overall philosophy are being developed.

These are areas in which beliefs almost inevitably develop, regardless of what the organisation does. In the absence of well-developed core reward system principles in these areas, informal beliefs develop and are communicated throughout the organisation. They often gain high levels of stability and acceptance - in effect, becoming part of the organisation's culture. These areas are the following :

(a) *Basis for pay* - What pay structures are based on, whether it be jobs, skills, characteristics of individuals i.e. performance, needs to be stated in a core principle. According to Armstrong and Murlis (1991:65) the principle should also state what determines the relative worth of jobs

(b) *Benefits* - Because benefits account for such a large portion of an individual's total remuneration, it is important that any statement of core remuneration principles address them. A commitment by an organisation to certain levels of benefits can certainly play an important role in attracting and retaining employees - particularly those who value benefits. It plays into people's need for a sense of security as well as the organisation's desire to be a responsible corporate citizen.

In short, it fits a set of core values that emphasise certain employment relationships, stability and concern for employees. It also fits a strategy that calls for a certain group of employees and fixed labour costs. On the other hand it does not fit a strategy that calls for flexible costs, high levels of entrepreneurial behaviour, and large amounts of pay at risk (Armstrong & Murlis, 1991:315).

(c) *Rewarding for Performance* - According to Lawler (1990:44) rewarding performance is a must. The most affected principles go beyond the simple statement that the organisation is committed to paying for performance; they reflect the business situation, the core values, and the management style of the organisation.

A core principle in the area of paying for performance helps to cement the belief that remuneration is performance-based, which in turn can produce positive effects in the areas of motivation, attraction and retention, and culture (Claassen, 1995; Gosteli, 1997:36).

(d) *Market Comparisons* - Another major area in which it is important to have a core principle is market position. The issue here is essentially how well an organisation rewards its people relative to other organisations. Principles concerning market position are particularly important in managing perceptions.

Lawler (1990:45) indicates that research shows that people have a tendency to see their own remuneration as worse than that of others, even though they may be relatively well paid. This tendency results in part from the information vacuum that most employees are in. In the absence of complete data, they tend to see and hear about only the most favourable remuneration conditions in other organisations. This tendency was also previously stated by Claassen (1995).

(e) *Internal Comparisons* - Individuals have a strong tendency to compare their remuneration with the remuneration of others in their immediate work location. Research on equity and social comparisons according to Lawler (1990:48) shows that this is the first comparison many individuals make. This was noted earlier by Claassen (1995) with regards to the attraction and retention of employees, and an organisation therefore needs to state how important it wants internal comparisons to be and how broadly it wants comparison to be made.

The issue of internal equity is a crucial one in determining the overall cost structure of an organisation and has clear implications for the kind of remuneration practices that an organisation adopts. The key decider between an internal and an external equity orientation should be organisation structure and strategy.

Finally, an organisation making the equity decisions needs to consider the core values of the organisation and weigh how important the organisation feels it is to have one set of practices and a single organisational culture (Armstrong & Murlis, 1991:41).

(f) *Process Issues* - Communication and decision making are important parts of the reward system practices in any organisation. There is no right or wrong answer as to how participative and open remuneration system decision making should be. The important issue is whether individuals have a clear picture of what they can expect and what is acceptable in the organisation. This should be stated in a core principle (Armstrong & Murlis, 1991:431).

(g) *Due Process* - Lawler (1990:51) notes that overall, due process is an area in which most organisations should make a strong statement. It is also an area in which society virtually demands practices that protect individuals from unreasonable behaviour on the part of others in power. This principle typically commits the organisation to providing internal appeal and review processes concerning individual grievances about remuneration administration (Fay & Beatty, 1988:107).

2.3.3 Remuneration Objectives

According to Milkovich and Newman (1987:7) remuneration systems are designed and managed to achieve certain objectives. The basic objectives include efficiency, equity and compliance with laws and regulations.

The *efficiency* objective is typically stated more specifically as the improving of productivity and controlling labour costs. Often these can be found in an organisation's statement of pay objectives, such as "to facilitate organisation performance, to cost effectively attract and retain competent employees and to reward employee contributions and performance".

Equity is a fundamental objective in remuneration systems. Statements such as "a fair days pay for a fair days work" reflect the concern for equity. The equity objective focuses on designing remuneration systems that recognise both employee contributions and needs.

Procedural equity as an objective helps ensure that parties have a voice in the design of remuneration plans and an opportunity to voice any dissatisfaction with remuneration received, which was also noted by Fay and Beatty (1988:107) as well as Lawler (1990:51) previously.

Compliance as a remuneration objective involves conforming to various laws and regulations with regards to remuneration.

Lawler (1990:13) concludes with Milkovich and Newman (1987:8) that establishing remuneration objectives involves several important decisions because these objectives serve several purposes.

Firstly, objectives shape the design of the remuneration system. Different objectives may result in the design of different remuneration systems. *Secondly*, objectives serve as the standards against which the success of the remuneration system is evaluated i.e. evaluating the effectiveness of the system.

Finally, Claassen (1995) states that remuneration must fulfil the objective of supporting and the attainment of an organisation's competitive edge by attracting, motivating and the retaining the right people.

2.3.4 Linking business strategy and remuneration philosophy

An organisation's business strategy leads to a staffing strategy and all in turn providing the basis for the remuneration philosophy and subsequent development of a remuneration strategy. The rationale for managing remuneration cost is a basic strategic issue (Huysamen, 1997:22; Risher, 1993:49; Waitley, 1995:78).

It is driven by competitive practice but each organisation needs to develop a systematic, defensible basis for adjusting the remuneration cost base. The way organisations grant increases is at the heart of its reward system. It is philosophical as well as a strategic issue.

2.4 REMUNERATION STRATEGY

2.4.1 Introduction

Lawler (1990:11) states that the development of a total compensation strategy involves a comprehensive assessment of current programs, internal business factors and outside environmental and market factors.

Developing a remuneration strategy according to Rock and Berger (1991:25) requires defining the workforce performance goals needed to support the organisation's overall business strategy and the compensation implications of these goals, diagnosing the organisation's internal and external environment to pinpoint strengths and weaknesses relative to these goals and designing the mix of policies and programs that exploits strengths and downplays or corrects weaknesses. The aim is to shape a workforce that is focused on strategic goals and capable of achieving them (Claassen, 1995; Wickens, 1995:90).

2.4.2 Basic Strategic Remuneration Policy Decisions of the Remuneration Model

Strategy refers to the fundamental directions of an organisation. Strategies serve to guide the deployment of all resources, including remuneration expenditure. But not all compensation decisions are strategic (Britton & Ellis, 1994:39; Rock & Berger, 1991:24). Only those decisions that are critical to the success of the business are strategic, such as those that affect labour costs and performance. They propose certain basic decisions considered strategic.

Milkovich and Newman (1987:9) also states that a remuneration model rests on certain *basic policies* that any employer must consider in remuneration management. These policies form the building blocks, the foundation on which remuneration systems are designed and administered.

The balance or relative emphasis among these basic policies is a key decision to be made in any organisation's remuneration philosophy and strategy and are to be considered strategic (Rock & Berger, 1991:26).

These policies also serve as guidelines within which remuneration is managed to accomplish the system's objectives:

(a) *Remuneration's role in Total Human Resource Strategy* - Remuneration may act as an instrument of change or simply act as a support of the overall human resources strategy. Hence, determining the role is a strategic decision.

(b) *Internal Consistency* - Internal consistency incorporates concerns for the fairness of remuneration. Employers must decide the relative importance of internal equity in their remuneration systems.

(c) *External Competitiveness* - The policy regarding external competitiveness has a twofold effect on objectives, which is to ensure that remuneration levels are sufficient to attract and retain employees, and to control labour costs so that the organisation's prices of products or services can remain competitive.

(d) *Employee Contribution* - The policy on employee contribution refers to the relative emphasis placed on the performance and for seniority of people doing the same job or possessing the same job skills.

(e) *Nature of administration* - A remuneration system will not achieve its objectives unless it is administered properly.

2.4.3 Key Steps in developing a Remuneration Strategy

Rock and Berger (1991:30) claim that developing compensation strategies is a simple process which involves four key steps. *Firstly*, analyse the remuneration implications of the organisation's business strategy, external environment and internal human resources conditions. *Secondly*, establish the desired strategic remuneration position involving the strategic choices discussed earlier. *Thirdly*, determine any gap between the desired strategic position and the implications derived from the analyses, and design remuneration programs to close the gap and to translate the remuneration strategy into practice, and *finally* follow through.

2.4.4 Organisation culture and values

Armstrong and Murlis (1991:446) emphasise that culture management and reward management interact. Reward management policies must take into account the organisation's climate, management style, values and beliefs. But they can also help shape these and assist a process of cultural change.

2.4.5 Employee Needs

Remuneration can be delivered to employees in various forms notes Milkovich and Newman (1987:19). The allocation of remuneration among these remuneration forms to emphasise performance, seniority, entitlements, on the long or short term can be tailored to the remuneration objectives of the organisation. It can also be tailored to the needs of the individual employees.

The simple fact that employees differ is too easily and too often overlooked in designing remuneration systems. A major limitation of contemporary systems is the degree to which employee needs and individual preferences are ignored. Remuneration systems should therefore be designed to allow individual choice states Roosevelt (1990:32) who feels that it is not only possible but a crucial principle.

2.4.6 Balancing Extrinsic and Intrinsic Rewards

According to Armstrong and Murlis (1991:447) this balance should be achieved by emphasising that performance management is a total approach to the motivation phenomenon. The financial reward system should be used to recognise good performance and encourage it for the future, but it is as much about helping people grow and to achieve self-determination (Roosevelt, 1990:42).

2.4.7 Creativity and Flexibility

To be creative about remuneration management an organisation needs to concentrate on what the organisation is, or where it is going and what needs to be done to get there (Armstrong & Murlis, 1991:444). Creativity is rooted in the present but is focused on the

future. Requirements change rapidly where yesterday's innovations quickly become today's problems. It is therefore essential to build flexibility and a drive for creativity into the system.

2.4.8 Achieving a fit between the business strategy and remuneration strategy

Milkovich and Newman (1987:18) claim that the last strategic issue involves adapting the remuneration system to the nature of the union - management relationship. Union influence on the design and administration of remuneration system will be significant because not only do unions affect remuneration levels and forms but they affect the way remuneration decision making processes evolve.

Finally, Armstrong and Murlis (1991:445) note, as all the previous authors have, that achieving this fit is a matter of identifying the key areas of corporate strategy and then deciding how reward strategies can support them.

2.5 COMMON MYTHS AND MISTAKES AROUND REMUNERATION MANAGEMENT

The pursuit of excellence in reward management is, however, a tough route to follow. There are a number of myths and mistakes which may have a considerable financial and operational impact but can be avoided according to Armstrong and Murlis (1991:445), Claassen (1995) and Whittlesey and Maurer (1993:44) by following one principle and that is to make remuneration decisions on the same basis as other business decisions. The myths as stipulated by these authors are the following:

2.5.1 Permanent Formulas - Remuneration arrangements based on fixed formula plans can generate substantial costs as a company grows or the mix change and remuneration levels increase proportionately. They also fuel unreasonable employee expectations even if the organisation is already paying above-market rates.

- 2.5.2 Copycat Plans - Adopting an existing remuneration plan is not inherently a bad idea, but the plan may not meet the company's needs. The greatest risk in using a plan designed for another situation is misalignment with the current business strategy or the organisation's operational needs. It is not unusual to find another organisation's plan adopted verbatim; many entrepreneurs see this as a clever approach to avoid reinventing the wheel.
- 2.5.3 Failure to Analyse Financial Impact - Many remuneration plans are put in place without ever fully analysing their impact on earnings and cash flows. Without assessing the possible total remuneration levels under a variety of scenarios, management will not know if the plan will achieve its goals. This type of mistake often leads to crises - after the plan has generated a much higher or lower payout than expected.
- 2.5.4 Tax Driven Plans - Remuneration plan design decisions are frequently based on the tax consequences for the employee and/or the organisation although they may not be the most financially efficient method to achieve the desired behaviour or results. The total financial and business implications of all vehicles should be clear before any remuneration program choice is made. A complete analyses of the behaviour to be rewarded and of all the vehicles available to achieve this reward will help the company identify the most efficient method of compensation.
- 2.5.5. Recruiting Fixation - One of the easiest issues to spot is a few notably high remuneration packages or "special deals". Individualised remuneration arrangements rarely go unnoticed by other employees and cost the organisation quite a bit should the individual not live up to the expected cost investment. By setting up guidelines based on current market norms before recruiting for a position, this pitfall may be avoided generally.
- 2.5.6 Equality-based Plans - Universal plans that cover all employees equally inevitably overcompensate employees at lower levels, creating heightened expectations, while they undercompensate employees at higher levels, leading to morale problems or necessitating special arrangements.

The marketplace now, more than ever, supports pay-for-performance - paying employees for the results they achieve and eliminating entitlement programs that ignore individual performance. Differentiating between employees allows the organisation to reward better performers and communicate the results of poor performance to lesser employees.

- 2.5.7 Plans preceding Systems - Many organisations forget to inventory their existing performance measurement systems before implementing incentive schemes. And what cannot be measured is difficult to reward. Most organisations benefit from deferring the design and implementation of incentive programs until all necessary data-gathering and measurement processes are in place. Although the organisation will not be able to quickly reap the benefits of incentive remuneration, slowing down the process until underlying systems are functioning properly leads to better plan results.
- 2.5.8 Lack of Formal Control - Organisations with decentralised control are likely to have higher remuneration cost and more internal equity problems. Managers making the remuneration decisions do not suffer directly from the increased cost, also every unit ends up paying dissimilar remuneration for similar tasks. The spirit of decentralisation, entrepreneurship and flexibility need not be compromised by centralised control. Managers must be supplied with remuneration structures and guidelines and be made responsible for remuneration budgets - the organisation can so prevent excessive remuneration costing and assure some internal equity.
- 2.5.9 Focus on a single plan - An organisation may adjust a specific remuneration level or program that seems below the competitive average without considering the overall value and mix of the total remuneration system's competitiveness. Changing remuneration programs based on a single analysis can lead to recruiting difficulties, excessive turnover, higher remuneration cost, inconsistency with remuneration philosophy and excessive remuneration levels for certain employee groups. As incentive remuneration becomes more common for the broader employee population, integrated program analysis becomes critical to good organisation performance.

2.5.10 People problems and fear of employee reactions - Remuneration decisions made solely to pacify employees inevitably produce higher operating cost and creates an environment that rewards complaints rather than performance.

An organisation that has invested time and effort in designing an equitable, competitive system must be willing to adhere to it, or there is no system at all. Employees are, in strict business terms, assets that create revenue and liabilities that create expense. Like any other resource, an investment must produce a positive return over a period of time.

2.6 THE CHANGING WORLD OF WORK - TRENDS

Increasing global competition, pressure on profits and marginal businesses are some of the factors which have altered the face of our economic landscape. We are seeing bankruptcies, spinoffs, sales, mergers, downsizings, “rightsizings”, reductions in force - and so on, which are bringing about the rewriting of psychological contracts between companies and workers (Horwitz & Franklin, 1996:13; Le Blanc, 1994:4).

Literature routinely updates figures on the millions of jobs lost each year. The inequality of sacrifice is reflected in the decrease in real wages for two-thirds of the workforce. The pressures upon managers have resulted in “organisational liposuction” where in many cases more “brains” than “fat” are lost.

Furthermore, organisations of the future will be flatter where traditional hierarchies will be replaced by networks of ‘empowered workgroups’. Information will be at everyone’s fingertips rather than being available only to those at the strategic apex of the organisation. Careers will increasingly become a sequence of different assignments rather than a sequence of different job titles representing a climb to the top (Bridges, 1995:5).

According to Le Blanc (1994:7) the state of work systems today are changing from (a) an internal functional focus to an external process focus; (b) functional hierarchies to fewer levels of management; (c) narrow job specialization to worker flexibility; (d) managerial authority to employee involvement; and (e) independent to interdependent workers.

For employees who therefore enter the workforce with expectations of life long employment, this alteration of the psychological employment contract will be traumatic. Workers virtually need to adjust their employment expectations.

Figure 1 below shows a comparison of the basic tenets of the old and new employee contract :

Figure 1 : Employee contracts: Old and new

| OLD | NEW |
|---|---|
| * The organisation is “parent” to employee “child”. | * The organisation and employee enter into “adult” contracts focused on mutually beneficial work. |
| * Employee’s identity and worth are defined by the organisation. | * Employee’s identity and worth are defined by the employee. |
| * Those who stay are good and loyal; others are bad and disloyal. | * The regular flow of people in and out is healthy and should be celebrated. |
| * Employees who do what they are told will work until retirement. | Long-term employment is unlikely; expect and prepare for multiple relationships. |
| * The primary route for growth is through promotion. | * The primary route for growth is a sense of personal accomplishment. |

(Excerpt from: Kissler, 1994:338)

While technology is creating man-made comparative advantage, seizing that man-made comparative advantage requires a workforce skilled from top to bottom. The skills of the labour force will be the key competitive weapon in the twenty-first century, making it imperative to understand, clarify and manage the psychological contract (Bews & Martins, 1996:43; Sims, 1994:374).

Also, recent surveys (Wilhelm, 1994:325) conducted in Europe show that (a) people try more and more to match their work-related choices with a broader lifestyle, resulting in a more selective attitude to their occupation; (b) people look for pleasure in their jobs, as against the traditional attitude of showing duty - they refuse either routine or unpleasant tasks; (c) there is a growing interest in jobs that provide recognition and success,

responding to the achievement needs of an increasing number of 'knowledge workers'; and (d) professional links become tighter than organisational ones, resulting in a work style that demonstrates 'loyalty-to-profession' rather than to the 'life-long company' ideal (Bridges, 1995:7; Horwitz & Franklin, 1996:15; Myers & Miller, 1997:50).

In this context it seems that employees are responding to global trends where they are beginning to work in cluster organisations where people are not tied to a management level by traditional hierarchical lines. These clusters have a great amount of freedom in which to accomplish a mission given to them. The performance of these empowered clusters is measured on the accomplishment of the mission only.

Companies are and will in future be under more and more pressure to find ways to implement their strategies in a rapidly changing environment. Hence organisations must deal with the changes in the global market and with employees' expectations that must also be balanced with ever changing organisations. The crucial question here is therefore, what types of rewards - the right kinds and levels of pay - are necessary to support this new world of work ?

It is inevitable that organisations explore alternatives to traditional pay systems as we know them and develop specific remuneration strategies that support business objectives. Incremental pay amounts will be delivered primarily through variable pay programs, rather than salary increases (Beatty, 1994:66; Stern, 1996:50).

Ehrlich (1994:493) believes that in the benefits arena organisations will develop new and creative strategies to provide competitive, cost-effective benefits to meet the needs of a diverse workforce. At the same time, there will be an increasing shift away from entitlements toward requiring individuals to be more responsible for their own health and welfare, as well as retirement income. Management health care options and coverage will continue to expand.

It is evident from the above that organisations will need to link work and pay, involving restoring the connection between emerging work systems and dated reward systems, from a new perspective. The missing link - reward systems for the new workplace - seems to

be to reward for (a) a strategic business process focus; (b) fewer management levels; (c) worker flexibility; (d) employee involvement; and (e) interdependence - resulting in the restoring of the linkage.

2.7 SUMMARY

Remuneration Management is defined as a dynamic process in which the organisation's strategic goals are understood and achieved by means of the attraction and retention of motivated and committed employees through a process of developing and implementing reward strategies balancing strategic business goals and individual needs. It is stated that the consideration of certain ground rules is imperative for the successful development of an organisation's reward system.

The remuneration philosophy which embodies the values and beliefs of the organisation, serves as the basic architecture for (a) guiding the design of pay programs and (b) measuring their effectiveness, and is reflected in terms of (a) stating core principles and (b) setting of remuneration objectives. Essentially the core principles must drive the practices and policies of the organisation and is the first step towards having an effective reward system. Remuneration systems are designed and managed to achieve certain objectives and include (a) efficiency, (b) equity and (c) compliance with laws and regulations.

Strategy refers to the fundamental direction of an organisation, with the remuneration strategy involved in ultimately defining the workforce performance goals needed to support the organisations overall business strategy and compensation implications of these goals. Finally achieving a fit between business strategy and remuneration strategy is essential for success.

The pursuit of excellence in reward management is a tough route to follow, also as seen from the many myths and mistakes quoted to have a considerable financial and operational effect, and where the fundamental rule seems to be one where organisations must make remuneration decisions on the same basis as other business decisions.

CHAPTER THREE: THE PSYCHOLOGY OF REMUNERATION

Chapter three takes a probing look at the *motivational theories* and their relative impact on pay in terms of the primary assumption that money is a source of motivation. Employee *attitudes towards money* and the consequential impact of remuneration on job performance is hypothesised in depth.

Subsequently, a discussion around the *Expectancy Theory* in its relation to employee motivation, satisfaction and commitment seeks to clarify the intricacies in relationship. The requirements and success factors for a motivating reward system is analysed and finally, the *psychological contract* in terms of its role regarding expectations, that of both employer and employee, is defined.

3.1 REMUNERATION AND MOTIVATION

3.1.1 Motivation Theories

To date, many authors have argued regarding the role that remuneration plays in the motivation of employees. Among others, Abraham Maslow (1960:155) suggested with his hierarchy of needs that motivation lies in the lowest level need not being satisfied. This implies that remuneration is a motivator as long as the lower level needs (physiological) are not satisfied, and that it yields progressively to other factors which respond to higher order needs.

Consequently, remuneration would have very little effect on an individual who has reached the self-esteem or actualisation levels and who is cognisant that he or she has done so (Appelbaum, 1991:22; Biesheuvel, 1984:47; Kleiner, 1983:26; Maslow, 1960:155; Norwich, 1974:64).

On the other hand, Frederick Herzberg (1987:49) advanced through his motivation hygiene theory "that environmental factors can at best create no dissatisfaction on the job and their absence creates dissatisfaction.

In contrast, what makes people happy on the job and motivates them are the job content factors (motivators)". Huysamen (1997:35) states that it can be taken that motivators work only above the line and demotivators below it. Line being the level of normal required performance.

For his part, Douglas McGregor (1972:155) developed two theories, known as X and Y, that separate the workers into two groups namely the ones who dislike work and for whom money can serve as a powerful motivator, and the ones who work because they like to work, and therefore would see control over their work, more than money, as a source of motivation (Appelbaum, 1991:25; Biesheuvel, 1984:52; McGregor, 1972:155).

J.S. Adams (Appelbaum, 1991:26) approached the question from another angle. Adams' equity theory emphasised that the important thing is not the amount of money paid to people that counts, but the perception of fairness in their treatment. According to Adams, employees examining the relationship between their inputs to the job and their outputs with those of fellow employees in the same organisation or comparable ones. The result of their comparison will determine if they will be satisfied with the way they are treated (Appelbaum, 1991:26; Biesheuvel, 1984:190; Milkovich & Newman, 1987:282).

A few years later, Victor Vroom (1964:15), building upon Maslow's need hierarchy, introduced the expectancy theory to help clarify the enigma. It stated that the key variable of performance is level of effort, which depends upon "expectancy" or a person's belief that a probability exists that effort will lead to outcomes, "valence", the strength of an individual's desire for that particular outcome, and "instrumentality", the person's belief that a particular action leads to a particular outcome.

Thus, to increase motivation, the money incentive must be related to one's effort, and should be what the person desires in recognition of his or her performance (Appelbaum, 1991:26; Armstrong & Murlis, 1991:36; Eden, 1988:639; Villere & Hartman, 1989:i; Vroom, 1964:15).

In this respect it can be stated that Vroom's expectancy theory agrees with Maslow's and Herzberg's theories as long as the self esteem level is the lower level need not being satisfied, and that recognition motivates people.

3.1.2 What is motivation

The term "motivation" is derived from the Latin word *movere* which means "to move". Work motivation relates to the process by which behaviour is energised and sustained in order to meet individual needs and organisational objectives according to Villere and Hartman (1989:i).

Thus in essence work motivation includes mobilising and sustaining productive behaviour. They believe that the two primary objectives of any organisation - morale and performance - cannot be achieved without an understanding of what motivates the most important resource of all - the human resource.

Remuneration systems are based on the primary assumption that money is a source of motivation. Another important consideration is the role work motivation and motivational techniques can play from a strategy standpoint. Organisations which can attract and retain the best qualified employees who are also highly motivated and committed to perform at a high level of productivity have a significant competitive advantage (Herzberg, 1987:49; Huysamen, 1997:34; Myers & Miller, 1997:50; Stern, 1996:44;; Swart, de Beer & Kruger, 1997:32).

3.1.3 Attitudes towards money

It seems then that one can accept as a truism that money is important to most people in that they are compelled to get their hands on a slice of it, by work or other means. As Biesheuvel (1984:162) appropriately states: "One can survive, even at the subsistence level, without money and most people have ambitions beyond mere subsistence. It would be strange indeed if money had not acquired some intrinsic meaning of its own as a desirable commodity, because of the use to which it can be put in achieving numerous desirable ends."

Milkovich and Newman (1987:285) notes that there is nevertheless an element of ambivalence towards money in people's expressed attitudes, which may be markedly at variance with what they do. Though money is the ultimate objective measure of value, it ranks low in our ethical value system.

Biesheuvel (1984:172) notes that because of money's versatility as a means of gratifying an endless variety of needs and wants, many of which cannot practically be met by the employer or in the work situation, it could well prove to be the most generally applicable motivator.

Money differs from other work motivators in providing a means of realising outside the work environment at least some of the objectives pursued by the others at work. Money can buy security, independence, esteem, status, objects; or whatever it is that people may desire and money can buy.

Moreover, money also has symbolic meaning in our society as an indicator of achievement, recognition, status or power, both at work and in the world at large. If "money talks" its discourse covers many, although not necessarily all human needs and wants (Armstrong & Murlis, 1991:39; Hofmeyr, 1997:31; Huysamen, 1997:36; Swart, de Beer & Kruger, 1997:32).

3.1.4 Remuneration as a Motivator for Job Performance

According to Biesheuvel (1984:174) there are two questions around remuneration as a motivator for optimal job performance. The *first* question to ask is how important remuneration is, in comparison with other motivators and *secondly*, whether people will work harder if this will mean being paid more.

The *first* question is difficult to answer since empirical studies fail to clarify; although needs and the motives that arise from them do adopt a hierarchical structure, its components and their place in the hierarchy differ from group to group and within groups from person to person.

The *second* question whether remuneration can play a role in evoking extra productive effort is critical. The work motivation theories lead to the conclusion that no theory adequately accounts for the vast range of motivational patterns that can be observed (Biesheuvel, 1984:28).

The one motivating element that was seen to be common to all working situations, however, was remuneration. Yet it does not follow, despite the importance attached to remuneration, that it can make people work harder. By their very nature, needs for achievement, advancement or growth, when they do motivate individuals, must lead to greater effort and productivity for they can only be expressed in progressively better job performance.

This is not so in case of satisfaction with existing remuneration levels or a desire for more. Remuneration increases are extra means to the job itself, and can be achieved without changing the performance of the job at all. The regular annual increase is a perfect example. It may be granted across the board, without changing the level of work effort, productivity, or job satisfaction. As has been generally conceded, a satisfied worker is not necessarily a hard worker, notes Claassen (1995).

Biesheuvel (1984:179) remarks that there are however, marked differences bound to exist in individual and group responses to remuneration at the three levels of enterprise namely the lower wage earning category, the middle income salaried group and the executive category, particularly insofar as the valence of pay is concerned.

3.2 EXPECTANCY AND MOTIVATION

3.2.1 A look at the Expectancy Theory

Expectancy theory is a type of process theory of motivation. Process theories define how motivation comes about and are in effect working models of the decision processes that individuals work through in order to determine whether they will be motivated to pursue a certain job and sustain a certain level of productivity. Vroom (1964) in his classic textbook, *Work and Motivation*, is the first specifically to relate expectancy theory to the workplace. Expectancy theory consists of three basic elements: expectancy, instrumentality and valence, and can be stated as an equation, $M = (V \times I) \times E$. (Appelbaum, 1991:26; Armstrong & Murlis, 1991:36; Milkovich & Newman, 1987:279; Villere & Hartman, 1989:ii)

3.2.1.1 Expectancy - Expectancy is a subjective probability which expresses the relationship between work effort and performance. It is a subjective probability in the sense that the individual estimates what he or she thinks the chances are of succeeding on a certain task. So even if rewards are quite large, individuals will not be motivated to work hard at tasks where they think their chances of succeeding are quite small.

3.2.1.2 Instrumentality - Instrumentality attempts to link outcomes (performance) to outcomes (reward), also a subjective probability. If remuneration, recognition, advancement or any other rewards are to be effective in eliciting further work efforts from employees they must be linked to performance levels. If there is no linkage, why should one perform at a higher level than the mediocre employee who are rewarded at the same level?

3.2.1.3 Valence - Valence measures the strength of the attraction for a particular outcome or reward and it may be positive or negative in nature. Nobody strives to receive rewards unless it is valued - therefore sources of positive valence. Higher performers have tended to have higher expectations and higher perceived instrumentalities that performance will lead to valuable outcomes.

3.2.2 Expectancy and Commitment

According to Armstrong and Murlis (1991:40) it is also necessary to consider how the reward system can increase the commitment of employees to an organisation. Commitment is a wider concept than motivation and tends to be more stable over a period of time. It is directly affected by the way in which the organisation operates to include the philosophy and vision, in terms of values, organisation climate and culture.

Commitment therefore denotes behaviour related to the organisation in which someone works, namely belief in the organisation's goals and values, desire to belong in the organisation and willingness to exert effort beyond what is contracted for (Gosteli, 1997:36; Myers & Miller, 1997:50).

Scholl (1981:590) views commitment as a type of motivating force where expectancy and commitment are interdependent forces and that membership, role performance, etc. may be the result of a combination of high expectancy/high commitment. As a force directing behaviour, it must be conceptually differentiated from current motivation models specifically, expectancy and equity. Commitment can be defined as a stabilising force that acts to maintain behavioural direction when expectancy/equity conditions are not met and do not function.

The expectancy/commitment model suggests a traditional 2 x 2 matrix where high expectancy is characterised by a positive exchange between the employee and the organisation, indicating a perceived match between the individual's needs and the requirements of the job in addition to the expectation of future equitable extrinsic rewards. High commitment is characterised by high investments, reciprocity, lack of alternatives, or identification - these are mechanisms increasing an individual's commitment to a given behaviour direction.

3.2.3 Rewards and Employee Satisfaction

Employee satisfaction with rewards seems to be a function of several factors that organisations must learn to manage as well as the degree of satisfaction (Armstrong & Murlis, 1991:42; Beer & Walton, 1990:15) :

(a) *Fairness* - When individuals compare their input to output, feelings of satisfaction or dissatisfaction arise.

(b) *Internal comparisons* - Comparisons with other people in similar jobs and organisations affect feelings of satisfaction. Employees often misperceive the rewards of others because this information is not readily available.

(c) *The total reward package* - Overall satisfaction results from a mix of rewards rather than from any single reward - intrinsic and extrinsic rewards are both important.

(d) *Expectations and value* - Satisfaction is the highest when rewards meet expectations as to their value and the value of the reward commensurate with the effort and skill needed to obtain it.

(e) *External comparisons* - Satisfaction and commitment to stay within the organisation is most probable if people feel that present and future rewards are likely to be higher within the organisation than elsewhere.

(f) *Self evaluation* - If rewards are in line with what people feel they are worth, then satisfaction will result.

The ability of the reward system both to motivate and to satisfy depends on who influences and/or controls the system's design and implementation. Participation in decision-making can lead to greater acceptance of the reward system (Hofmeyr, 1997:33; Milkovich & Newman, 1987:43-47; Swart, de Beer & Kruger, 1997:34).

Perhaps a greater roadblock is that remuneration has been one of the last strongholds of managerial perogatives. Concerned about employee self-interest and remuneration cost, organisations do not typically allow employees to participate in remuneration system design or decisions.

3.2.4 The 80/20 Principle

Franklin (1980:32) notes that about 80% of results achieved in most organisations are attributable to the efforts of only a small group. In terms of results produced versus remuneration cost, this larger group is the most expensive part of the workforce. The answer is to find a way to somehow motivate these pedestrian performers into superstars, states Huysamen (1997:34).

The *first* shortcoming is the assumption that all people want to perform well on the job, or at least better than they perform now. The fact being some don't. Some have primary interests outside of their job, where the job is only a means to enjoy those interests. Others have no interests at all including their jobs. Dull people produce dull performance.

The *second* shortcoming is the belief that people will perform better if it were not for certain job related factors that management has failed to "fix" - pay, recognition, etc. It is safer to say certain features of jobs and workplaces do not help good performances, than to say they are the cause of poor performances.

A *third* shortcoming is a corollary to the second. The whole tenor of the motivation madness is to shift responsibility for the turn-on encounter to the manager. Not only is it impossible to be responsible for someone else, but it also transfers any sense of accountability for one's own motivation actions to another person.

Individual motivation occurs through a succession of value judgments and choices made by people as they allocate their effort - a manager can create or modify the environment in which these judgments and choices are made, but he or she cannot control the choices made.

3.2.5 Requirements for a motivating reward system

Modern theory indicates (Biesheuvel, 1984:199; Horwitz & Frost, 1992:30; Swart, de Beer & Kruger, 1997:33) the requirements and success factors for a reward system to motivate are the following:

(a) *Fairness* - The remuneration system should be equitable, which results in a "felt-fair" reaction about remuneration.

(b) *Intrapreneurship* - The performance of individual employees towards the achievements of the organisation's objectives must be measured and rewarded differentially. In striving to develop such intrapreneurship, performance based plans are a powerful tool.

(c) *Flexibility* - The system should be sufficiently flexible to provide for contingency decisions.

(d) Consistency - It is vitally important that the remuneration system should be consistent, both in the use of criteria to determine the relative values of jobs and in the implementation of its provisions. Acceptance differentials between grades and rates must be established; an acceptable market rate for jobs. Internal equivalences must be established. The remuneration system should be competitive.

(e) Performance assessment - The reward system can only succeed if there is completely frank communication about the system's principles, facts and procedures. Feedback is crucial for motivation and superior performance since behaviour rewarded tends to be repeated, while unrewarded behaviour tends not to be repeated.

(f) Linked to organisational strategy and goals - Rewards must be linked to specific objectives of the organisation, if not, the efficacy of the system is at stake and often signified by initially good performance, but finally, a decline in performance.

(g) Measureable performance - Personal effort must be easily identified or associated with value added.

(h) Timing - To ensure continued interest and motivation, rewards must be as close as possible to the goal achievements.

(i) Appropriate to work done - The dynamics of schemes implemented at various levels in an organisation is different. No incentive scheme can substitute good management, but only complement it.

(j) Appropriate to stage of organisational development - Research has indicated that an organisation in its growth phase has a greater proportion of their remuneration system in the form of flexible incentive schemes.

These conditions should be mandatory. To apply some and skip others will impair the system's motivational effect because the conditions are interdependent and cannot function properly in isolation.

3.3 THE PSYCHOLOGICAL CONTRACT

3.3.1 The Concept

Roosevelt (1990:31) states that in the relationship between the individual employee and the organisation, each party participates only because of what it expects to receive in exchange for participation. An individual, like an organisation, constitutes a system with particular needs. These two systems enter into a joint cooperative relationship only when it offers opportunities for the fulfillment of their respective needs.

The organisation employs the individual because his or her services are essential for achievement of its goals; similarly, the individual contributes services only when doing so leads to the fulfillment of his or her needs (Bews & Martins, 1996:43; Gosteli, 1997:36; Sims, 1994:373; Swart, de Beer & Kruger, 1997:43).

3.3.2 The Psychological Contract and Expectations

As noted by Schein (1980:98) the basis of this reciprocal relationship is the psychological contract, which may be defined as the mutual expectations of the individual and the organisation. Both parties bring to the relationship a set of expectations of what each will give and receive. The set of both the individuals and the organisation's expectations becomes the basis of the psychological contract.

The individual-organisation contract is termed psychological because much of it is often unwritten and unspoken. Though the psychological contract is largely unstated and unsupported by legal sanctions, it has a commanding quality. It represents each party's expectations of the relationship's continued existence.

At any given time, there will be some relatively fulfilled and unfulfilled expectations; however, each party has a minimum acceptable level of fulfillment. If either party concludes that the fulfillment of its needs is below this minimum level, it will view the contract as having been violated (Morrison, 1994:353).

3.3.3 Managing the Psychological Contract

The psychological contract is dynamic and changes as the needs of the two parties change. For example, an organisation's needs may change as it moves from a small to a large mature one. Similarly, the individual's needs change as she or he moves through the various stages of life states Schein (1980:100).

Because most organisations are built around functional units, the manager of such a business unit is frequently the person most responsible for representing the organisation and implementing the psychological contract. The manager's task is that of fulfilling the organisation's end of the contract and reminding individual employees of their contractual obligations.

This requires that the manager provides an organisational design that facilitates the performance of organisational tasks, while creating an atmosphere of positive expectations and ensuring that employees have opportunities to realise their expectations at work. Maintaining a psychological contract that accomplishes these ends involves a fit among the nature of the business unit's task, the personalities of its members, and the unit's organisational design according to Roosevelt (1990:38).

When such a fit exists, the unit gains effective results and the individual members gain feelings of competence that lead to a continuing motivation to perform their jobs well. This coincides with Franklin's view (1980:32) that creating a positive atmosphere for expectations fosters good performance.

According to Roosevelt (1990:33) there are three options open to a dissatisfied party: (a) attempt to re negotiate the contract, (b) continue the relationship in an alienated state, and/or (c) sever the relationship. Once one of the parties becomes dissatisfied, a signal will be sent to the other expressing a desire that the contract be re negotiated. Such signals may vary from a disgruntled attitude to strikes. This phenomenon works both ways.

Roosevelt (1990:39) suggests that the consistency among organisation, task, and human variables seems to lead to a psychological transaction benefiting both the organisation and the individual and furthermore emphasises the often neglect point that the very act of performing the job well can also be an important motivational force.

The manager must therefore develop from all reward possibilities the combination of extrinsic and intrinsic that will help bring about realisation of the business unit's psychological contract. According to Roosevelt (1990:38) it is one of the tools available to management as they work towards a good fit and fulfilment of the psychological contract and suggests further that it should coincide with tools such as measurement practices, structure, selection and development.

3.3.4 The Psychology with regards to the Human Resource Cost Allocation

According to Kanungo and Mendonca (1988:23) this would imply getting a fair return for the human resource investment, in the mind of the employer. It would furthermore imply, assessing the organisation's ability to pay and how and where to invest any profit or surplus monies accruing to the organisation. In the mind of the employee it is linked to his or her quality of life and how to maintain that status quo and future needs and spending patterns (Bews & Martins, 1996:45; Guzzo & Noonan, 1994:447).

The unspoken contract is for an upward adjustment of future remuneration levels regardless of the organisation's ability to pay, state of the economy, productivity levels, and other related factors affecting remuneration levels. This phenomenon is the most difficult element of the psychological contract to balance according to Claassen (1995).

3.4 SUMMARY

To date, many motivational theories have argued the role that money or remuneration plays in the motivation of employees. Remuneration systems are based on the primary assumption that money is a source of motivation. The important consideration is the role work motivation and motivational techniques play from a strategy standpoint where work

motivation relates to the process by which behaviour is energised and sustained in order to meet individual needs and organisational objectives.

It seems one can accept as a truism that money is important to most people and that there is nevertheless an element of ambivalence towards money in peoples' expressed attitudes. Although money ranks low in our ethical value system, it is the ultimate objective measure of value and has symbolic meaning as an indicator of achievement, recognition, status or power, both at work and in the world at large.

As a motivator for job performance, the fundamental two questions seems to be (a) the relative importance of remuneration in comparison to other motivators, and (b) whether people will work harder if it would mean being paid more. By their very nature, needs for achievement, advancement or growth, when they do motivate individuals, must lead to greater effort and productivity for they can only be expressed in progressively better job performance. This does not seem to be so in the case of satisfaction with existing remuneration levels or the desire for more, as remuneration increases are extra means to the job itself, and can be achieved without changing the performance of the job at all.

Employee satisfaction with rewards as well as the degree of satisfaction seems to be a function of several factors that organisations must learn to manage and furthermore depends on who influences and/or controls the systems' design and implementation. The requirements and success factors are furthermore mandatory and interdependent for the reward system to motivate.

Finally, the basis of the employer and employee relationship, ie the psychological contract, is defined as the mutual expectations of the individual and the organisation. Where the psychological contract happens only because of what each party expects to receive in exchange for participation as the two parties enter into a joint cooperative relationship only if it offers opportunities for the fulfillment for their respective needs.

This psychological contract is dynamic and changes as the needs of the two parties change where each party has a minimum acceptable level of fulfillment, and where managing the psychological contract involves a fit among the nature of the organisation's goals and the personalities/needs of its members.

CHAPTER FOUR: PRINCIPLES IN REMUNERATION MANAGEMENT
- IN SYSTEM DESIGN
- ECONOMIC/MARKET PRINCIPLES

Chapter four deals with *economic and market principles* influencing reward decisions as well as the principles applicable in *remuneration system design*. Comparable worth of occupations relating specifically to *market processes* will be discussed with a view to *return on human investment*. Establishing the base for determining remuneration levels in terms of (a) *paying the job* versus (b) *paying the person* is analysed and compared.

Guidelines for and the factors affecting the setting of fair remuneration policy is deliberated at length as well as focusing on the relativities concerned with *determining remuneration levels*. As determining the *inherent value of job output* is fundamental to sound pay practices, the issues relating to *job evaluation* and specifically the issues around *broadbanding* is analysed. The chapter finally discusses the relationship of *pay and performance* and takes a look at *wage bargaining* in South Africa.

4.1 COMPARABLE WORTH

4.1.1 The Labour Theory of Value

How is it possible to determine whether diverse occupations are occupations of comparable worth? There is only one way according to Fay and Beatty (1988:274) which is to look at the market determined salaries and related remuneration levels paid to employees in each occupation.

Fay and Beatty (1988:276) notes that St Thomas Aquinas taught that all goods and services have a natural intrinsic value and that the only just price or just remuneration level for goods or services was a price or rate which was equal to that intrinsic value. Karl Marx again stated that the value, or just price, of goods depended on the amount of "basic simple socially necessary labor" that was embodied therein (Gosteli, 1997:37).

If the market price of goods exceeded that just price, capitalists were unjustly receiving "surplus value". But what is "socially necessary" labour? Is it that labour used to produce things that people value? Economic "worth" of something can only be discovered in the competitive market process (Liaison, 1990 : B7-371; Milkovich & Newman, 1987:196).

4.1.2 The Competitive Market Process

The market system is usefully thought of as consisting of two types of markets. In the input market, resource owners (those who own such inputs as labour services, capital equipment, and raw materials) are the sellers. The buyers are entrepreneurs. In the output market, consumers are the buyers and entrepreneurs are the sellers.

Every person possesses mental and physical abilities which enable him or her to perform labour services. Those abilities are the person's "human capital". Thus every person is a resource owner. In a private voluntary exchange system a resource owner will sell the use of his or her resources only if there are no better offers available. In order to secure the necessary resources, resource owners must at least be offered as much of what those same resource owners could get if they sold the use of their resources to any other states Weinberger (1992:1).

In order to get the most out of available resources, resources ought to be used where they are most highly valued. The competitive market process, therefore, constantly redirects resources toward those uses that consumers value most highly and away from those uses that consumers value least. It does so because it is entrepreneurs that direct and redirect resource use, and they take their cues from market prices - market prices of inputs relative to market prices or inputs relative to market prices of outputs. Any interface with market prices prevents this vital resource direction and redirection from taking place.

According to Milkovich and Newman (1987:197), market prices emerge out of the millions of bids and offers that are made, accepted, and rejected by consumers, resource owners, and entrepreneurs. All of the relevant knowledge is utilised in the market process because each person possesses some of the knowledge and each person gets to use what he knows in the pursuit of his or her own ends.

Successful entrepreneurial action is discarded so that different prices attached to goods and services of comparable value authentically tend to converge.

The only way to discover whether labour services A are of comparable worth to labour services B, according to Fay and Beatty (1988:278) is to observe how entrepreneurs perceive that those labour services can be used in the production of those goods and services that consumers are ready, willing and able to buy, and to observe the consequences of entrepreneurial actions undertaken on the basis of those perceptions.

The value that an entrepreneur attaches to eight hours of labour services from occupation A is the maximum the entrepreneur-employer is willing to bid for those services - the employer's "demand price" for them. The demand price is based on the amount by which, given the other outputs that are used, the organisation's daily revenue with those services exceeds what its daily revenue would be without those services (Bridges, 1995:3; Kravetz, 1988:34; Milkovich & Newman, 1987:201).

4.1.3 Return on Human Resource Investment

Kanungo and Mendonca (1988:23) pose the question: "When an organisation pays their employees, do they get a fair return for their investment - how do they know?" If a similar question is posed to today's managers, the chances are that they will either consider them irrelevant or regard them as mysteries too obscure to resolve.

And yet, these managers will routinely subject their organisation's capital and operating costs to an array of rigorous analyses to determine if the target rates of return are being obtained. They will also ensure that the variances are studied and investigated and that an appropriate plan of action is initiated to achieve the desired goals (Gosteli, 1997:36).

Claassen¹ (1995) states that it would be logical to expect that the remuneration package cost would also be subjected to the same searching cost-benefit analysis. It involves a considerable cash outflow often more than 50% of the total operating costs of the organisation and, in many service industries it can go as high as 80%. This is also stressed by Hay Management Consultants (1992:4) in their quest for value-added analysis.

Why then is it that we tend to treat the remuneration cost component differently, asks Claassen (1995). The answer may be traced to our understanding of how pay and benefits affect motivation. If we believe that pay and benefits do not motivate performance, then it is only logical that the management of these rewards, despite the huge outlays involved, would not be the major concern. If, on the other hand, we believe that monetary rewards affect work motivation, then it should actively be managed to influence and improve work behaviour.

Kanungo and Mendonca (1988:24) are further of the opinion that the distinction between intrinsic and extrinsic rewards, as theorised by Herzberg and McGregor, became the foundation for the approach to the management of reward systems. Its influence was perhaps so persuasive that it also became an integral part of a manager's thought and practice - the claim that intrinsic rewards were the only real motivators of work behaviour and that extrinsic rewards were consigned to a secondary role, where the rewards were necessary to prevent dissatisfaction with one's job but they had no positive influence whatsoever in motivating performance.

Therefore the notion perhaps that reward is a necessary expense but not specifically designed to influence and improve work behaviour. Hence the statement also by Hay Consultants (1992:4) that added value analysis as a concept treats people as those with whom wealth is shared, whereas the concept of profit treats people only as a cost which should be minimised.

But the intrinsic-extrinsic approach looks at only one aspect namely, the assumed inherent potency of the intrinsic and extrinsic rewards to produce the desired behavior. It ignores the individual's perceptions of, and expectations of the rewards which are critical, it also ignores the fact of the value of certain rewards for employees (Swart, de Beer & Kruger, 1997:32).

4.1.4 An Alternative Approach

Milkovich and Newman (1987:207) stress the fact that an organisation's investment in its employee remuneration system is always at a level which demands innovative approaches

to ensure a reasonably fair return, and believe that an approach based on the expectancy theory of motivation can provide a better handle on reward management; where a comparison of intended and actual effectiveness of rewards helps identify the relative motivational effectiveness of each reward, highlights the specific reasons why a given reward has reduced effectiveness, and, as a consequence, provides clues for appropriate intervention to increase the effectiveness of the reward.

Kanungo and Mendonca (1988:25) state that, however, success thereof presupposes three essential conditions where (a) management must accept its responsibility to obtain a fair return on its remuneration expenditure; (b) management must be committed to designing and administering the reward system in a manner which ensures that employees clearly perceive the rewards to be valuable, salient, and contingent on the targeted behaviours; and (c) management must be willing to review the reward system continuously and to modify it, as necessary, in the light of the organisational goals and employee perceptions relative to valence, saliency, and contingency.

Organisations today must believe that their remuneration system is an investment in their most valuable resource (Swart, de Beer & Kruger, 1997:32).

4.2 SETTING FAIR REMUNERATION POLICY

An organisation's remuneration policy should reflect the strategic business and human resources needs of the organisation. Unfortunately, many organisations' remuneration policies reflect prevailing practices of other employers or arise from the organisation's traditions.

4.2.1 Factors affecting Policy

According to Hestwood (1992:75) studies of companies' reported remuneration-level policies indicate that most employers attempt to pay at least "at market". It is crucial for the organisation to determine the degree to which the organisation can attract and retain qualified employees.

The major factors affecting attraction and retention other than pay are (a) availability of qualified workers (b) working conditions (c) level of employee benefits (d) job security (Hestwood, 1992:76). If conditions are on the favourable side of the continuum, an organisation can easily attract and retain employees and could conceivably set pay policy below market without difficulty. If conditions are unfavourable, an organisation would find it difficult to attract and retain employees and would normally have to pay above market.

The organisation must also determine its ability to pay. The major factors affecting ability to pay are (a) cost of labour (b) profitability (c) market dominance (d) stage of business (Hestwood, 1992:77). If conditions are favourable, the organisation is financially capable of supporting an above-market pay policy. If conditions are unfavourable, the organisation may be forced to pay below market.

For the above factors to have an influence on the remuneration policy, they must vary across organisations in the labour market. For example, if everybody in the labour market has generous benefits, that eliminates benefits as a favourable or unfavourable attraction and retention condition and makes it a neutral factor for all organisations. The same is true to the ability-to-pay factors. Milkovich and Newman (1987:207) state that if all organisations were to be profitable in a labour market, ability to pay may be neutralised because all can afford to revise their remuneration if any of the others do. Hestwood (1992:75) as well as Milkovich and Newman (1987:191) note that there are certain ways an organisation can respond to the conditions above.

Firstly, most organisations will pay at market if they are neutral in attraction and retention and ability to pay; thereby attracting and keeping qualified employees while still controlling remuneration costs. *Secondly*, those with unfavourable attraction and retention conditions but favourable ability to pay will pay above market. *Thirdly*, organisations with favourable attraction and retention conditions but unfavourable ability to pay will pay below market. *Fourthly*, organisations with a favourable attraction and retention situation and a favourable ability to pay have a choice to make, and *lastly*, organisations with both an unfavourable attraction and retention situation and an

unfavourable ability to pay have a dilemma. In this situation, a dual policy should be considered.

This is typically a group variable-compensation approach, in which an employer pays base compensation below-market but provides above-market total remuneration levels when business results exceed planned targets or if specified productivity improvement goals are achieved, which has also been duely stressed by Cumming (1992:42) and Kanter (1987:137) in their attack on traditional pay systems.

4.2.2 Separate Remuneration Policies

Once a general policy has been established, separate remuneration level policies can be set for separate business units. It is becoming more common for large organisations to establish separate (higher or lower) remuneration level policies for certain units engaged in distinct business, especially if they have different abilities to pay. Competitive demands and effort to decentralise decision making are likely to continue to push organisations toward more differentiation in pay policies (Hestwood, 1992:26).

4.2.3 Actual Remuneration levels versus the Policy

Lawler (1990:183) notes that many organisations say they pay competitively but, by overall labour-market standards, never do. Some employers don't conduct comprehensive remuneration surveys; others don't adequately identify their labour-market competitors. Conducting appropriate surveys and gaining approval to make remuneration program changes are not enough to achieve remuneration policy goals.

Other actions include (a) the control of position evaluation decisions; (b) the communication to management and employees; (c) to train managers in the remuneration administration process because employees' opinion on the adequacy of their remuneration level is linked to how their remuneration is administered; and (d) to design a mechanism to pay excellent performers better than average performers (Hestwood, 1992:27).

According to Armstrong and Murlis (1991:51) the underlying purpose of a remuneration-level policy is to link an organisation's human resource (attraction and retention) to business needs (ability to pay). Remuneration policies are suited to a given time, a particular type of organisation and specific cultures/environments.

4.2.4 Guidelines for Policies

According to Claassen (1995), Dufetel (1992:33) and Armstrong and Murlis (1991:53) certain guidelines must be considered when addressing the issue of remuneration policies. This involves:

- (a) To have a master plan since compensation structures sometimes have been modified or enhanced to the extent of being counter-productive to the original intent of the program;
- (b) Understand employees' needs and expectations;
- (c) Manage compensation economically. Remuneration, if used strategically, can produce added-value for the organisation;
- (d) Disconnect "what you pay" from "how you pay" and dare to be original. Effective remuneration design must reinforce the behaviour that is not important for the success of the organisation;
- (e) Build a political base in demanding a network of relationships with frontline employees, members of line management and the entire executive team;
- (f) Deregulate and decentralise, providing management with freedom to interpret and apply guidelines or principles;
- (g) Train line management to understand and appropriate the remuneration policy to feel confident in applying it; and

(h) Distinguish real exceptions from false ones - when a policy caters for 90 - 95% of cases it is overall good; exceptions may be made for those "real" key contributors who are experts for the entire organisation; however, those 'false experts' are dangerous and exceptions should not be made for them.

4.2.5 Value Added and Remuneration Policy

Two pieces of information are important in developing policies for applying added value generated. According to Hay Management Consultants (1992:1), these are (a) the absolute level of value added per person employed and (b) the cost of remuneration which is appropriate as a proportion of value added.

The level of added value generated per employed person varies widely between sectors of the economy and within a given sector. The level of national wealth, that is the standard of living of a country, depends heavily on two elements namely (a) the number and nature of organisations involved in creating wealth, and (b) the absolute levels of added value per employed person generated by those organisations (Simoncelli, 1998:32).

An approach to establishing what cost of remuneration is compatible with an organisation's strategic position is through an understanding of the components of added value. This understanding of the relationships of remuneration to added value complements an understanding of how relevant market comparison is for determining pay policy (Bridges, 1995:63; Fay & Beatty, 1988:277; Swart, de Beer & Kruger, 1997:32).

Hay Management Consultants (1992:2) conclude that the absolute level of added value per person employed is the most important determinant of remuneration levels. It leads to the proposition that the internal economics of an organisation as expressed in added value is more important than pressure from the remuneration market in determining the total cost of remuneration.

Furthermore, internal economics as expressed in added value, will in the end determine in what part of the remuneration market an organisation can hire comfortably. It is also to

be expected that in any one sector of the economy, different organisations will be able to pay in different parts of the market (Milkovich & Newman, 1987:199).

Claassen (1995) states that the concept of added value is crucial in improving remuneration levels - which comes from increasing added value per person faster than inflation. Increasing added value comes best from generating a better result in the market place and not by simply cutting costs. Added value as a concept treats people as those with whom wealth is shared.

4.3 DETERMINING REMUNERATION LEVELS AND RELATIVITIES

4.3.1 Determining the Base

When establishing the base for determining remuneration levels two concepts emerge, namely paying for the job and/or paying the person.

4.3.1.1 Paying for the Job

Organisations hire individuals; but once individuals join most organisations, the amount they are paid is determined primarily by the type of job they do. Job-based pay typically rests upon the foundations of a job evaluation system and it reveals some clear advantages (Armstrong & Murlis, 1991:94; Bridges, 1995:30; Milkovich & Newman, 1987:100; Rock & Berger, 1991:43).

Perhaps the most important reason why organisations adapt job-evaluation-based pay according to Lawler (1990:136) is that it facilitates making comparisons to what other organisations are paying. It is also possible to compare within organisations therefore ensuring certain levels of internal equity. Paying for the job also allows for centralised control of an organisation's remuneration system and remuneration costs. It also provides the ability to audit the paying of people according to the organisation's structure. Also, because job evaluation is well established and proven, it has the appearance of objectivity.

Many of the criticisms of job evaluation rest on the issue of focus ie a way to pay employees versus an approach to management and a strategic business orientation. It makes a number of assumptions about the way an organisation is managed and fits a particular style of management and a particular approach to dealing with key business issues.

They are the following : (a) promotes a bureaucratic management style where it focusses on people doing what is prescribed rather than what is right, (b) implicitly specifies what not to do because it reinforces what is not included in job responsibilities, (c) reinforces hierarchy because it measures jobs in terms of their hierarchical power, control, and responsibilities, (d) depersonalises value orientation, equating them with a set of duties rather than with who they are and what they can do, (e) fosters internal focus of remuneration relationships among jobs, (f) impairs strategic orientation because it fosters internal equity, (g) discourages organisational change since most major organisational change involves a reassignment of responsibilities and accountabilities, (h) encourages point grabbing where individuals become quite sophisticated in how to get jobs evaluated highly with increases in pay, an extra budget, more subordinates, (i) erodes honesty or credibility where the writing of inflated job descriptions can become standard procedure and contribute to an organisational culture in which it is okay to provide misinformation, (j) inflates pay system operating costs because it usually requires a rather extensive internal remuneration staff as well as external consulting help, (k) fails to encourage skills development because the idea of hierarchy and upward career moves are strongly reinforced, (l) makes promotion too important where people learn to look for a certain number of points before making a career move, (m) rewards wrong behaviour where many organisations end up spending a great deal of their remuneration rands to reinforce job changes rather than outstanding performance or needed skill growth (Fay & Beatty, 1988:58; Lawler, 1990:139).

Although there are situations where job based remuneration systems are appropriate, in other situations it is not the best alternative. A very different alternative to paying for the job is paying for the person, or better known as skill-based pay (Caudron, 1993:64).

4.3.1.2 Paying the Person

Paying people according to their value in the market, the alternative to job-based pay, leads to a focus on people and on what the market pays. It can help an organisation to actively manage the skill-acquisition process by directly motivating individuals to learn specific skills. The most common approach to paying the person is knowledge or skill-based pay (Lawler, 1990:153; Mbigi & Mandela, 1998:42).

4.3.1.2.1 The nature of skill-based pay

The design requires the identification of those tasks that are needed to be performed in the organisation. The skills that are needed to perform the tasks are identified and tests or measures must be developed to determine whether an individual has learned the skills. Skills also need to be "priced" so that remuneration levels or rates can be determined. Individuals are then typically paid only for those skills that they currently can and are willing to perform. The opportunity to learn skills needs to fit the management style, organisational practices, and organisational strategy (Bridges, 1995:120; Caudron, 1993:64).

In addition to paying for horizontal learning, many plans pay for depth of skills in a particular area. The development of a skill-based pay system involves a number of decisions about which skills are desirable for people to learn. The organisation must determine what mix of vertical skills, horizontal skills, and depth skills it wants its higher level employees to learn (Nel, 1997:19).

Skill-based remuneration systems can price skills in the market place. Just as with job-based pay, an organisation can go to the market and assess how much people with similar skills are paid. The concept simply says that individuals are paid for the number, kind and depth of skills that they develop and utilise, and may be horizontal, depth, or vertical skills states Rock and Berger (1991:199).

Despite the lack of experience with skill based pay, Lawler (1990:160) states that it is possible to identify some of the pros and cons that come from its use.

The *advantages* of skill-based pay are of two types. *First*, there are those that stem simply from horizontal flexibility. These include leaner staffing; fewer problems with absenteeism, turnover, and work disruptions; and the ability of many employees to help with and adjust to problems in the production process.

The *second* kind of advantage comes about when skill-based pay includes vertical skills and is combined with a management style that pushes information, knowledge and decision making to the lower levels. In this situation it is possible for an organisation to operate with fewer people, to practise better problem solving, and to have a more motivated and committed workforce. This comes about because individuals have the knowledge and skills to become self-managing; which in turn, trigger intrinsic motivation, which encourages individuals to do a high-quality job and to be concerned about production results (Bridges, 1995:145; Kravetz, 1988:67; Mbigi & Mandela, 1998:44; Rock & Berger, 1991:209).

There are some *disadvantages* to skill-based pay that need to be considered (Lawler, 1990:166; Rock & Berger, 1991:203) :

- (a) These systems are designed so that everyone has the opportunity to learn multiple skills which requires a large investment in training, which is expensive. Individuals are also constantly learning new jobs, there is a constant need to make trade offs between production and skill acquisition.
- (b) Skill assessment can also be a problem with skill-based remuneration systems. Individuals have to be assessed on multiple skills and it can lead to assessing individuals several times a year. Also, if peer evaluation is used, peers are sometimes unwilling to do the type of hard evaluation that is needed to make sure that individuals have adequately learned skills.
- (c) Skill based pay also makes market comparisons a bit more difficult because it is difficult to go to the market and get a rate for a skill, particularly when that skill is being looked at in the context of someone who has several other skills and will be performing that skill only part of the time.

(d) There is a certain level of administrative complexity that accompanies skill-based remuneration systems since keeping track of exactly who qualified on all different jobs and the different remuneration levels or rates, developing and keeping track of all the skill tests that are needed, require both time and effort.

(e) The desire of individuals to move from job to job can be counter-productive if it means that they are unwilling to stay and produce in the job that they have just mastered. Also, a problem occurs with maturity where individuals "top-out" - that is, they can learn all the skills that the program calls for them to learn. This can lead to discontent for those who have become accustomed to learning, growing and receiving higher remuneration levels.

4.3.2 Internal Consistency

Remuneration structure refers to the array of remuneration levels or rates for different jobs within a single organisation. It focuses attention on differential remuneration paid for work or skills of unequal worth (Milkovich & Newman, 1987:33).

Internal consistency refers to the remuneration relationships among jobs or skill levels within a single organisation. It focuses attention on employee and management acceptance of those relationships. Internal consistency involves establishing equal remuneration levels for jobs of equal worth and acceptable remuneration level differentials for jobs of unequal worth.

Internal consistency includes the fairness of the remuneration structure and the procedures used to establish it. A remuneration policy that emphasises the internal consistency of a remuneration structure focuses attention on the link between employee perceptions and work behaviours.

Among the objectives of remuneration systems are employee decisions to join, to stay, or to leave the organisation, and to invest in additional training. Remuneration level differences among different jobs influence some of these decisions. Properly designed remuneration structures may facilitate employee decisions and be a potential management tool (Fay & Beatty, 1988:71).

A policy that emphasises internal consistency also focuses attention on the procedures used to establish the structure. Procedural equity is the perceived fairness to all relevant parties of the process used to design the pay structure. Internal consistency refers primarily to the relationships among jobs rather than among individuals.

The comparison is NOT over remuneration level differences between two individuals; the worth of the work itself is determined with little regard to the individuals that are doing it. But while such a policy deals primarily with job relationships, equitable remuneration structures can sometimes be based directly on the skills of employees, irrespective of the jobs to which they may be assigned.

Finally employee acceptance is the key test; accordingly the central criterion for assessing the internal pay structures is its acceptability to the employees involved. A remuneration structure will be perceived as equitable or inequitable depending on whether the pay for job A compared to its requirements, the work performed, and the value of contributions is congruent with the pay for job B relative to its requirements, work performed, contributions, and so on, through all jobs in the structure (Milkovich & Newman, 1987:43).

4.3.3 External Competitiveness

According to Milkovich and Newman (1987:191), external competitiveness refers to the remuneration relationships among organisations and the competitive positions reflected in these relationships. Remuneration level refers to an average of the array of rates paid by an employer. It focuses attention on two aspects of remuneration: (a) the cost of human resources to the employer and (b) the use of remuneration to encourage employees to seek a job and remain with an employer.

Armstrong and Murlis (1991:65) state that market comparisons aim to compare external relativities, that is (a) the rates and benefits provided for equivalent jobs in other organisations with those provided within the organisation, to ensure the latter are competitive, and (b) the rate at which remuneration is increasing in other organisations in order to provide guidance on remuneration reviews.

Lawler (1990:186) notes that in practice, policies regarding external competitiveness translate and involve into the determination of employer's remuneration levels. Three "pure" alternatives exist: to lead competition, to match it, or to follow what competitors are paying. In practice, different policies could be used for different units and/or job groups.

The determination of the policy depends on three major factors according to Milkovich and Newman (1987:195) : (a) labour conditions, stemming from competition in the labour market/union demands; (b) financial pressure stemming from product market conditions and the organisation's financial vitality; and (c) the strategic and operating objectives that the organisation has established.

External competitiveness is critical to the organisation's success. Establishing a remuneration level translates it into practice. The remuneration level has a twofold effect on remuneration objectives : (a) it directly affects the employer's operating costs, and (b) it directly affects the employer's ability to attract and retain a stable and qualified workforce (Lawler, 1990:201).

4.3.3.1 How Labour Markets Work

For remuneration purposes, what precisely are markets? According to Milkovich and Newman (1987:196) economics conceive them as two basic types: the quoted price and the bourse. Advertisements that list a job opening's starting salary is an example of quoted price markets. Bourses involve haggling over the terms and conditions. Both types involve an exchange between buyers and sellers where the buyers are employers and the sellers are employees. Understanding markets require analysis of the demand and supply of labour. On the demand side the focus is on employers' hiring behaviours and how much employers are willing to pay for labour. On the supply side, the focus is on the skills of employees and the remuneration they are willing to accept in exchange for their services.

The additional revenue generated when the organisation employs one additional unit of human resources, with other factors held constant, is called marginal revenue of labour. The additional output associated with the employment of one additional human resource

unit, with other factors held constant, is the marginal product of labour. It means when an employer cannot change technology or capital and natural resources, its level of production can change only if the level of human resources employed is changed.

With the demand and supply at the market and organisation level, the supply of labour is a line or curve representing the average remuneration required to attract different numbers of employees. Like demand curves, the exact shape of the supply of labour varies depending on the assumptions. With an upward-sloping curve, from left to right, market levels means that increased levels of human resources become available at higher pay levels. As remuneration increases, more people are willing to take a job.

This relationship between the ability to attract human resources and the remuneration level is not meant to imply that remuneration is the sole determinant of human resource supply. It does imply that the remuneration level is an important factor influencing the supply of labour (Bridges, 1995:63; Gosteli, 1997:36; Milkovich & Newman, 1987 : 201).

4.3.3.2 Markets and Ability to Pay

As Hestwood (1992:77) has also stated previously, an organisation must, over time, receive enough revenues to cover remuneration and other expenses. In the private sector, revenues are generated through sales of products and services following that an employer's ability to pay is constrained by its ability to compete, and therefore affects the remuneration level the organisation sets. In effect, product market factors put a lid on the maximum remuneration level that an employer can set. If the employer pays more, then it has two options. It can try to pass on the higher pay level through price increases or hold prices fixed and allocate a greater share of total revenues to cover labour costs.

Also, a slowed economy and a decline towards the company's products, constrain the company's ability to pay and their ability to change the remuneration level. Other factors such as the productivity of labour, the technology employed, the level of production relevant to plant capacity available, and the extent of nonhuman resource expenses all affect ability to pay, and varies more across industries than within industries.

4.3.4 Establishing Market Rates

Competitive remuneration levels and remuneration structures can only be developed and maintained if the external market is systematically monitored. This can be done using a range of sources from salary and benefits surveys to job advertisements, companies' annual reports, informal confidential contracts and other forms of market intelligence (Armstrong & Murlis, 1987:65).

4.3.4.1 *The problem of defining the market rate*

People often refer to the "market rate", but it is much more elusive concept than it seems. There is no such thing as a definite market rate for any job, even when comparing identically sized organisations in the same industry and location. There are local markets and national markets, and none of them are perfect in the economist's sense. Different surveys of the same types of jobs produce different results because of variations in the sample, timing and job matching. This means that an organisation merely obtains an approximation - a range of possibilities (Armstrong & Murlis, 1987:67; Claassen, 1995).

It should also be remembered that individuals as well as jobs have market rates. When looking at a range of market rates, two things have to be decided - *firstly*, what the rate for the job should be, and *secondly*, what the range for individuals in the job should be as they enhance their marketability through experience, training and "track record" or performance. Surveys may give some indication of the range of rates an organisation should offer (Lawler, 1990:193).

4.3.4.2 *Defining the Market*

To answer the question: What is the market paying? A fundamental starting point is answering the question for the organisation: What is the competitive labour market for this particular group of positions? There are certain complexities, for example that certain organisations will have more than one market depending on the area; also, some organisations think their market is limited to the company down the street and the bank on the corner.

Whatever the circumstances, comprehensive markets must be determined before developing salary structures. Other key questions are, for example, what data should be compared, or must only base salary levels or also total remuneration levels be considered, etc. The answer is to compare everything and show how the organisation stands up in each instance, and to draw primary comparisons to complement the business plan and objectives (Armstrong & Murlis, 1987:67; Rock & Berger, 1991:89).

4.3.4.3 The Role of Market Surveys

According to Rock and Berger (1991:88), surveys should (a) help shape and increase accuracy of management remuneration decisions; (b) provide timely, needed answers to questions about competitive rates; (c) provide continuity and consistency of information; and (d) provide a vehicle with which to define and communicate what market and what remuneration levels are being compared.

This is essential to assist an organisation in meeting their remuneration structure goals - which is to avoid inappropriate remuneration expense, being aware of what the bigger organisations are doing, and to keep on top of line-managers' interests in their particular areas or line of business.

4.3.4.4 Using Survey Data

The translation of market data according to Armstrong and Murlis (1987:93) into competitive levels for individuals, is a process based on judgement and compromise. The aim is to extract a derived market rate based on informed and effective estimates of the reliability of the data. A proposed scale midpoint or "spot" rate has to be established for each level based on the place in the market the company wishes to occupy. i.e. its "market posture".

To ensure that the organisation stays ahead of the market, or at least does not lag behind, it is advisable to attempt to forecast how rates will increase in a given year. This can be done by extrapolating trends and analysing economic forecasts (Milkovich & Newman, 1987:240).

When using survey data Fay and Beatty (1988:82) note certain *pitfalls* when comparing the external information to the organisation. It is the following: (a) the comparability of the companies, for instance in size and assets; (b) the remuneration mix comparability, which could include a different range of pay and benefits; (c) the variations in job descriptions; and (d) the correlation of the survey data with adjustment periods.

4.4 DETERMINING THE INHERENT VALUE OF JOB OUTPUT

4.4.1 What is Job Evaluation?

Rock and Berger (1991:44) states that job evaluation is a system of comparing different jobs to provide a basis for grading and determining remuneration structure. An analysis of market rates will provide the information needed to ensure that a reward management system is competitive, but it is still necessary to maintain a remuneration structure into which jobs may be slotted according to their relative value.

This will be strongly influenced by market forces but it is also necessary to pay attention to internal relativities in order to achieve both appropriate differentials to reward different levels of contribution and equity in the form of equal remuneration for work of equal value. A remuneration structure consists of a hierarchy and decisions have to be made on how and where jobs should be fitted into that hierarchy.

Job evaluation schemes do not directly determine remuneration levels. The rate for the job or the bracket for a job grade is influenced by a number of factors outside the scope of most schemes to include issues such as market rate pressures, union involvement, etc. Job evaluation schemes set out to measure the relative value of the job and is concerned with relationships, not absolutes. It cannot measure in definite terms the inherent value of a job to the organisation. It is therefore essentially a comparative process according to Armstrong and Murlis (1987:94).

Milkovich and Newman (1987:106) define job evaluation as a systematic procedure designed to aid in establishing remuneration differentials among jobs within a single employer.

From the above definitions it is possible to define Job Evaluation as follows:

A systematic comparative process essentially measuring the relative value of jobs, and providing a basis for establishing remuneration structure and differential among jobs.

4.4.2 The Role of Job Evaluation and Remuneration

According to Emerson (1988:49) organisations must ensure that the job evaluation system primarily rewards for excellence in current performance. The job evaluation system must identify and reward people for customer service, adaptability, profitability, and market-related behaviour. This requires that the builders of the system know the firm's products and the market behaviours associated with product and service excellence.

In addition, the performance measurement scheme must be objective and specific enough so that employees clearly see the relationship among their actions, the goals of the organisation, and their individual remuneration. Job evaluation systems must correlate empirical behaviour with specific goals. The systems used to value human resources can no longer be subjective ordinal rankings of factors that are indiscriminately subjected to inappropriate calculations. The process must be valid and reliable to include employees, trained, empowered, and involved in the key decision-making issues of the organisation (Bridges, 1995:30; Rock & Berger, 1991:43).

4.4.2.1 *Paying for Jobs in terms of their Strategic Value*

According to modern theory (Armstrong & Murlis, 1987:94; Gosteli, 1997:36; Lawler, 1990:135; Milkovich & Newman, 1987:100; Weinberger, 1992:61) certain jobs have greater strategic importance, therefore such differences ought to be reflected in the remuneration levels for the jobs. For an organisation to ensure it receives a favourable exchange of services for remuneration, it must allocate remuneration rands among jobs consistent with some measure of strategic centrality.

According to Weinberger (1992:62) jobs may be placed on a continuum, ranging from "core" to "peripheral", representing their perceived importance to the success of given

strategic objectives and programs. The strategic centrality of jobs is defined in terms of three dimensions of value:

- (a) *Critical value*, which reflect the extent to which the job has a direct potential contribution to the realisation of strategic programs;
- (b) *Pivotal value*, which reflect the extent to which other jobs or units are likely to depend on the outcomes of job performance;
- (c) *Synergistic value*, which reflect the extent to which the job is expected to improve/facilitate the contributions of other jobs.

This valuation of jobs aligns remuneration cost with the relative value of jobs to the organisation, where the measurement of strategic job centrality is an extension of the overall strategic planning process.

4.4.3 Job Evaluation Inflation

Job evaluation can either be an effective management tool or a cause of serious inflation in the costs of running a business (Fay & Beatty, 1988:235). Inflation of the job evaluation process results from unreasonably high job ratings linked to certain remuneration levels. Sometimes fairly intensive pressures are exerted on the job evaluation process in order to influence - and subsequently - inflate the evaluation of an employee's job.

Where these inflationary pressures are successful, job evaluation's purpose is defeated, the process loses credibility, leads to pay inequities, conflict between managers and employees over job evaluation results and very important, selectively excessive salaries causing pay inflation leading to excessive human resource costs.

Job evaluation inflation can cause the total remuneration system of the organisation to become misaligned and excessively expensive. The organisation must therefore build in controls to keep inflation out (Armstrong & Murlis, 1987:106; Claassen, 1995; Emerson, 1988:50; Lawler, 1990:145; Milkovich & Newman, 1987:167).

4.4.4 The Concept of Broadbanding

Broadbanding refers to the grouping together of a number of grades into "bands", thus reducing the total number of levels utilised in a salary structure (FSA Contact, 1992:1). Thus broadbanding results in far wider salary ranges, per band, compared with the narrower ranges typically specified on a grade-by-grade basis.

Hence, a range of jobs, possibly spanning as many as three or four grades may be consolidated into one band. Employees performing jobs within the same band would tend, therefore, to be paid and offered the appropriate benefits within the broad remuneration range specified. It also implies less titles (Bridges, 1995:145; Bussin, 1997:43; Jones, Braddick & Shafer, 1991:1; Kravez, 1988:58).

Although this is still a fairly new concept, the reasons for organisations to consider adopting such a pay-banding philosophy or need for appropriate ways to support new business goals seems to be (a) broadly skilled labour force, where employees are encouraged to broaden their skills within a band, (b) career growth rather than higher grades, where the opportunity for promotion will occur less frequently but for genuine career growth in order to be slotted into a higher band, (c) paying the person and not the job, and (d) the need to reduce the administration effort in terms of re-evaluating jobs.

An organisation will have to assess its particular needs and determine whether broadbanding is the correct solution to its specific remuneration issues (FSA Contact, 1992:2; Lawler, 1990:153; Le Blanc, 1992:2; Kanungo & Mendonca, 1988:25).

The potential *drawbacks* according to FSA (1992:3) and Lawler (1990:156), may be that (a) traditional band grades form clear and distinct boundaries, and there might be resistance to such a change, and (b) that broadbanding sends different messages on job value to employees, where employees formerly in a higher grade levels may think broadbanding have devalued their jobs by placing them into a group with formerly lower level employees, and vica versa.

Perhaps the single biggest issue according to Jones, Shafer and Braddick (1991:1) is the loss of the salary range midpoint as a barometer of external competitiveness and as a

control point for salary planning. Thus, the success depends on developing workable tools and methods for managing pay in the absence of mechanical guidelines.

Broadbanding here is a single, large salary range spanning the pay opportunity formerly covered by several separate salary ranges. A broadband structure classifies jobs into a few wide bands, rather than narrowly defined salary ranges. However, this concept also seems to relate to the alternative approach to paying for the job, i.e. paying for the person that Kanungo and Mendonca (1988:25) referred to.

4.5 PAY AND PERFORMANCE

4.5.1 The Pay-Performance Relationship

Milkovich and Milkovich (1992:53) notes that when it comes to remunerating employees, how the organisation pays - that is, what combination of incentive and base pay the organisation uses - may be even more important than the amount that is paid out.

But how will, for instance, a remuneration pattern of high base pay and use of incentives complement a business strategy? Milkovich and Milkovich (1992:155) view it in that base pay may attract the talent, long term incentives may encourage people to stay with the firm and bonuses may focus employees' attention on outcomes.

Pay-performance strategy therefore contribute to organisation success by communicating and reinforcing the performance required by the business strategy. These plans use two dimensions: (a) the level at which performance is measured, that is individual or group performance payout; and (b) the way that performance payments are made (Stern, 1996:50).

Most of these plans seems to be designed to reduce or control labour costs; where the emphasis is to make greater proportions of remuneration a variable rather than a fixed expense. It is essentially choosing the right mix of plans to complement the organisation's business strategy (Claassen, 1995; Kravetz, 1988:45; Swart, de Beer & Kruger, 1997:32).

4.5.2 The Objectives

The overall objective of performance related pay is to improve performance of the organisation and the individuals and groups who are members of it (Armstrong & Murlis, 1991:22; Cook, 1998:40).

To achieve this, performance related pay must aim to (a) motivate all employees, not just the high flyers; (b) increase the commitment of employees to the organisation by encouraging identification with the mission, values, strategies and objectives; (c) reinforce existing culture and values that foster high levels of performance, innovation and teamwork; (d) help to change cultures where they need to become more performance-and results-orientated; (e) discriminate consistently and equitably on the distribution of rewards according to contribution; (f) deliver a positive message about performance expectations of the organisation; (g) direct attention and endeavour where the organisation wants them by specifying performance goals and standards; (h) emphasise individual performance or teamwork as appropriate; (i) improve recruitment and retention of high quality staff; and (j) flex pay costs in line with company performance.

Lawler (1990:57) agrees in stating that badly designed and poorly implemented performance related pay schemes will demotivate staff probably more successfully than well-designed and implemented schemes will motivate them.

4.5.3 Equity and Expectancy

Appelbaum and Shapiro (1991:30) says that the Equity Theory holds that people want to be fairly or equitably treated by the organisations that employ them, expectancy theory is based on "law of effect", which states that behaviour that is rewarded will be repeated. Therefore pay for performance may be used to bring perceived overpaid performers to increase their performance, and adequately reward the best performers so that they will not feel underpaid.

Though it does not guarantee the desired effect on the poorest performer, experience shows that perceived inequity leads to reduction in effort or performance among the best performers, when they decide not to leave the company, notes Claassen (1995).

According to Expectancy Theory, employees exert effort when they believe that they can achieve certain performance levels and that they will receive the rewards attached to certain performance levels. This is referred to as the efforts-performance relationship, state Applebaum and Shapiro (1991:31), which is the belief that he or she can achieve a certain performance level by exerting some effort.

The belief that a certain performance level will earn expected rewards is referred to as the performance-reward relationship. Employers have more control over the performance-reward relationship because they can choose to manage rewards fairly and consistently, thus raising expectancies that performance will result in certain rewards.

4.5.4 Remuneration with Incentive Value

4.5.4.1 Incentive Plans

According to Liccione and Podlogar (1991:37) the conventional wisdom seems to be that any lump-sum incentive payments can motivate employees to improve their performance. There is an abundance of evidence however that these schemes have little or no incentive value because they do not meet certain key criteria which state that (a) the payments must be contingent upon achieving clearly defined performance goals; (b) that the performance goals have to be considered achievable by the employees they cover; (c) that the link between achieving these goals and receiving a payout should be certain enough to be predictable; and (d) that the payout must be valuable enough to make the effort required to earn it, worthwhile.

Milkovich and Newman (1987:285) state that developing plans that have these conditions often require a considerable investment in time effort, and resources. An organisation should evaluate its readiness to develop an effective remuneration plan with incentive value before attempting to do so. If an organisation has assessed its strategic remuneration goals and decided that it wants to develop a remuneration plan under which lump sum payments have maximum incentive value for plan participants, then it should take care to develop a plan that meets each of the above four criteria.

Liccione and Podlogar (1991:38) conclude in saying that it is important to remember that even a remuneration plan that meets the criteria discussed here may prove ineffective because of organisational or other external issues. Although a plan may not be effective with them, it will almost certainly not be effective without them, for instance, an organisation's culture simply may not support the development of a plan that defines which employees will receive how much bonus, and when (Bridges, 1995:164; Kanter, 1990:137).

According to Gross and Bacher (1993:51) a working definition of variable remuneration is any remuneration plan that emphasises a shared focus on organisational success, broadens the opportunity for incentives to non traditional groups, and operates outside the base pay increase system. Experts categorise the wide variety of available plans using the two dimensions where performance measurement is done on an individual or group basis. Individual pay-for-performance plans may be either added into base pay (merit pay) or not added in (awards, piece rates or commissions). Group pay-for-performance plans are not added to base pay (gainsharing, profit sharing or stock options). Bonuses are traditionally not added in and may be paid out on an individual or group basis (Fay & Beatty, 1988:135; Stern, 1996:50).

4.6 REMUNERATION AND WAGE BARGAINING - A SOUTH AFRICAN PERSPECTIVE

4.6.1 Ideology of Trade Unionism

According to Slabbert, Prinsloo and Backer (1992:4-5) the trade union movement evolved from the Industrial Revolution in England when the rise of the factory system separated employer and employee further from each other than ever before. The government and employers combined against the individual employee, who was powerless against these forces. As could be expected, the initial aims of the trade unions were limited to the work situation of the employee. Today, politics and trade union activities are regarded as almost inseparable and strong socialistic trends come to the fore (Shane, 1993:27; Owen, 1997:14).

Whilst the overall role of a trade union may be seen as representing the sectional needs and interests of its members, Slabbert, Prinsloo and Backer (1992:4-37) state that it is possible to identify five distinct aspects of their function, being:

- (a) in *power-terms*, to protect and support the individual by providing a collective strength to act as a countervailing force to the employer and a pressure group within society;
- (b) in *economic-regulation terms*, to maximise remuneration and employment of their members within the framework of the remuneration/work contract of employment;
- (c) in *job-regulation terms*, to establish a joint rule-making system which both protects their members from arbitrary management actions and allows them to participate in decision-making within the organisation for which they work;
- (d) in *social change terms*, to express the social cohesion and aspirations or political ideology of their membership and seek to develop a society which reflects this view; and
- (e) in *self-fulfilment terms*, to provide a mechanism whereby individuals may develop outside the immediate confines of their jobs and participate in decision-making processes.

In the South African context COSATU (Confederation of South African Trade Unions) is the dominant trade union force. COSATU is a federation of trade unions and not a trade union itself and acts therefore as a umbrella body of its affiliated unions, as a national trade union centre. COSATU's public profile has been almost entirely political but it is first and foremost a mass organisation of employed workers. The preamble to the federation's constitution lucidly states its direction: "We, the Trade Union Representatives here present, firmly commit ourselves to a unified democratic SA, free of oppression and economic exploitation" (Slabbert, Prinsloo & Backer, 1992:2-36).

The launching of COSATU in 1985 joined together thirty three trade unions, having a claimed membership of 449 679 workers. Its national membership covers all major industrial sectors apart from agriculture. Despite COSATU's commitment to the

eradication of exploitation and oppression, and the need to restructure the economy to afford greater working class control and wealth distribution, there is at present no resolution explicitly stating that COSATU is a political or socialist organisation with a socialist programme.

COSATU believes that unions cannot truly represent or protect their members without becoming involved in politics and that a trade union is entitled to express political views, in regarding apartheid and capitalism as two inseparable evils that must be smashed. An underlying objective being to develop strong national unions is a commitment to trade unionism that is democratic, representative and accountable. Power is viewed as being rooted in democratic shop-floor structures (Hartford, 1992:28).

Another trade union grouping, the exclusively white SA Confederation of Labour (SACOL) was founded in 1957 as the result of a rift in the SA Trades and Labour Council in 1948 when fourteen all-white unions broke away because of the council's intention to admit black members. Ideologically, its major activities involve the representation of the white worker. This ideology is rooted in a desire to preserve capitalism and the white man's christian-based culture.

Trade union *aims* are furthermore expressed in constitution statements such as, inter alia, (a) to secure social and economic justice for all workers; (b) to work for a restructuring of the economy that will allow the creation of wealth to be democratically controlled and its fruits shared amongst the working class; (c) to strive for just standards of living, social security and fair conditions of work for all; and (d) to encourage all workers to join progressive and democratic trade unions and to develop a spirit of solidarity among all workers (Liaison, 1990:B7-93).

4.6.2 Living Wage Campaign

The living wage campaign, as seen by trade unions, according to Liaison (1990:B7-365) can be placed in context as follows:

"All over South Africa today workers are suffering. One of the main reasons for this is because bosses, who are mainly concerned with making bigger profits, are paying workers poverty wages. As a result, COSATU has made a demand that all workers be paid a living wage."

The earliest reference to a living wage seems to have been made during 1814 by Lloyd Jones. The Labour Research Service (Liaison, 1990:B7-365) states that the living wage campaign is part of the history of the trade union and labour movement. The first actual demand for a living wage in South Africa was made by the SA National Native Congress, which later became the ANC, when they called for a general strike in 1918, in order to gain an increase in wages. Since then, many unions have over time embarked on living wage demands for their members.

With the formation of COSATU in 1985, its resolution on the national living wage campaign is stated herewith and is the core of the present living wage campaign:

- (a) To initiate and conduct, in alliance with other progressive organisations and trade unions in the country, and on-going national campaigns for a legally enforced national minimum living wage for all workers in South Africa, through worker action and negotiation in every industry;
- (b) To fight for this living wage to be automatically linked to the rate of inflation; and
- (c) To have access to company accounts so that workers can see exactly how the wealth they have produced is being wasted and misused by the employers' profit system (Liaison, 1990:B7-367).

4.6.2.1 What is a living wage?

There are a number of arguments regarding a clear definition of a living wage. Everyone seems to agree that the prime objective of a living wage is to enable workers to survive and to continue working. But here the agreement stops according to Liaison (1990:B7-367). From the employer's side, it is seen as a living wage in order for an employee to survive. Thus it represents the level under which no employee must be paid.

The employee's perception of a living wage is not that of a minimum wage, but rather that of an actual wage - not a wage to survive on but a wage to live on. Employee's perception of a living wage seems to be that this wage should provide for food, transport, housing, recreation, clothing and medical expenses, and secure a reasonable standard of living.

Employers therefore tend to measure a standard of living against the backdrop of performance, training, and responsibility, and a wage is paid according to these criteria. Employees on the other hand see standard of living as being able to afford the same things and live the same way as the "bosses" (Carlson, 1991:8; Cole, 1991:1; Hartford, 1992:29; Milkovich & Newman, 1987:592; Stone, 1991:113).

4.6.2.2 Economic Principles of Living Wage Campaign

If the principles of the Living Wage Campaign taken from Liaison (1990:B7-371) are analysed along with the literature of COSATU's campaign, it appears that the Living Wage Campaign is based upon the abstract labour theory of value which was developed by Marx and is essentially a critique of capitalism, as well as a critique of political economy. COSATU's literature advocates socialism as can be seen from excerpts given from the COSATU NEWS Special Living Wage Edition. The Living Wage Campaign not only attacks capitalism, but also inflation and the government where inflation is caused by "...increasing profits and the government's mismanagement of the economy" (Liaison, 1990:B7-373).

4.6.2.3 Demands of the Living Wage Campaign

During wage negotiations the Living Wage Campaign normally manifests itself in the following way:

(a) Wage adjustment... "In order that worker's wages keep up with the cost of living, workers should demand an adjustment equal to the rate of inflation. This is not actually an increase - it just means that workers' standard of living will stay the same".

This means that a wage increase equal to the inflation rate, whatever it may be, will not be regarded as an increase.

(b) Wage increase... "Only once workers have received wage adjustments equal to inflation can they begin to speak of increases over and above such an adjustment. The increases which workers must demand are for a living wage rather than poverty wages" (Liaison, 1990:B7 - 375).

4.6.2.4 Living Wage versus Minimum Wage

Are we talking about minimum wage levels, a living wage or the market rate? Setting the minimum wage level in an organisation has always been a complex issue according to Cole (1991:1). Management has always looked for some guidelines to follow and often this has been with some degree of social conscience. This gave rise to the Poverty Datum Line Studies and later, the Minimum/Supplemented Living Level Studies. The debate of remuneration at review time and again at trade union negotiation time has more and more become an issue of "what is a living wage?" and the need to, at the same time, achieve increased productivity.

Going back in time, and apart from the problem of deciding what the minimum wage should be, the key concern amongst organisations focused on the remuneration level gaps, and if possible, how to eliminate it. The pressures of union activity, inflation and the movement of the values reported in the Minimum/Supplemented Living Level Studies, resulted in higher levels of annual increase at the lower levels in the salary curve, showing up on graphs as a "dog's leg" - in an effort to straighten the curve to the current, more or less, straighter line (Carlson, 1991:10; Cole, 1991:3; Milkovich & Newman, 1987:592; Stone, 1989:120).

4.6.3 Trade Union expectations, Labour Costs and Productivity

Bussin (1991:23) states that remuneration level increases have largely been determined by the imperfect measure of the consumer price index (inflation) where the focus for a organisation has been definitely on market-related remuneration levels. Amongst many other factors, supply and demand has created a large gap between white and black with unions furiously trying to overcome this and the awareness has definitely brought about a

narrowing of this gap. These large increases have caused employees to expect increases at least equivalent to inflation (Claassen, 1995; Owen, 1997:14).

According to Stone (1989:129) the cost of labour and its productivity remain key elements for the employer. They are also critical issues for the government of the day in seeking to control inflation. There can be little argument that spiralling labour costs without compensatory improvements in productivity will eventually undermine the economy at both macro and micro levels.

Unions will argue that the economy has traditionally operated on a low remuneration base when compared with advanced industrial nations and that employers have amassed wealth over the years but have been unwilling to share that wealth with the employees who assisted in creating it (Huysamen, 1997:22).

Stone (1991:130) argues further that it is not so simple as to argue that remuneration level increases without corresponding improvements in productivity, solely cause inflation. South Africa's situation has been aggravated by other factors also including loose monetary policy, vast expenditure on state bureaucracy, and so on. Nevertheless, correspondence between the movement in unit labour costs and inflation levels are distinct (Baard, 1996:30; Manning, 1996:16; Nel, 1992:9).

Since the Wiehahn Commission report of 1979 the gains negotiated by trade unions on behalf of employees have been substantial. During the same period labour productivity has remained relatively static while the erosion of remuneration by inflation has to a large extent annulled the effect of increases in remuneration levels on employees' purchasing power, notes Stone (1991:131). The pressure on the employer has been enormous to concede settlements at least in line with inflation rates and so the spiral moves perpetually upwards.

This again emphasises that the consumption per person (real earnings) can never be higher than the production per person (productivity). If any production resource, be it capital or labour, is remunerated at a rate higher than its value added, this higher remuneration must

be given at the cost of the customer or consumer, because prices go up (Simoncelli, 1998:32).

The important message seems to be that as long as there is a differential between remuneration levels and productivity growth, unit cost will rise and a population will continue to be less competitive. Remuneration level demands should therefore be ameliorated and productivity levels increased.

4.7 SUMMARY

All goods and services have a natural intrinsic value with a just price or just remuneration level equal to that intrinsic value. It seems the only way to discover the economic worth of something or someone is in the competitive market process where every person possesses mental and physical abilities or human capital which enables him or her to perform labour services. As human resources ought to be used where they are most highly valued the competitive market process constantly redirects resources towards those uses that consumers value most highly and away from those uses that consumers value least.

But how does an organisation know they are getting a fair return on their human investment ? The answer seems to lie in the fact that organisations should view their reward system as an investment in their human resources which demands innovative approaches to ensure a reasonably fair return. This does presuppose management's responsibility to obtain a fair return on remuneration expenditure, commitment in the design and administration of the reward system and willingness to review the system continuously.

In determining the inherent value of job output, broadbanding as a pay-banding philosophy support new business goals relating to a broadly skilled labour force focusing career growth and paying the person in terms of skills utilised. In establishing the base for determining remuneration levels, modern theory indicates a people focus as opposed to a job focus where the skills needed to perform certain tasks are priced and individuals are then paid in terms of their skills utilised. An organisation's remuneration policy should

reflect the strategic business and human resources needs of the organisation where it is crucial to determine the degree to which the organisation can attract and retain employees as well as its ability to pay for those resources.

It is stated also that the absolute level of added value per person employed is the most important determinant of remuneration levels and will in the end determine in which part of the remuneration market an organisation can hire comfortably as well as its approach to cost of remuneration appropriate as a proportion of the value added.

Furthermore, the determination of remuneration levels faces a magnitude of intricacies involving the concepts of internal and external consistency.

It is also stated that when it comes to remunerating employees, how the organisation pays - that is, what combination of incentive and base pay the organisation uses - may even be more important than the amount that is paid out. Most of these remuneration plans with incentive value seem to be designed to reduce or control labour costs, where the emphasis is to make greater proportions of remuneration a variable rather than a fixed expense. It has also been stated that these lump-sum incentive payments will have little motivational value if certain conditions are not met and often require a considerable investment in time, effort and resources.

The cost of labour and its productivity remain key elements for the employer and are also critical issues for government in seeking to control inflation. There can be little argument that spiralling labour costs without compensatory improvements in productivity will eventually undermine the economy. But unions will argue that the economy has traditionally operated on a low remuneration base when compared to advanced nations and furthermore that employers are unwilling to share this amassed wealth with employees.

South Africa's situation has been aggravated by other factors also with the gains negotiated by trade unions on behalf of employees being quite substantial with labour productivity remaining relatively static. The important message being that as long as there is a differential between remuneration levels and productivity growth, unit cost will rise and the population will continue to be less competitive.

CHAPTER 5: EMPIRICAL RESEARCH STUDY : METHODOLOGY

5.1 INTRODUCTION

This chapter introduces the hypothesis formulated for research and states the rationale and methodologies applied in sample selection, instrument design and statistical analysis. It furthermore outlines the bio-demographic composition of the target population and research sample, presents an overview of the data assimilation process and indicates the structure for presentation of responses and findings.

5.2 RESEARCH HYPOTHESIS

Huysamen (1994:10) states that in the process of scientifically investigating research problems/questions, these should be transformed into research hypothesis. In terms of remuneration opinion surveys, hypotheses are predictions of survey outcomes based on decision makers' beliefs about the impact of pay and benefits (Kaman & Barr, 1991:59).

It can therefore be stated that remuneration hypotheses provides reference points for interpretation of responses and can be used to check theories about how, why and if a specific remuneration approach/strategy works.

The following research hypotheses have been formulated from the research questions and problems posed earlier :

5.2.1. Main Hypothesis:

It is set that employees in the Logistics and Properties Division experience the implementation of the new remuneration strategy as positively influencing and assisting in the establishing of culture in the Division and ABSA in terms of the strategic focus on business, learning and legitimacy.

5.2.2 Operational Hypothesis:

H1: It is set that employees in the Logistics and Properties Division experience the implementation of the remuneration strategy as significantly (a) promoting the achievement of the deliverables and (b) impacting on climate and cultural dimensions, relating to the Transformation Process.

H2: It is set that the implementation of the new reward strategy requires significant effort at level of implementation from management to ensure a significant focus on the culture and climate of the Logistics and Properties Division and ABSA.

H3: Employees view ABSA as more productive since the implementation of the new remuneration strategy.

H4: Employees are more committed/loyal to ABSA since the introduction of the new remuneration strategy.

5.3 TARGET POPULATION AND RESEARCH SAMPLE

5.3.1 Research Sample

The Logistics and Properties Division employs 909 employees, and consists of four departments, namely Logistical Support Services, Absa Properties, Group Security and AllPay, located countrywide. No A band level employees have been included in the target sample, due to their educational and language level. The target population is therefore effectively 688 employees.

The target sample was drawn proportionally across sub division (4) and job level (4) randomly, as both demographic filters were seen to be indicative of variances in culture and climate. The seven ABSA broadbanding levels (B/C/T/M/P/S/E) have been combined B, C/T, M/P, and S/E for sample purposes, as the difference at each level only relates to a career path split, ie supervisory/managerial (T/M/E) or specialist/professional (C/P/S).

Questionnaires have been distributed countrywide, 289 in total and constitutes a 42 % sample. One hundred and fifty five (155) employees responded, of which one questionnaire was rejected due to validity of response. This constitutes a 53,3 % response level and represents 22,4 % of the target population.

5.3.2 Bio-demographic Data

An explanation as to the composition of the Logistics and Properties Division follows hereunder. Some of the data is recorded specifically to better illustrate the composition of the population as such and will not be analysed further for purposes of discussion of the results. *Total population* refers to all employees in the Division and *target population* refers to the total population *minus* the A band level employees.

| Demographic filter | Total Population | Target Population | Sample | Response |
|-----------------------------|------------------|-------------------|--------|----------|
| <i>5.3.2.1 Sub division</i> | | | | |
| AllPay | 13 | 13 | 12 | 7 |
| Properties | 435 | 247 | 90 | 40 |
| Logistics | 344 | 311 | 96 | 56 |
| Security | 117 | 117 | 91 | 50 |
| No Reply | | | | 1 |
| TOTAL | 909 | 688 | 289 | 154 |

| Demographic filter | Total Population | Sample | Response |
|--------------------------|------------------|--------|----------|
| <i>5.3.2.2 Job level</i> | | | |
| A | 221 | | |
| B | 379 | 111 | 59 |
| C | 30 | | 10 |
| T | 164 | 119 | 38 |

| Demographic filter | Total Population | Sample | Response |
|---------------------------|-----------------------------|---------------|-----------------|
|---------------------------|-----------------------------|---------------|-----------------|

5.3.2.2 Job level (continued)

| | | | |
|--------------|------------|------------|------------|
| M | 67 | | 24 |
| P | 42 | 54 | 21 |
| S | 1 | | 0 |
| E | 5 | 5 | 2 |
| TOTAL | 909 | 289 | 154 |

| Demographic filter | Total Population | Target Population | Response |
|---------------------------|-----------------------------|------------------------------|-----------------|
|---------------------------|-----------------------------|------------------------------|-----------------|

5.3.2.3 Gender

| | | | |
|--------------|------------|------------|------------|
| Male | 644 | 479 | 110 |
| Female | 265 | 209 | 44 |
| TOTAL | 909 | 688 | 154 |

| Demographic filter | Total Population | Response |
|---------------------------|-----------------------------|-----------------|
|---------------------------|-----------------------------|-----------------|

5.3.2.4 Region

| | | |
|-------------------|------------|------------|
| Head Office | 300 | 89 |
| Gauteng | 318 | 27 |
| Northwest | 157 | 8 |
| Northern Province | 6 | 1 |
| Kwa Zulu Natal | 45 | 3 |
| Free State | 22 | 6 |
| Northern Cape | 9 | 3 |
| Eastern Cape | 14 | 6 |
| Western Cape | 29 | 11 |
| Mpumalanga | 9 | 0 |
| TOTAL | 909 | 154 |

| Demographic filter | Response |
|-----------------------------|-----------------|
| 5.3.2.5 Age | |
| 25 and under | 18 |
| 26 - 35 | 52 |
| 36 - 45 | 41 |
| 46 - 55 | 26 |
| Over 55 | 17 |
| TOTAL | 154 |
| 5.3.2.6 Workplace | |
| Head Office | 89 |
| Prov/Div Head Office | 39 |
| Branch/Operational Centre | 26 |
| TOTAL | 154 |
| 5.3.2.7 Tenure | |
| 0 - 11 months | 9 |
| 1 - 5 years | 58 |
| 6 - 10 years | 28 |
| 11 - 15 years | 26 |
| 16 - 20 years | 16 |
| 21 - 25 years | 3 |
| Over 25 years | 14 |
| TOTAL | 154 |
| 5.3.2.8 Job function | |
| Professional/Specialist | 35 |
| Technical | 16 |
| Administrative/Clerical | 59 |
| Managerial/Supervisory | 44 |
| TOTAL | 154 |

5.4 RESEARCH DESIGN

5.4.1 Rationale

All research involves, in some manner, the application of the scientific method. There are various specific forms that research projects can take, among them controlled experiments, surveys, historical studies and case studies (Flippo, 1971:556; Huysamen, 1994:20). In measuring employee opinion or attitude the *survey method* is a commonly used research method.

Survey designs may take the form of experimental or non-experimental hypothesis-testing according to Huysamen (1994:97). In *non-experimental design* no interventions and no random assignment of research participants to groups take place. For hypothesis-testing of *employee opinion* regarding remuneration, this kind of design where research deals with the examination of relationships which occur between variables without planned intervention or manipulation is therefore appropriate.

Surveys usually take the form of an opinion questionnaire, attitude scale, interviews or focus groups (Anastasi, 1972:480; Fitz-enz, 1993:112; Flippo, 1971:557; Haslinger & Sheerin, 1994:62; Huysamen, 1994:123; Stolovitch & Keeps, 1992:106; Robinson, 1981:202;).

The *questionnaire method* seems to have *three major advantages* over other survey approaches. Firstly, the results are easily quantified and compared with other data. Secondly, the results are more likely to be statistically accurate due to a lower sampling error. Finally, a questionnaire can be used as an employee communication tool as well as an information gathering mechanism (Haslinger & Sheerin, 1994:62; Kaman & Barr, 1991:52).

It was also noted that a combined approach consisting of both focus groups and a survey questionnaire seems to be a most effective way of gathering employee input.

5.4.2. Choice of scale

The most common scales for measurement is the Thurstone-, Guttman-, Semantic Differential-, and the Likert scales. The Likert scale is widely used in the measurement of employee opinion and attitude (Anastasi, 1972 :482; Heaven, 1982 :28; Huysamen, 1994:123; Rubin, 1983:91).

The Likert type scale ranges from negative to positive applied on a three point to a ten point scale. After careful consideration, a *three point Likert type scale* was used as respondents may find it difficult to handle too broad a scale. Four items in the instrument have been based on a two point scale of measure as the response to these specific items in the instrument are not opinions that require a broader scale of choice in response but critically requires only an either/or type response.

5.5 MEASURING INSTRUMENT

5.5.1 Survey Questionnaire Layout

The development of the questionnaire involved a theoretical base indicating criteria for success, input from ABSA as to their objectives and requirements, and trends relating to progressive human resources practices (Fitz-enz, 1993:107; Haslinger & Sheerin, 1994:65; Huysamen, 1994:128; Kaman & Barr, 1991:54; Kravetz, 1988:83; Maitland & Hofmeyr, 1994:16; Van der Merwe, 1997:39).

A twenty-two (22) item survey questionnaire, with nine demographic filters (with 70 possible answers) and 128 diagnostic questions (with 385 possible answers), was used for gathering employee input (Annexure A). The instrument (questionnaire) is divided into three sections:

- (a) Section A: Collects data on nine demographic filters illustrating the composition of the respondents in the Logistics and Properties Division.

(b) Section B: Measures whether the deliverables of the new remuneration strategy are in place and at what level in the Logistics and Properties Division - respondents are requested to voice their opinion re the successful functioning of the new strategy on each of the statements, using the three point scale.

(c) Section C: Measures the impact of the remuneration strategy on the culture and climate of the Logistics and Properties Division - respondents are requested to voice their opinion re the variables impacting climate and culture, using the three point scale.

These dimensions are contained in terms of a performance reward monitor so as to link up with the new remuneration strategy and ABSA's transformation process (Annexures B and C).

The instrument questions *validity of response* in Section C on various measured dimensions using the two point scale; also requiring responses to negatively worded statements across Sections B and C. The purpose being to validate/generalize the opinions of the target sample to that class of observations to which it belongs (the target population).

A balanced Likert type scale is used here, where the response values are turned around (Heaven, 1982:32). *Differences in values of 5.00 and higher are seen to be questionable.* The instrument furthermore assesses whether the Division is able to better retain its skills as a result of the new reward strategy, and finally, the merit/use value of the questionnaire as instrument of measuring opinion (Section C).

5.5.2 Test Validity and Reliability

The instrument (questionnaire) has been presented to samples of 20 - 30 employees at various stages of development so as to gain information regarding test reliability and test validity :construct, content and criterion-related (Anastasi, 1972:99; Huysamen, 1980:95; Huysamen, 1994:112; Stanley & Hopkins, 1972:101).

At these pilot studies the interview and focus group methods, representing differing levels of employees, were used. The questionnaire method was used in the final evaluation of the process. The instrument was also presented to the Department Personnel and Industrial Psychology at PU for CHE for input as to face validity.

5.6 DATA ASSIMILATION PROCESS

5.6.1 Method of Data Collection

Certain ways of collecting survey questionnaire responses exist, ie (a) direct administration of the questionnaire on samples of respondents, (b) by postal dispatch or (c) telephone surveys (Haslinger & Sheerin, 1994:62; Huysamen, 1994:145). Issues relating to time, cost, quality and quantity of response and confidentiality influence the decision on method.

After due consideration, questionnaires were sent out countrywide via Absa's internal mailing system, directly addressed to the target sample. Standardized written instructions as to the completion of the instrument were given to the target sample. Stamped envelopes were supplied for respondents to return completed questionnaires to the researcher's address. This ensured complete confidentiality and anonymity of response.

The questionnaire itself contains no data, except for making certain conclusions from responses, to indicate specific origin. Six weeks were allowed for the data collection process.

5.6.2 Method of Data Capture

Raw scores have been captured by means of the Lotus computer package worksheet by the researcher. Data analysis have been done by means of the Statistical Analysis System (SAS) from Statistical Consultancy Services of the PU for CHE. Specific statistical analyses are :

5.6.2.1 Sample Distributions

Sample distributions by means of frequencies, percentages, minimum values, maximum values and rank-order distributions have been used to classify the raw scores/data (Anastasi, 1972:40; Mullen, 1975:12; Stanley & Hopkins, 1972:17).

It is important to ascertain the *frequency and ranking* of observations (opinions) in each class (dimensions).

5.6.2.2 Measure of Central Tendency

An important statistic is the point on the scale around which the scores tend to be grouped or centered for a specific dimension as indicated by the calculation of the *arithmetic mean* or more commonly known as the *average* (Mullen, 1975:35; Stanley & Hopkins, 1972:23).

It will be the value that typifies and best represents the whole distribution (responses) for that specific dimension, ie a measure of central tendency for responses for a specific dimension. Central tendency furthermore depicts a test's difficulty level.

5.6.2.3 Measure of Variability

One of the most important concepts that apply to research data is information on the *degree of individual difference* or variability that exists among the respondents. Three common measures of variability are the range, the quartile deviation and the standard deviation of which the latter is the most refined and accurate measure of dispersion. The larger the distances, the greater the variability (scatter, spread, heterogeneity, dispersion) of the scores (Mullen, 1975:65; Stanley & Hopkins, 1972:28).

The degree of individual difference among respondents have been determined by calculating the *standard deviation*, for specific dimensions. *As N = 154 and constitutes a fairly small sample, it is accepted that the standard deviation on dimensions will be slightly larger; and as such standard deviation distances of < (less than) 20 is seen to be acceptable.*

5.6.2.4 Derived Score Measurement

Responses on the Likert type scale have been converted to a *single indice*, ie the responses were *weighted* and the weighted value indicated in terms of a *percentage*.

Weighted percentage values *higher than 75.00* have generally been taken as indicative of success and therefore *positive*. In terms of the ranking distribution range, a range difference of *more than 10.00* and/or the lower ranked dimensions/variables (up to 3) were deemed to be *negative* or indicative of areas for improvement.

5.6.2.5 Measure of Reliability

A key question or issue is to be in a position to generalize from the observations in hand to some class of observation to which it belongs as well as estimate the extent to which all items in the test measures the same abilities, ie the internal consistency of the test.

Reliability is therefore expressed in terms of the degree of consistency between scores and can be expressed in terms of a correlation coefficient (Anastasi, 1972:72; Stanley & Hopkins, 1972:125;).

Cronbach's *Alpha correlation coefficient* has been calculated to indicate test consistency and reliability. It can theoretically vary from 0 to 1, with item intercorrelations near 1. *Positive correlation have been indicated as 0.70 and higher.*

5.6.2.6 Analysis of Variance

The problem of testing the difference between the means of populations (dimensions) is solved, by using the technique of analysis of variance which basically compares the variation between population means with the variation within populations.

The *two-factor analysis of variance* have been used to measure the effects of each level of one factor (variable) at each level of another factor (variable); the effect of each factor separately can be measured but also the effects of combinations of factors acting together can be measured (Cass, 1974:104; Cohen, 1988:274; Mendenhall & Sincich, 1989:385; Mullen, 1975:163).

This effect has been measured for the three core cultural dimensions of business, learning and legitimacy (dependant variables).

The F test, p values (on the 95 % confidence level) and f values (indicating effect size) have been calculated, where a p value < (less than) 0,05 indicates *statistical significance*. It is therefore highly probable that a difference exists which is not attributable to chance.

However, such a difference is not necessarily big enough to be practically significant. Data (f values) with an effect size > (greater than) 0,4 can be taken as *practically significant* because it indicates a difference with a big effect.

Subsequently, practical significance of all comparing variables are finally indicated, calculating d values as derived from the Tukey's intervals and calculations of the mean square error (Cass, 1974:62; Cohen, 1988:27; Mendenhall & Sincich, 1989:489; Mullen, 1975:333). These d values have not been calculated as *practical significance was not indicated* by the calculated f values.

5.7 STRUCTURE OF PRESENTATION OF RESPONSES

The results of the study are structured as follows:

- (a) Bio-demographic analysis of responses
- (b) Comparison of deliverables in place, across the cultural dimensions
- (c) Comparison of impacts/benefits of climate variables, across the cultural dimensions
- (d) Ranking of (i) deliverables and (ii) impact of climate variables for:
 - * Business Culture
 - * Learning Culture
 - * Legitimacy of the organisation
- (e) Comparisons across the demographic filters ie sub division and job level
- (f) Analysis of constituent variables
- (g) Analysis re level of skills retention as seen in terms of loyalty levels
- (h) Results on perceived productivity level
- (i) Validity/generalisation check on core cultural dimensions
- (j) Evaluation of the perceived worth of the survey instrument (questionnaire)

Responses are presented either as (a) actual responses with percentage values *or as* (b) derived weighted indice values, ranked, *with* (c) the standard deviation, Alpha Cronbach coefficient, f/d values *indicating* (d) central tendency, reliability or practical/statistical significance for specific dimensions.

CHAPTER SIX: FINDINGS AND CONCLUSIONS
- GENERAL DISCUSSION
- INTEGRATION WITH HYPOTHESIS

6.1 GLOBAL BIO-DEMOGRAPHIC FINDINGS

The response to the sample of 53,3 % is low but satisfactory, with responses in the sub divisions, across job levels and other demographic filters representative. A disproportionate high response has been from the Head Office/Gauteng area in comparison to the rest of the country. Although the Division seems to operate as a male dominated work environment with only 29,1 % female employees, a exceptionally good response of 28,5 % to sample was recorded.

A relatively young workforce (55 %) in terms of expectation levels and motivators is noted (26 - 35 age group) and also confirms the tenure finding where a large number of respondents (45 %) were in the 1 - 5 years length of service category.

A notably lower response level of 44,4 % for ABSA Properties was recorded; and an extremely positive response level of 83,3 % on M/P band was recorded. ABSA Properties' respondents are located at smaller centres countrywide, which contributes to their lower response level.

The response on middle management level is a positive indicator of due process, however the question remains as to the reason for the lower response level on the B/C/T categories. These employees are ultimately on the receiving side of the implementation of the remuneration strategy at operational level, their opinions therefore consequential, as is their silence.

6.2 CORE CULTURAL DIMENSIONS

The research objective is to monitor the “performance” of broadbanding and flexible, performance based reward strategy, in terms of the desired change process, ie focusing on the three core cultural dimensions of :

- * Business Culture,
- * Learning Culture, and
- * Legitimacy of the organisation;

assessing whether the *deliverables* are in place as well as the *impact/benefits* of the new reward strategy on the cultural dimensions and climate (attitudinal and behaviour norms) of the organisation.

The set of critical dimensions for the ABSA transformation process are contained in terms of the reward strategy performance monitor, as discussed previously in Chapter 5 (5.5.1) and as set out in Annexure C.

The *findings and discussion* hereto are therefore in terms of this reward strategy performance monitor as set out in Annexure C.

6.2.1 DELIVERABLES : Comparison across the THREE CORE CULTURE DIMENSIONS, filtered across TWO DEMOGRAPHIC LEVELS - Weighted percentage ranking (WPR), Standard deviation (STD)

6.2.1.1 Logistics and Properties Division

| | <u>WPR</u> | <u>STD</u> |
|------------------|------------|------------|
| Learning Culture | 77.73 | 13.80 |
| Business Culture | 76.92 | 12.04 |
| Legitimacy | 73.08 | 13.87 |

6.2.1.2 Sub Division

| | <u>Logistics</u> | <u>Properties</u> | <u>Security</u> | <u>AllPay</u> |
|------------------|------------------|-------------------|-----------------|---------------|
| Learning Culture | 75.36 | 78.15 | 79.81 | 82.06 |
| Business Culture | 75.38 | 77.06 | 77.18 | 87.99 |
| Legitimacy | 73.24 | 71.58 | 74.31 | 73.28 |

6.2.1.3 Job Level

| | <u>B Band</u> | <u>C/T Band</u> | <u>M/P Band</u> | <u>S/E Band</u> |
|------------------|---------------|-----------------|-----------------|-----------------|
| Learning Culture | 77.49 | 77.82 | 77.39 | 90.65 |
| Business Culture | 76.75 | 77.69 | 75.63 | 92.55 |
| Legitimacy | 71.59 | 72.91 | 74.15 | 97.22 |

| <u>6.2.1.4 Measure of significance</u> | <u>F value</u> | <u>p value</u> | <u>f value</u> |
|--|----------------|----------------|----------------|
| Sub division | 1.15 | 0.33 | 0.15 |
| Job level | 1.41 | 0.24 | 0.17 |

6.2.1.5 *Reliability coefficient* : as derived from Cronbach's Alpha formula, is an acceptable 0,878 for *Deliverables -core cultural dimensions*.

6.2.2 IMPACTS/BENEFITS : Comparison across the THREE CORE CULTURE DIMENSIONS, filtered across TWO DEMOGRAPHIC LEVELS - Weighted percentage ranking (WPR), Standard deviation (STD).

| <u>6.2.2.1 Logistics and Properties Division</u> | <u>WPR</u> | <u>STD</u> |
|--|------------|------------|
| Business Culture | 82.15 | 12.75 |
| Learning Culture | 80.78 | 14.58 |
| Legitimacy | 80.50 | 13.91 |

| <u>6.2.2.2 Sub Division</u> | <u>Logistics</u> | <u>Properties</u> | <u>Security</u> | <u>AllPay</u> |
|-----------------------------|------------------|-------------------|-----------------|---------------|
| Business Culture | 79.83 | 83.48 | 82.42 | 92.81 |
| Learning Culture | 77.05 | 84.43 | 80.70 | 92.33 |
| Legitimacy | 78.16 | 82.38 | 80.33 | 91.47 |

| <u>6.2.2.3 Job Level</u> | <u>B Band</u> | <u>C/T Band</u> | <u>M/P Band</u> | <u>S/E Band</u> |
|--------------------------|---------------|-----------------|-----------------|-----------------|
| Business Culture | 82.95 | 82.44 | 80.09 | 97.64 |
| Learning Culture | 81.52 | 79.73 | 80.24 | 96.55 |
| Legitimacy | 80.96 | 80.07 | 79.62 | 97.29 |

| <u>6.2.2.4 Measure of significance</u> | <u>F value</u> | <u>p value</u> | <u>f value</u> |
|--|----------------|----------------|----------------|
| Sub division | 1.41 | 0.24 | 0.17 |
| Job level | 1.97 | 0.12 | 0.20 |

6.2.2.5 *Reliability coefficient* : as derived from Cronbach's Alpha formula, is a highly acceptable 0,975, for *Impacts/Benefits - core cultural dimensions*.

6.2.3 Discussion : Core Cultural Dimensions

6.2.3.1 Deliverables

The achievements relating to the deliverables overall *indicate the Division's positive ability in establishing a Learning Culture and Business Culture*. Deliverables relating to employee perceptions of the legitimacy of the organisation are ranked lower overall.

Modern thinking views attitudes and perceptions relating to legitimacy of practices as crucial for motivational behaviours. In terms of current socio-economic and industry trends, the positive impact on legitimacy cannot be overstated.

The achievements in terms of the deliverables in establishing the three cultures *do not deviate significantly across sub division and job level*; as shown by the above values in 6.2.1.4 indicating no statistical significance ($p < 0.05$) and a small effect size ($f > 0.4$).

Internal reliability and consistency of the test, ie the monitoring of the deliverables of the strategy, *is accepted* as indicated by measured reliability coefficient.

6.2.3.2 Impacts/Benefits

The benefits and impact of the implementation of strategy relating to establishing a Business Culture are in the main higher than those relating to Learning Culture or Legitimacy, and notably positive overall.

The achievements in terms of the benefits/impacts of establishing the three cultures *do not deviate significantly across sub division and job level*; as shown by the above values in 6.2.2.4 indicating no statistical significance ($p < 0.05$) and a small effect size ($f > 0.4$).

Internal reliability and consistency of the test, ie the monitoring of the impacts and benefits of the strategy, *is accepted* as indicated by measured reliability coefficient.

It is therefore appropriate to state that the Division has overall been more successful in establishing a Business and Learning Culture.

As the degree of success re the achievements relating to the establishment of the business and learning culture have a profound effect on employees perceptions of the legitimacy of

the organisation, it seems fair to say that the *establishment of legitimacy should improve as problem areas are addressed.*

It is interesting to note that the variables relating to the *impact* of implementation are higher and maybe slightly disproportionate to the level of *deliverables* in place across the three culture dimensions.

The implementation of the strategy seems therefore to indicate a consequential focus on attitudinal and behavioural norms.

It would be an over simplification to view this as the total findings on the empirical study, as each deliverable or climate variable consists of four or five elements in its own right.

One needs to view the findings in its entirety to obtain a full overview of achievements and challenges.

6.3 BUSINESS CULTURE

The main focus is to establish mini “businesses” with the emphasis on client service, where management accepts full ownership of the people (soft) side as well as the profit and growth (hard) side of business and where the measure of success is the wealth and well-being of the business and its people.

6.3.1 Deliverables : Rankings of dimensions/climate variables, and filtered across two demographic levels - Weighted percentage ranking (WPR), Standard deviation (STD)

| <u>6.3.1.1 Logistics and Properties Division</u> | <u>WPR</u> | <u>STD</u> |
|--|------------|------------|
| Increased Contribution | 84.19 | 17.84 |
| Cost Management | 83.82 | 13.62 |
| Recognition Schemes | 77.63 | 21.40 |
| Performance Management | 77.52 | 18.24 |
| Flatter Structures | 70.35 | 22.05 |
| Incentive Schemes | 67.61 | 20.01 |

| <i>6.3.1.2 Sub Division</i> | <i>Logistics</i> | <i>Properties</i> | <i>Security</i> | <i>AlliPay</i> |
|-----------------------------|------------------|-------------------|-----------------|----------------|
| Increased Contribution | 78.95 | 90.21 | 83.70 | 93.81 |
| Cost Management | 84.20 | 84.75 | 81.63 | 92.86 |
| Recognition Schemes | 73.54 | 78.63 | 80.95 | 85.71 |
| Performance Management | 77.38 | 78.25 | 77.83 | 78.57 |
| Flatter Structures | 71.46 | 69.10 | 67.89 | 86.51 |
| Incentive Schemes | 66.13 | 61.76 | 70.32 | 90.48 |

| <i>6.3.1.3 Job Level</i> | <i>B Band</i> | <i>C/T Band</i> | <i>M/P Band</i> | <i>S/E Band</i> |
|--------------------------|---------------|-----------------|-----------------|-----------------|
| Increased Contribution | 85.24 | 83.78 | 83.00 | 90.00 |
| Cost Management | 81.66 | 84.70 | 85.00 | 100 |
| Recognition Schemes | 76.80 | 77.31 | 78.02 | 100 |
| Performance Management | 75.86 | 79.06 | 77.59 | 87.50 |
| Flatter Structures | 72.60 | 70.08 | 67.35 | 77.78 |
| Incentive Schemes | 67.80 | 70.58 | 62.81 | 100 |

| <i>6.3.1.4 Measure of significance</i> | <i>F value</i> | <i>p value</i> | <i>f value</i> |
|--|----------------|----------------|----------------|
| Sub division | 4.23 | 0.01 | 0.29 |
| Job level | 0.77 | 0.51 | 0.12 |

6.3.1.5 Reliability coefficient : as derived from Cronbach's Alpha formula, is a slightly low, but still acceptable 0,691, for Business Culture : Deliverables.

6.3.1.6 Discussion

Six deliverables are measured for the business cultural dimension, the ranking distribution range from 84.19 to 67.61 for the Division. There seems to be no significant deviation from this distribution across sub division and job level.

6.3.1.4.1 Successes

(a) *Increased Contribution* - Of particular reference is the respondents' view of better opportunities to acquire additional skills, receive additional responsibilities so as to increase their contribution and over a wider area of responsibility.

This is extremely positive in establishing a business and learning focus in order to sustain competitive advantage

(b) *Cost Management* - This indicates employee acceptance of the ABSA cost management principles which their remuneration and business decisions are based on.

Theoretically this suggests that employees understand and accept remuneration management principles which basically states that one cannot spend more than the business can afford and acknowledge the link between remuneration and business performance. This is important for the success with the new reward strategy.

6.3.1.4.2 Challenges

(a) *Flatter Structures* - This dimension obtained a low position in terms of the rankings distribution, this implies that employees do not necessarily experience the reporting hierarchy as being flatter. "There are still too many bosses/supervisors to ask." It is also interesting to note the perception by employees that departmental structures are being flattened more effectively than divisional structures.

The flattening of structures is a critical dimension in terms of broadbanding and deliverables of the organisations's remuneration strategy.

Employees are however experiencing more opportunities and greater responsibility over wider areas which suggests that maybe it is rather an issue of flatter structures implemented with still some more restrictive and bureaucratic practices in place, resulting in this perception.

(b) *Incentive Schemes* - This deliverable measures participation in incentive schemes. The high tendency towards unsure/no reply (48 %) from respondents suggest that *employees are unsure as to the concept of incentive schemes and whether such schemes do operate in their business units.*

This is clearly a problem area across all filters, and also ranked lowest in terms of the distribution for the Division.

6.3.1.4.3 Measure of Significance and Reliability

The achievements in terms of the deliverables of establishing a business culture seem to deviate slightly across sub division ($p=0.01$); *indicating statistical significance* ($p < 0.05$). However *practical significance is not indicated*, with a small/medium effect size ($f > 0.4$).

Internal reliability and consistency of the test, ie the monitoring of the deliverables of the strategy, *is accepted* as indicated by measured reliability coefficient.

6.3.2 Impacts/Benefits : Rankings of dimensions/climate variables, and filtered across two demographic levels - Weighted percentage ranking (WPR), Standard deviation (STD)

6.3.2.1 Logistics and Properties Division

| | <u>WPR</u> | <u>STD</u> |
|------------------------------|------------|------------|
| Non discriminatory Practices | 88.63 | 17.24 |
| Commitment/Shared Vision | 88.24 | 16.39 |
| Focused Customer Service | 85.74 | 19.37 |
| Flexibility | 85.13 | 18.53 |
| Job Satisfaction | 84.27 | 21.00 |
| Increased Productivity | 82.54 | 23.93 |
| Multi Skilling | 82.46 | 17.77 |
| Focused Job Outputs | 82.35 | 21.39 |
| Improved Communication | 81.72 | 19.54 |
| Cost Effective Practices | 79.34 | 16.26 |
| Increased Decision Making | 76.39 | 22.36 |
| Decreased Bureaucracy | 68.88 | 15.55 |

6.3.2.2 Sub Division

| | <u>Logistics</u> | <u>Properties</u> | <u>Security</u> | <u>AllPay</u> |
|----------------------------|------------------|-------------------|-----------------|---------------|
| N/Discriminatory Practices | 88.59 | 86.70 | 89.78 | 95.24 |
| Commitment | 83.45 | 91.66 | 89.86 | 95.92 |
| Focused Customer Service | 82.55 | 85.09 | 88.40 | 98.41 |
| Flexibility | 79.55 | 89.88 | 86.00 | 95.24 |
| Job Satisfaction | 80.50 | 85.67 | 85.03 | 98.41 |
| Increased Productivity | 81.52 | 87.88 | 76.92 | 91.67 |

| <i>6.3.2.2 Sub Division (continued)</i> | <i>Logistics</i> | <i>Properties</i> | <i>Security</i> | <i>AllPay</i> |
|---|------------------|-------------------|-----------------|---------------|
| Multi Skilling | 76.78 | 88.68 | 81.90 | 98.57 |
| Focused Job Outputs | 79.24 | 83.26 | 84.52 | 90.87 |
| Improved Communication | 78.06 | 87.61 | 79.90 | 92.38 |
| Cost Effective Practices | 79.19 | 79.03 | 78.17 | 90.48 |
| Increased Decision Making | 79.04 | 72.57 | 76.28 | 88.10 |
| Decreased Bureaucracy | 68.33 | 67.78 | 69.77 | 78.40 |

| <i>6.3.2.3 Job Level</i> | <i>B Band</i> | <i>C/T Band</i> | <i>M/P Band</i> | <i>S/E Band</i> |
|----------------------------|---------------|-----------------|-----------------|-----------------|
| N/Discriminatory Practices | 86.40 | 89.58 | 90.03 | 100 |
| Commitment | 89.14 | 90.13 | 84.42 | 100 |
| Focused Customer Service | 86.80 | 87.44 | 81.78 | 100 |
| Flexibility | 86.78 | 83.82 | 84.15 | 90.00 |
| Job Satisfaction | 88.48 | 81.71 | 81.06 | 100 |
| Increased Productivity | 87.50 | 85.71 | 72.37 | 100 |
| Multi Skilling | 81.93 | 81.94 | 83.07 | 96.67 |
| Focused Job Outputs | 83.00 | 82.41 | 80.68 | 100 |
| Improved Communication | 82.04 | 79.55 | 83.14 | 93.33 |
| Cost Effective Practices | 78.43 | 79.14 | 79.75 | 100 |
| Increased Decision Making | 74.85 | 78.59 | 74.94 | 100 |
| Decreased Bureaucracy | 69.65 | 69.52 | 66.22 | 91.67 |

| <i>6.3.2.4 Measure of significance</i> | <i>F value</i> | <i>p value</i> | <i>f value</i> |
|--|----------------|----------------|----------------|
| Sub division | 1.16 | 0.33 | 0.15 |
| Job level | 2.06 | 0.11 | 0.20 |

6.3.2.5 Reliability coefficient : as derived from Cronbach's Alpha formula, is a highly acceptable 0,901 for Businesss Culture : Impacts/Benefits.

6.3.2.6 Discussion

Twelve variables are measuring the impacts/benefits for the business cultural dimension, the ranking distribution range from 88.63 to 68.88 for the Division. There seems to be no significant deviation from this distribution across demographic filters.

6.3.2.6.1 Successes

It is clear that there are *major achievements impacting attitudinal and behavioural norms* for this cultural dimension. It can therefore be stated that as a result of the implementation of the new reward strategy:

- (a) employees do perceive ABSA as having non-discriminatory pay practices
- (b) employees understand and are committed to ABSA and its goals
- (c) employees are focused on customer service
- (d) employees are willing, and are given opportunities to acquire additional skills
- (e) employees are more motivated and enjoy coming to work
- (f) employees perceive themselves as more productive after the implementation of the strategy
- (g) employees understand the nature of their contributions and receive regular feedback in this regard

The achievements clearly indicate success with the new strategy as employees perceive the strategy principles as legitimate in addressing their needs and expectations and integrating it successfully with the business goals. This is a major achievement in terms of sound remuneration principles.

6.3.2.6.2 Challenges

(a) The major challenge impacting Business Culture is the *tendency towards bureaucracy*. Ranked lowest on the distribution range, it seems that (a) there are still many forms, signatures and authorisations required, (b) there is too much red tape and, (c) status still hinders teamwork. This variable has measured the lowest across all demographic filters for this cultural dimension, with the exception of S/E band level exhibiting a notably high value of 91.67.

This suggests top management clearly unaware of a perceived tendency towards bureaucratic practices in the Division as perceived by their employees. It also tends to become counter-productive and negatively influence successes, as suggested before .

(b) *Increased Decision-making* - Considering the distribution range, this dimension is viewed in terms of strategic remedy because it suggests that (i) employees perceive decisions taken in their areas as not necessarily more accurate or taken more speedily and (ii) they are not able to take more decisions without gaining formal approval. This view filters across sub division and job level, except on S/E band level, indicating once again *top management tendency to be unaware of certain business practices' effect on operational levels.*

6.3.2.6.3 Measure of Significance and Reliability

The achievements in terms of the benefits/impacts of establishing a business culture *do not deviate significantly across sub division and job level;* as shown by the above values in 6.3.2.4 indicating no statistical significance ($p < 0.05$) and a small effect size ($f > 0.4$). *Internal reliability and consistency* of the test, ie the monitoring of the impacts and benefits of the strategy, *is accepted* as indicated by measured reliability coefficient.

6.3.3 Summary

The main focus is to establish mini "businesses" with the emphasis on client service, where the measure of success is the wealth and well-being of the business and its people.

It is fair to state that *the Division seems to have been quite successful* with achievements across the spectrum of *establishing a business focus*, ie the high scores for commitment and shared vision, job satisfaction, focused job outputs and role clarity, focused customer service, increased contribution, cost management, non discriminatory practices, flexibility, and increased productivity. These are important focus areas for the well-being of the business and its employees, therefore the achievements are specially noteworthy.

However, the areas that seem to have clouded the many successes achieved are (a) the tendency towards bureaucracy, and as such also having a consequential impact across some of the deliverables, and (b) incentive schemes, where the concept and its functioning in the Division seem to be unclear and/or unknown. The first area is clearly an implementation issue where the latter will require a communication effort.

The reliability coefficient for the core culture dimension: Business Culture as derived from Cronbach's Alpha formula is 0,922. This is extremely high and an indication of test reliability and internal consistency in monitoring the establishing of a business culture in the Division.

6.4 LEARNING CULTURE

The main focus is to ensure people understand the business, its markets and clients and have the opportunity to develop and grow, for better utilisation into the business.

6.4.1 Deliverables : Rankings of dimensions/climate variables, and filtered across two demographic levels - Weighted percentage ranking (WPR), Standard deviation (STD)

| <i>6.4.1.1 Logistics and Properties Division</i> | <i>WPR</i> | <i>STD</i> | | |
|--|------------------|-------------------|-----------------|-----------------|
| Increased Contribution | 84.19 | 17.84 | | |
| Performance Management | 77.52 | 18.24 | | |
| Development Board Functioning | 71.48 | 18.93 | | |
| <i>6.4.1.2 Sub Division</i> | <i>Logistics</i> | <i>Properties</i> | <i>Security</i> | <i>AllPay</i> |
| Increased Contribution | 78.95 | 90.21 | 83.70 | 93.81 |
| Performance Management | 77.38 | 78.25 | 77.83 | 78.57 |
| Development Board | 69.76 | 66.00 | 77.90 | 73.81 |
| <i>6.4.1.3 Job Level</i> | <i>B Band</i> | <i>C/T Band</i> | <i>M/P Band</i> | <i>S/E Band</i> |
| Increased Contribution | 85.24 | 83.78 | 83.00 | 90.00 |
| Performance Management | 75.86 | 79.06 | 77.59 | 87.50 |
| Development Board | 71.36 | 70.60 | 71.57 | 94.44 |
| <i>6.4.1.4 Measure of significance</i> | <i>F value</i> | <i>p value</i> | <i>f value</i> | |
| Sub division | 1.52 | 0.21 | 0.17 | |
| Job level | 0.14 | 0.93 | 0.05 | |

6.4.1.5 Reliability coefficient : as derived from Cronbach's Alpha formula is a slightly low, but still acceptable 0,617 for Learning Culture : Deliverables.

6.4.1.6 Discussion

Three deliverables are measured for the learning cultural dimension, the ranking distribution range from 84.19 to 71.48 for the Division. There seems to be no significant deviation from this distribution across demographic filters.

6.4.1.6.1 Successes

Of particular reference is the respondents' view (a) of better opportunities to acquire additional skills (b) to receive additional responsibilities so as to increase their contribution (c) and over a wider area of responsibility, as indicated by the deliverable: *Increased Contribution*.

This is extremely positive in establishing a business and learning focus in order to sustain competitive advantage, focusing broadbanding and pay for contribution practices as stated by remuneration management theory.

6.4.1.6.2 Challenges

A key area for remedial action seems to be with regards to *Development Board functioning*, as lowest ranked deliverable across all demographic filters.

With closer examination of the frequencies there seems to be two issues (a) a high tendency towards unsure/no reply regarding the functioning of development boards at the reporting levels in the Division, and (b) an uncertainty as to the workings of the development boards.

It appears that the respondents have heard of development boards, but *they are definitely unsure at which levels these boards operate and what they do*. Those respondents who are more knowledgeable, are *unsure as to whether the development boards (a) takes objectives reward decisions and (b) recommends training plans*.

In promoting a learning culture, this seems to be quite an important deliverable, and probably only requires a shift of focus at implementation level for profound success.

In terms of ground rules a badly functioning dimension is worse than having not implemented it at all, and in terms of perceptions and perceived legitimacy, as it takes substantial effort to reverse such behaviour patterns.

6.4.1.6.3 Measure of Significance and Reliability

The achievements in terms of the deliverables of establishing a learning culture *do not deviate significantly across sub division and job level*; as shown by the above values in 6.4.1.4 indicating no statistical significance ($p < 0.05$) and a small effect size ($f > 0.4$).

Internal reliability and consistency of the test, ie the monitoring of the deliverables of the strategy, *is accepted* as indicated by measured reliability coefficient.

6.4.2 Impacts/Benefits : Rankings of dimensions/climate variables, and filtered across two demographic levels - Weighted percentage ranking (WPR), Standard deviation (STD)

6.4.2.1 Logistics and Properties Division

| | <u>WPR</u> | <u>STD</u> |
|---------------------------------|------------|------------|
| Job Satisfaction | 84.27 | 20.99 |
| Multi Skilling | 82.46 | 17.77 |
| Improved Communication | 81.72 | 19.54 |
| Teamwork | 81.70 | 17.99 |
| Individual Growth & Development | 78.57 | 18.35 |
| Performance linked Reward | 76.47 | 19.46 |

6.4.2.2 Sub Division

| | <u>Logistics</u> | <u>Properties</u> | <u>Security</u> | <u>AllPay</u> |
|---------------------------|------------------|-------------------|-----------------|---------------|
| Job Satisfaction | 80.50 | 85.67 | 85.03 | 98.41 |
| Multi Skilling | 76.78 | 88.68 | 81.90 | 98.57 |
| Improved Communication | 78.06 | 87.61 | 79.90 | 92.38 |
| Teamwork | 79.73 | 86.64 | 78.68 | 93.88 |
| Individual Growth | 74.39 | 81.39 | 80.24 | 88.57 |
| Performance linked Reward | 73.59 | 77.64 | 78.33 | 82.14 |

| 6.4.2.3 <u>Job Level</u> | <u>B Band</u> | <u>C/T Band</u> | <u>M/P Band</u> | <u>S/E Band</u> |
|---------------------------------|----------------------|------------------------|------------------------|------------------------|
| Job Satisfaction | 88.48 | 81.71 | 81.06 | 100 |
| Multi Skilling | 81.93 | 81.94 | 83.07 | 96.67 |
| Improved Communication | 82.04 | 79.55 | 83.14 | 93.33 |
| Teamwork | 81.44 | 81.16 | 82.30 | 89.29 |
| Individual Growth | 79.82 | 77.74 | 76.90 | 100 |
| Performance linked Reward | 76.44 | 76.27 | 75.68 | 100 |

| 6.4.2.4 <u>Measure of significance</u> | <u>F value</u> | <u>p value</u> | <u>f value</u> |
|---|-----------------------|-----------------------|-----------------------|
| Sub division | 1.71 | 0.17 | 0.19 |
| Job level | 2.51 | 0.06 | 0.22 |

6.4.2.5 Reliability coefficient : as derived from Cronbach's Alpha formula, is an acceptable 0,867 for Learning Culture : Impacts/Benefits.

6.4.2.6 Discussion

Six variables are measuring the impacts/benefits for the learning cultural dimension. The ranking distribution range from 84.27 to 76.47 for the Division. There seem to be no significant deviation from the distribution across demographic filters.

6.4.2.6.1 Successes

Various *achievements* relating to the impact of climate variables for this cultural dimension are reported indicating the following successes:

- (a) employees are less likely to be absent from work, enjoy going to work and are more motivated
- (b) there are opportunities for multi skilling and has improved employee contribution, making employees' roles more challenging
- (c) communication has improved between employee and manager, in their workteams, in the same department; and to a lesser degree between departments.
- (d) employees understand team goals and support one another in team context

The successes specifically with regards to teamwork are notable for building commitment and a sense of shared vision essential in achieving business goals, suggesting the impact of the reward strategy as a powerful tool in communicating and focusing business goals.

6.4.2.6.2 Challenges

Although employees *do perceive performance to be rewarded* by means of bonuses and other means, (a) performance is not seen to be *visibly* rewarded (b) outstanding performance is not seen to be acknowledged by the Group Chief Executive Awards, and (c) reward decisions are not perceived to be based solely on contribution.

This variable: *perceived performance linked reward* has ranked lowest for the Division and across the demographic filters, definitely suggesting *an area worth investigating*.

This indicates the pay for performance concept as suggested in modern theory is being applied in the Division, however the basis or “formula” for rewarding employees in terms of their performance is not clear and/or accepted.

Open and frank communication regarding pay for performance and its principles forms the foundation in focusing attitudinal and motivational behaviour. As broadbanding and performance based remuneration are the two pillars of the new remuneration strategy, these responses should not go unnoticed.

6.4.2.6.3 Measure of Significance and Reliability

The achievements in terms of the impact/benefits of establishing a learning culture *do not deviate significantly across sub division and job level*; as shown by the above values in 6.4.2.4 indicating no statistical significance ($p < 0.05$) and a small effect size ($f > 0.4$).

Internal reliability and consistency of the test, ie the monitoring of the impact/benefits of the strategy, *is accepted* as indicated by measured reliability coefficient.

6.4.3 Summary

The main focus is to ensure people understand the business, its markets and clients and have the opportunity to develop and grow for better utilisation into the business.

It can be stated with some confidence that the Division has come a long way in establishing the above, ie from the *many successes reported relating to the learning culture* and also the positive high scores for specific deliverables of the business culture impacting the focus here.

The biggest challenge facing the Division is in the key area of Development Boards and its functioning. It definitely seems to have an implementation as well as communication implication that definitely should be addressed for success and legitimacy. This is the classic example of introducing an excellent practice but with negative implementation results versus not having implemented at all.

Another area of response that should not go unnoticed, is that of the perceptions regarding the visibility of rewarding performance. It may only require a sensitivity and slight focus change on the part of management, but with remarkable benefits, as performance based rewards forms the basis of the reward strategy.

The reliability coefficient for the dimension: Learning Culture as derived from Cronbach's Alpha formula is an acceptable 0,886. This positively indicates internal consistency and test reliability in monitoring the establishment of a learning culture in the Division.

6.5 LEGITIMACY

The main drive is to establish and focus on ethical business practices, social credibility specific relating to multiple development opportunities for all, and progressive human resources practices.

6.5.1 Deliverables : Rankings of dimensions/climate variables, and filtered across two demographic levels - Weighted percentage ranking (WPR), Standard deviation (STD)

| <i>6.5.1.1 Logistics and Properties Division</i> | | <u>WPR</u> | <u>STD</u> | | |
|--|--|------------------|-------------------|-----------------|-----------------|
| Understanding of Reward Principles | | 76.04 | 19.51 | | |
| Equitable Reward Decisions | | 73.47 | 15.80 | | |
| Explanation of Reward Principles | | 72.76 | 19.46 | | |
| Development Board Functioning | | 71.48 | 18.93 | | |
| <i>6.5.1.2 Sub Division</i> | | <u>Logistics</u> | <u>Properties</u> | <u>Security</u> | <u>AllPay</u> |
| Understanding of Principles | | 75.46 | 76.70 | 74.27 | 84.62 |
| Equitable Decisions | | 73.21 | 73.06 | 75.24 | 69.84 |
| Explanation of Principles | | 74.03 | 71.18 | 72.95 | 69.23 |
| Development Board | | 69.76 | 66.00 | 77.90 | 73.81 |
| <i>6.5.1.3 Job Level</i> | | <u>B Band</u> | <u>C/T Band</u> | <u>M/P Band</u> | <u>S/E Band</u> |
| Understanding of Principles | | 69.84 | 77.72 | 79.95 | 100 |
| Equitable Decisions | | 76.59 | 71.63 | 70.37 | 94.44 |
| Explanation of Principles | | 67.45 | 74.70 | 76.48 | 100 |
| Development Board | | 71.36 | 70.60 | 71.57 | 94.44 |
| <i>6.5.1.4 Measure of significance</i> | | <u>F value</u> | <u>p value</u> | <u>f value</u> | |
| Sub division | | 0.20 | 0.90 | 0.06 | |
| Job level | | 2.70 | 0.048 | 0.23 | |

6.5.1.5 Reliability coefficient : as derived from Cronbach's Alpha formula, is an acceptable 0,744 for Legitimacy : Deliverables.

6.5.1.6 Discussion

Four deliverables are measured for the legitimacy cultural dimension. The rankings distribution range from 76.04 to 71.48 for the Division. There seem to be no significant deviation from this distribution across the demographic filters.

6.5.1.6.1 Successes

(a) *Understanding of Reward Principles* - The respondents have rated this deliverable highest across all demographic filters, with the exception of the B band level employees, indicating a specific communication challenge at this job level..

(b) *Equitable Reward Decisions* - Respondents view reward decisions to be fair, objective and minuted well. It is interesting to note that M/P band level respondents exhibit a lower response to norm, *suggesting that top management are not always perceived as being equally fair and objective in their reward decisions.* This also confirms the response previously that suggested the perception that awards by top management is not solely based on contribution and/or visibly rewarded.

This is important as the understanding and acceptance of reward principles and practices are crucial for the success of the functioning and legitimacy of the strategy.

These successes are especially noteworthy in view of this cultural dimension's critical focus and drive of progressive human resources strategies and ethical practices. It therefore definitely suggests a profound focus on legitimacy of practices as viewed by employees and is a consequential achievement of the transformation process for ABSA.

6.5.1.6.2 Challenges

The critical area of challenge is once again with regards to *Development Board functioning*, as the lowest ranked deliverable across all demographic filters, with the exception of the S/E Band level.

This is especially important as the response is notably higher, *suggesting a definite difference of opinion between top mangement and the rest of the organisation*, the employees ultimately being on the receiving side of development opportunity practices.

With the specific focus on development opportunities for this cultural dimension, this poses a definite challenge for management. As stated before, the responses definitely

suggest a (a) communication challenge and (b) level of effort in terms of implementation challenge.

6.5.1.6.3 Measure of Significance and Reliability

The achievements in terms of the deliverables of establishing legitimacy of the organisation seem to deviate slightly across job level ($p=0.048$); *indicating statistical significance* ($p < 0.05$). However *practical significance is not indicated*, with a small/medium effect size ($f > 0.4$). *Internal reliability and consistency* of the test, ie the monitoring of the deliverables of the strategy, *is accepted* as indicated by measured reliability coefficient.

6.5.2 Impacts/Benefits : Rankings of dimensions/climate variables, and filtered across two demographic levels - Weighted percentage ranking (WPR), Standard deviation (STD)

6.5.2.1 Logistics and Properties Division

| | <u>WPR</u> | <u>STD</u> |
|------------------------------|------------|------------|
| Non discriminatory Practices | 88.63 | 17.24 |
| Job Satisfaction | 84.27 | 20.99 |
| Trust | 82.54 | 19.61 |
| Multi Skilling | 82.46 | 17.77 |
| Improved Communication | 81.72 | 19.54 |
| Participative Management | 78.55 | 16.34 |
| Integrity | 77.17 | 21.49 |
| Decreased Bureaucracy | 68.88 | 15.55 |

6.5.2.2 Sub Division

| | <u>Logistics</u> | <u>Properties</u> | <u>Security</u> | <u>AllPay</u> |
|----------------------------|------------------|-------------------|-----------------|---------------|
| N/Discriminatory Practices | 88.59 | 86.70 | 89.78 | 95.24 |
| Job Satisfaction | 80.50 | 85.67 | 85.03 | 98.41 |
| Trust | 80.91 | 86.38 | 80.14 | 92.38 |
| Multi Skilling | 76.78 | 88.68 | 81.90 | 98.57 |
| Improved Communication | 78.06 | 87.61 | 79.90 | 92.38 |
| Participative Management | 77.29 | 80.39 | 77.71 | 87.07 |
| Integrity | 74.95 | 77.78 | 77.21 | 89.29 |
| Decreased Bureaucracy | 68.33 | 67.78 | 69.77 | 78.40 |

| 6.5.2.3 <i>Job Level</i> | <i>B Band</i> | <i>C/T Band</i> | <i>M/P Band</i> | <i>S/E Band</i> |
|---------------------------------|----------------------|------------------------|------------------------|------------------------|
| N/Discriminatory Practices | 86.40 | 89.58 | 90.03 | 100 |
| Job Satisfaction | 88.48 | 81.71 | 81.06 | 100 |
| Trust | 82.74 | 82.36 | 81.82 | 96.67 |
| Multi Skilling | 81.93 | 81.94 | 83.07 | 96.67 |
| Improved Communication | 82.04 | 79.55 | 83.14 | 93.33 |
| Participative Management | 77.80 | 79.00 | 78.12 | 100 |
| Integrity | 78.54 | 76.85 | 74.61 | 100 |
| Decreased Bureaucracy | 69.65 | 69.52 | 66.22 | 91.67 |

| 6.5.2.4 <i>Measure of significance</i> | <i>F value</i> | <i>p value</i> | <i>f value</i> |
|---|-----------------------|-----------------------|-----------------------|
| Sub division | 1.21 | 0.31 | 0.16 |
| Job level | 1.06 | 0.37 | 0.15 |

6.5.2.5 The reliability coefficient as derived from Cronbach's Alpha formula is a highly acceptable 0,888 for Legitimacy : Impacts/Benefits.

6.5.2.6 *Discussion*

Eight variables are measuring impacts/benefits for the legitimacy cultural dimension. The rankings distribution range from 88.83 to 68.88 for the Division. There seems to be no significant deviations from this distribution across the demographic filters.

6.5.2.6.1 *Successes*

Various *achievements* are noted, suggesting a *positive impact on attitudinal and behavioural norms* regarding the perceived legitimacy of ABSA where:

- (a) employees do perceive ABSA as having non-discriminatory pay practices
- (b) employees are less likely to be absent from work, enjoy going to work and are more motivated
- (c) employees do trust their managers and workteam colleagues
- (d) there are opportunities for multi skilling and has improved employee contribution, making their roles more challenging

(e) communication has improved between employees and managers, in their workteams

Many of the successes have been noted before, ultimately stressing the fact of critical impact of these variables across all cultural dimensions. Especially significant is the trust levels between employees in the Division, and this is extremely positive for optimum productivity levels and focusing business goals in gaining competitive advantage.

6.5.2.6.2 Challenges

The following challenges emerge as *important factors shaping current perceptions* of employees:

- (a) *bureaucracy* - there is too much red tape, with many forms, signatures and authorisations required , and where status still hinders teamwork
- (b) *integrity* - the reward strategy is seen to be fair and credible, but reward decisions are not always perceived to be objective and taken in team context
- (c) *participative management* - employees perceive management to hear their opinions, but employee input is not actively encouraged, they do not feel part of the solution, KPA's are not always properly contracted with employees ignorant on development board practices impacting participative management.

These issues confirm previous findings, suggesting once again the consequential impact of the strategy influencing across cultural dimensions.

The perception of the respondents relating to the view of input not actively encouraged by management, may pose a possible explanation as to the earlier deliberations regarding the lower response to sample on the B/C/T levels.

6.5.2.6.3 Measure of Significance and Reliability

The achievements in terms of the impacts/benefits of establishing legitimacy of the organisation *do not deviate significantly across sub division and job level*; as shown by

the above values in 6.5.2.4 indicating no statistical significance ($p < 0.05$) and a small effect size ($f > 0.4$).

Internal reliability and consistency of the test, ie the monitoring of the impacts/benefits of the strategy, is *accepted* as indicated by measured reliability coefficient.

6.5.3 Summary

The main drive is to establish and focus on ethical business practices, social credibility specifically relating to multiple development opportunities for all, and progressive human resources practices.

It should be fair to state that this is an extremely difficult though crucial area for success. It impacts the whole being of the organisation and its ultimate survival and competitive advantage in the marketplace.

Furthermore, it seems to impact across all cultures in its consequential effect across deliverables and benefits of the implementation of the reward strategy. The vast successes achieved and subsequent challenges facing the Division directly indicate the success of establishing legitimacy of practices and the organisation as viewed by its employees.

It seems fair to state that *the Division has to some degree gained legitimacy of practices*, ie the high scores regarding non-discriminatory practices, equitable reward decisions, understanding of reward principles, increased job satisfaction, upward trust, more multi skilling opportunities and improved communication.

The areas pertaining to *bureaucracy, integrity and Development Boards* are specifically noted here to be in need of attention. Also, the *specific challenges facing the Division overall* and already noted on more than one occasion should not go unnoticed as it profoundly impacts this core cultural dimension.

In view of the fact that this study goes hand in hand with political and economic turmoil and major transformational change, it seems noteworthy that the Division and ABSA seem to have gained legitimacy, ie *upward* trust, *increased* contribution, *improved* communication, *decreased* bureaucracy, etc.

The reliability coefficient for the culture dimension : Legitimacy as derived from Cronbach's Alpha formula is a highly acceptable 0,909. This positively indicates internal consistency and test reliability in measuring the establishment of legitimacy of the organisation by its employees.

6.6 CONSTITUENT VARIABLES

Constituent variables are a component part of the whole transformation process; able to make or change/composing or helping to make up a whole.

The objective is to *indicate effort and focus at level of implementation*, for the key focus areas of Performance Management and the Learning Organisation, ultimately impacting across all three cultural dimensions.

6.6.1 Performance Management Discussion Frequency (Response as % of target sample) : Frequency and percentage distributions filtered across two demographic levels

6.6.1.1 Logistics and Properties Division

| | <u>Actual</u> | <u>Percentage</u> |
|------------------------|---------------|-------------------|
| Once a year | 51 | 33,1 % |
| Twice a year | 56 | 36,4 % |
| More than twice a year | 28 | 18,2 % |
| Never | 11 | 7,1 % |
| Unsure/No Reply | 8 | 5,3 % |

6.6.1.2 Sub Division

| | <u>Logistics</u> | <u>Properties</u> | <u>Security</u> | <u>AllPay</u> |
|------------------------|------------------|-------------------|-----------------|---------------|
| Once a year | 41,1 % | 22,5 % | 28,0 % | 57,1 % |
| Twice a year | 41,1 % | 32,5 % | 36,0 % | 28,6 % |
| More than twice a year | 10,7 % | 27,5 % | 24,0 % | |
| Never | 3,6 % | 10,0 % | 6,0 % | 14,3 % |
| Unsure | 3,5 % | 7,5 % | 6,0 % | |

| <i>6.6.1.3 Job Level</i> | <i>B Band</i> | <i>C/T Band</i> | <i>M/P Band</i> | <i>S/E Band</i> |
|--------------------------|---------------|-----------------|-----------------|-----------------|
| Once a year | 30,5 % | 31,3 % | 37,8 % | 50 % |
| Twice a year | 35,6 % | 37,5 % | 35,6 % | 50 % |
| More than twice a year | 16,7 % | 20,7 % | 20,0 % | |
| Never | 10,2 % | 6,3 % | 4,4 % | |
| Unsure/No Reply | 7,0 % | 4,2 % | 2,2 % | |

6.6.1.4 Discussion

Employees indicated overwhelmingly (87,7 %) that they participate in performance management discussions at least once a year, with 54,6 % of the respondents indicating that they participate in such discussions 2 - 3 times a year.

This is especially positive as the drive towards performance based remuneration practices is critically dependant on sound performance feedback, as suggested in Chapter 4.

The norm should really be that 100 % of employees must participate in performance feedback discussions annually for optimal success and legitimacy of the process.

The sub division ABSA Properties indicates the highest incidence (17,5 %) relating to no performance feedback. B band level employees (17,2 %) are experiencing similar frustration. This in a sense confirms previous statements suggesting uncertainty regarding performance goals and basis for rewards.

Although performance management in the Division has experienced specific successes, this area poses a challenge for management in reaching these employees and suggests a focus change at effort and level of implementation for the Division.

6.6.2 Development Board Meetings (Response as % of target sample) : Frequency and percentage distribution filtered across two demographic levels

| 6.6.2.1 <i>Logistics and Properties Division</i> | <i>Actual</i> | <i>Percentage</i> | | |
|---|----------------------|--------------------------|--|--|
| Every month | 26 | 16,9 % | | |
| Every 3 months | 18 | 11,7 % | | |
| Every 6 months | 13 | 8,4 % | | |
| Once a year | 14 | 9,1 % | | |
| Never | 17 | 11,0 % | | |
| Unsure/No Reply | 66 | 42,9 % | | |

| 6.6.2.2 <i>Sub Division</i> | <i>Logistics</i> | <i>Properties</i> | <i>Security</i> | <i>AllPay</i> |
|------------------------------------|-------------------------|--------------------------|------------------------|----------------------|
| Every month | 10,7% | 15,0 % | 26,0 % | 14,3 % |
| Every 3 months | 8,9 % | 5,0 % | 22,0 % | |
| Every 6 months | 1,8 % | 5,0 % | 16,0 % | 28,6 % |
| Once a year | 10,7% | 12,5 % | ..6,0 % | |
| Never | 10,7% | 17,5 % | 4,0 % | 14,3 % |
| Unsure/No Reply | 57,2 % | 45,0 % | 26,0 % | 42,9 % |

| 6.6.2.3 <i>Job Level</i> | <i>B Band</i> | <i>C/T Band</i> | <i>M/P Band</i> | <i>S/E Band</i> |
|---------------------------------|----------------------|------------------------|------------------------|------------------------|
| Every month | 33,9 % | 8,3 % | 4,4 % | |
| Every 3 months | 8,5 % | 12,5 % | 15,6 % | |
| Every 6 months | 6,8 % | 6,3 % | 8,9 % | 100 % |
| Once a year | 5,1 % | 8,3 % | 15,6 % | |
| Never | 10,2 % | 8,3 % | 15,6 % | |
| Unsure/No Reply | 37,3 % | 56,3 % | 40,0 % | |

6.6.2.4 Discussion

Only 46,1 % of the respondents indicated that development board meetings are held in their work areas and/or business units. It should be noted that *there was a high tendency for unsure/no reply responses* on the deliverable: Development Board functioning across cultural dimensions, suggesting that the response on this focus area/dimension invariably has to be negative.

As stated before, this impacts the focus and drive towards development opportunities for all and the concept of a learning culture and directly impacts on the perceived legitimacy of the organisation.

The functioning of Development Boards in the Group therefore poses a definite challenge relating to communication and effort at level of implementation.

6.7 CONFIRMATION/VALIDITY CHECK

Question 11 : Filtered across two demographic levels - Weighted percentage ranking (WPR), Standard deviation (STD).

6.7.1 Logistics and Properties Division

| | <u>WPR</u> | <u>STD</u> |
|--------------------------------------|------------|------------|
| Increased Decision making (Q1) | 84.46 | 23.22 |
| Increased Contribution (Q11) | 83.67 | 23.53 |
| Multi Skilling (Q10) | 81.25 | 24.29 |
| Participative Management (Q6) | 80.14 | 24.55 |
| Teamwork (Q7) | 79.17 | 24.74 |
| Multi Skilling (Q4) | 77.59 | 24.95 |
| Flatter Structures (Q2) | 76.87 | 25.02 |
| Individual growth & development (Q9) | 76.87 | 25.02 |
| Improved Communication (Q8) | 75.85 | 25.07 |
| Decreased Bureaucracy (Q5) | 71.38 | 24.83 |
| Decreased Bureaucracy (Q3) | 67.61 | 23.97 |

6.7.2 Sub Division

| | <u>Logistics</u> | <u>Properties</u> | <u>Security</u> | <u>AllPay</u> |
|---------------------------|------------------|-------------------|-----------------|---------------|
| Increased Decision making | 84.91 | 86.49 | 82.65 | 92.86 |
| Increased Contribution | 79.25 | 93.42 | 78.72 | 92.86 |
| Multi Skilling (Q10) | 76.47 | 92.11 | 76.09 | 92.86 |
| Participative Management | 81.37 | 77.03 | 80.68 | 85.71 |
| Teamwork | 79.81 | 86.49 | 71.74 | 85.71 |
| Multi Skilling (Q4) | 71.30 | 85.14 | 76.67 | 100 |
| Flatter Structures | 80.19 | 77.03 | 72.92 | 78.57 |

| 6.7.2 <u>Sub Division (continued)</u> | <u>Logistics</u> | <u>Properties</u> | <u>Security</u> | <u>AllPay</u> |
|---------------------------------------|------------------|-------------------|-----------------|---------------|
| Individual growth | 71.70 | 86.84 | 74.47 | 85.71 |
| Improved Communication | 74.53 | 77.63 | 74.47 | 85.71 |
| Decreased Bureaucracy (Q5) | 69.00 | 70.27 | 73.81 | 85.71 |
| Decreased Bureaucracy (Q3) | 66.00 | 64.86 | 72.83 | 64.29 |

| 6.7.3 <u>Job Level</u> | <u>B Band</u> | <u>C/T Band</u> | <u>M/P Band</u> | <u>S/E Band</u> |
|----------------------------|---------------|-----------------|-----------------|-----------------|
| Increased Decision making | 80.00 | 90.43 | 82.96 | 100 |
| Increased Contribution | 82.73 | 81.91 | 86.05 | 100 |
| Multi Skilling (Q10) | 75.93 | 82.98 | 85.37 | 100 |
| Participative Management | 74.00 | 82.61 | 83.72 | 100 |
| Teamwork | 80.19 | 77.17 | 80.23 | 75.00 |
| Multi Skilling (Q4) | 73.08 | 79.79 | 79.55 | 100 |
| Flatter Structures | 77.36 | 73.96 | 78.41 | 100 |
| Individual growth | 72.22 | 77.66 | 80.68 | 100 |
| Improved Communication | 70.37 | 73.40 | 84.09 | 100 |
| Decreased Bureaucracy (Q5) | 77.66 | 71.74 | 63.95 | 75.00 |
| Decreased Bureaucracy (Q3) | 74.00 | 65.96 | 60.47 | 100 |

6.7.4 Discussion

The purpose is to establish more firmly and provide support as to the correctness of the responses of the target sample in terms of the target population. The eleven (11) statements in Question 11, relating to the critical dimensions, were worded negatively here, with the purpose to accept or confirm previous assumptions relating to the set dimensions. These statements have been conversely reported in the positive, using similar statistical methodology, and compared to the previously measured weighted values (WPR). The following deviations (5.0 and higher) are noteworthy:

| <u>Dimension</u> | <u>Previous WPR</u> | <u>WPR Check</u> |
|---------------------------|---------------------|------------------|
| Increased Decision Making | 76.39 | 84.46 |
| Flatter Structures | 70.35 | 76.87 |
| Improved Communication | 81.72 | 75.85 |
| Multi Skilling | 82.46 | 77.59 |

The differences in the values on both *Increased Decision Making* and *Flatter Structures* confirm the suggestion that both are *influenced by the tendency towards bureaucracy* in practices, consequentially influencing the degree of success of these deliverables.

The difference (negative) in the values on both *Improved Communication and Multi Skilling* suggests a higher frustration level than previously noted.

There seems to be no noteworthy differences across sub division or job level, except perhaps on *B band level* for both Multi Skilling (73.08) and Improved Communication (70.37). These values are notably lower in both instances and therefore suggest *more frustration at this job level*.

In view of the above it would seem prudent to view the variables: Improved Communication and Multi Skilling in terms of areas or opportunities for improvement as they both impact all three cultural dimensions relating to climate (attitudinal and behavioural norms).

Should these ratified values be taken into account for the ranking distribution for each cultural dimension, both climate variables would rank lower on all three cultural dimensions. *Their responses should therefore not go unnoticed, with specific focus on lower level employees.*

6.8 ATTRACTION AND RETENTION OF SKILLS

6.8.1 Question 12 : Do you enjoy working for ABSA now ? : Response as % of target sample

| | <u>Actual</u> | <u>Percentage</u> |
|----------|---------------|-------------------|
| Yes | 125 | 81,2 % |
| No | 22 | 14,3 % |
| No Reply | 7 | 4,5 % |

6.8.2 Impact of remuneration strategy on loyalty / retaining of the right skills : Weighted percentage ranking (WPR) filtered across two demographic levels

| | |
|---|-------------------|
| 6.8.2.1 <u>Sub Division</u> | <u>WPR</u> |
| AllPay | 100 |
| ABSA Properties | 97.30 |
| Logistical Support Services | 91.35 |
| Group Security | 89.80 |
| <i>Logistical and Properties Division</i> | <i>92.52</i> |
| | |
| 6.8.2.2 <u>Job Level</u> | <u>WPR</u> |
| B Bands | 93.64 |
| C/T Bands | 89.36 |
| M/P Bands | 94.19 |
| S/E Bands | 100 |

6.8.2.3 Discussion

A positive response of *81,2 % of respondents enjoy working for ABSA now*. The Logistics and Properties Division can consequentially and with confidence assume loyalty on the part of its workers as indicated by the overall weighted value of 92.52 for the Division.

Across the demographic filters of sub division and job level, Group Security and the C/T bands experience slightly lower “levels of loyalty” with ABSA Properties employees notably “happier”.

It can therefore be stated that the Logistics and Properties Division should be in a fairly good position to attract, retain and motivate their employees.

6.9 SURVEY WORTH/MERIT

6.9.1 Response as % of target sample

| | <u>Actual</u> | <u>Percentage</u> |
|-------------------------------------|---------------|-------------------|
| Provided input which will be valued | 89 | 57,8 % |
| Voiced my opinion | 45 | 29,2 % |
| Wasted my time | 13 | 8,4 % |
| No Reply | 7 | 4,6 % |

6.9.2 Do employees see the research process (by means of survey questionnaire) as beneficial ? : Weighted percentage ranking (WPR) filtered across two demographic levels

| <u>6.9.2.1 Sub Division</u> | <u>WPR</u> |
|---|--------------|
| ABSA Properties | 87.39 |
| Group Security | 84.78 |
| Logistical Support Services | 80.61 |
| AllPay | 85.71 |
| <i>Logistical and Properties Division</i> | <i>83.90</i> |

| <u>6.9.2.2 Job Level</u> | <u>WPR</u> |
|--------------------------|------------|
| B Bands | 86.79 |
| C/T Bands | 83.69 |
| M/P Bands | 80.00 |
| S/E Bands | 100 |

6.9.2.3 Discussion

The questionnaires (289) were sent out with 155 employees completing the questionnaire, resulting in an effective *53,3 % response* to sample.

Respondents were asked to indicate their perception as to the value of completing the questionnaire. The responses indicate that *57,8 %* of respondents feel they have provided *input which will be valued*, *29,2 %* have voiced their opinion, and *13 %* felt that they have wasted their time.

No multi responses were recorded.

Across demographic filters the Logistics department and M/P level employees seemed the least impressed with the survey process.

It can therefore be stated with some confidence that respondents in the Logistics and Properties Division view the research process as value added with a overall weighted value of 83.90.

However, the *following areas* should be probed as to ensure that the periodical research processes into change strategy and well-being of the organisation prove beneficial with the desired end result:

- (a) the low response level to the questionnaire method of measuring employee opinion
- (b) the relatively high perception that employee input will not be valued

especially as respondents indicated, as noted in earlier discussions, that they feel their input is not actively encouraged and they do not feel part of the solution.

It also confirms the statement again that employees feel they have only voiced opinion and are not prepared to assume that their input will be valued.

6.10 ACCEPTANCE OF RESEARCH HYPOTHESIS

6.10.1 Main Hypothesis

This hypothesis is positively supported by the findings outlined in this chapter.

It can, therefore, be stated that the implementation of the remuneration strategy has positively influenced and assisted in the establishing of culture in the Division and ABSA in terms of the strategic focus on business, learning and legitimacy.

6.10.2. Operational Hypothesis

6.10.2.1 Operational Hypothesis

This hypothesis is positively supported by the extensive successes reported under the detail findings in this chapter.

It can therefore be stated that employees in the Logistics and Properties Division experience the implementation of the remuneration strategy as significantly (a) promoting the achievement of the deliverables and (b) impacting on climate and cultural dimensions, relating to the organisation's transformation process.

6.10.2.2 Operational Hypothesis

This hypothesis is positively supported by the challenges facing management, as outlined under the detail findings in this chapter.

It can be stated that the implementation of the reward strategy requires a significant effort at level of implementation from management to ensure specific focus on climate and culture for the Division and ABSA.

6.10.2.3 Operational Hypothesis

It is accepted that employees view ABSA to be more productive since the implementation of the remuneration strategy.

6.10.2.4 Operational Hypothesis

It is accepted that employees are more loyal and committed to ABSA since the introduction of the remuneration strategy.

The conclusion is therefore also accepted that the Division will be in a position to comfortably attract, retain and motivate their employees.

6.11 SUMMARY AND CONCLUSIONS

This study does not pose to assess and provide recommendations as to the refinement of the ABSA Remuneration Strategy and Model.

This study specifically analyses and discusses the important achievements and focus areas relating to the expected deliverables and perceived features and benefits from the implementation of the remuneration strategy for a Division within ABSA.

The study furthermore prefers to focus on the effort and level of implementation specifically influencing the attitudes and behaviours of people, ultimately influencing an organisation's ability in developing its people, attracting and retaining the right skills to ultimately stay in business and enjoy competitive advantage.

The question to ask here is (a) whether the Division has been successful in influencing and promoting a culture focused on business, learning and legitimacy and (b) whether the implementation of the reward strategy have positively influenced the climate of the Group.

The answer is YES, as depicted from acceptance of the main hypothesis, and significant because the strategy has been phased in over the past two and a half years.

The next question would be to ask whether this is enough to sustain the achievements, in other words, are the key deliverables in place and at what level ?

The answer of course lies in the challenges highlighted that faces the Division. These challenges suggest specific implementation issues or areas that would require some effort and focus so as to ensure the high level of success required. In this regard operational hypotheses 1 and 2 were accepted.

It is not possible to empirically assess how far the Division had come prior to introduction of the strategy - it can only be assumed from some of the overwhelming responses that the leap has been extremely positive and that the organisation is theoretically on the right track.

It is however fair to state that productivity levels seem to be improving for the positive, indicated by the support of operational hypothesis 3; and that the noted challenges, if addressed, should definitely impact accordingly, promoting the established cultures to optimum levels in the Division and contributing positively to the transformation process.

It is furthermore fair to state that the Division will be in a position to motivate their employees in a manner which should ensure the retaining of skills, indicated by the support of hypothesis 4.

This is especially important in view of the relatively young workforce noted for the Division, in addressing their changing needs and expectations aligned with Divisional and organisational goals.

In conclusion it is appropriate to hypothesise as to the relevance of the remuneration strategy as a powerful tool in institutionalising major change in an organisation. This dimension has not been one of the objectives of the study.

However, it seems fair to say at least that the remuneration strategy has proved to promote the transformation process of ABSA as seen from the successes in the Logistics and Properties Division; indicated by the support of all set hypotheses.

6.12 OPPORTUNITIES FOR FUTURE RESEARCH

6.12.1 Restrictions of the Study

This specific study has been confined to the following area of research analysis :

- (a) a division within ABSA
- (b) current scenario: post implementation analysis
- (c) monitoring of the performance of the remuneration strategy

It is therefore appropriate to state the validity of a follow-up study to include the following :

- (a) all Divisions of ABSA
- (b) current and future scenario: pre/post implementation analysis
- (c) recommendations as to possible refinements to the reward strategy
- (d) link with business (financial) results

6.12.2 Areas for Research

The following are areas of research that pose a specific window of opportunity to empirically validate the stance on remuneration strategy and its implications for business as seen from results in the banking sector :

- (a) To assess the theoretical and empirical foundation of the ABSA Remuneration Strategy and Model.
- (b) To assess the relevance of the remuneration strategy as the tool in institutionalising major change in an organisation.
- (c) To link business results to the results of remuneration strategy implementation and assess the relevance for the organisation.

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RESEARCH QUESTIONNAIRE

Guidelines for completing the questionnaire

Your name has been selected at random to assist in this research project to establish the views and perceptions of employees on the ABSA Reward Strategy

All questionnaires will be evaluated by an external researcher and you cannot be identified by your response

Please mark your response in the block which you believe most accurately describes your view/perception for a given statement

Please respond honestly and candidly to the questionnaire so that the survey results will present an accurate picture of the perceptions and views of a sample of ABSA employees

Section A : Population Demographics

Please mark the appropriate box to each question

Q1 I am :

- 1 Female
2 Male

Q2 My age is :

- 1 25 and under
2 26 - 35
3 36 - 45
4 46 - 55
5 Over 55

Q3 I have worked for ABSA or one of its subsidiaries (including the pre-merger period) for :

- 1 0 - 11 months
2 1 - 5 years
3 6 - 10 years
4 11 - 15 years
5 16 - 20 years
6 21 - 25 years
7 Over 25 years

Q4 My job level is :

- 1 B
2 C
3 T
4 M
5 P
6 E

Q5 My job function is :

- 1 Professional/Specialist/Consultant
2 Technical (installation & maintenance)
3 Administrative/Clerical
4 Managerial/Supervisory
5 Other, please specify

26 I work in the following Division/Subsidiary/Department/Function/Workteam :

- 1 Logistical Support Services
- 2 ABSA Properties
- 3 Group Security
- 4 AllPay

27 I work at :

- 1 ABSA Head Office
 - 2 A Provincial Head Office
 - 3 A Divisional Head Office
 - 4 A Branch
 - 5 A Sub Branch
 - 6 An Agency
 - 7 An Operational Centre
 - 8 A Computer Centre
 - 9 Other, please specify
-

28 The function in which I work is :

- 1 Administration/Operations
 - 2 Accounting
 - 3 Auditing
 - 4 Collections
 - 5 Communication
 - 6 Customer Services & Enquiries
 - 7 Finance
 - 8 Human Resources
 - 9 Information Technology
 - 10 Legal
 - 11 Logistical Services
 - 12 Office Services
 - 13 Risk Control/Management
 - 14 Sales
 - 15 Secretarial/Swithboard/Reception
 - 16 Securities Administration
 - 17 Security
 - 18 Other, please specify
-

29 Please indicate the Province/Region in which you work :

- 1 ABSA Head Office
 - 2 Area Office - Kempton Park
 - 3 Area Office - Port Elizabeth
 - 4 Area Office - Kimberley
 - 5 Area Office - Durban
 - 6 Area Office - Bloemfontein
 - 7 Area Office - North West
 - 8 Area Office - Gauteng North
 - 9 Area Office - Gauteng East
 - 10 Area Office - Gauteng West
 - 11 Area Office - Northern Province
 - 12 Area Office - Koonstad
 - 13 Area Office - Qwa-Qwa
 - 14 Other, please specify
-

Section B

The successful functioning of the new reward strategy, ie broadbanding and the new reward system as introduced at the beginning of 1996, requires certain activities to be in place

Help us to check these by responding to each item in each question

Since the introduction of the reward strategy :

Q1 Flatter Structures

We have fewer reporting levels :

- 1 In our branch/department
- 2 In our division

| Yes | Unsure | No |
|-----|--------|----|
| | | |
| | | |

Q2 Cost Management

- 1 I understand that ABSA cannot spend more than it can afford
- 2 I understand the link between reward and organisational performance
- 3 The "purse concept" is effective in managing remuneration costs
- 4 All the different divisions (eg Finance, Bankfin) are involved in determining the "purse"
- 5 The "purse" is allocated in team context through all levels from EXCO down to the individual level
- 6 My manager accepts responsibility for the reward management process in my branch/department

| Yes | Unsure | No |
|-----|--------|----|
| | | |
| | | |
| | | |
| | | |
| | | |

Q3 Performance Management

A performance discussion is held with me:

- 1 Once a year
- 2 Twice a year
- 3 More than twice a year
- 4 Never

| Yes | Unsure | No |
|-----|--------|----|
| | | |
| | | |
| | | |
| | | |

At this performance discussion :

- 5 We discuss my past performance
- 6 We contract clear objectives
- 7 We contract my training and development plan
- 8 My input is actively encouraged

- 9 This performance discussion helps me to achieve my objectives

| Yes | Unsure | No |
|-----|--------|----|
| | | |
| | | |
| | | |
| | | |
| | | |

Q4 Incentive Schemes

- 1 I am participating in an incentive scheme
- 2 I have in the past participated in an incentive scheme
- 3 Only management share in these schemes
- 4 Our incentive schemes extend to all employees

| Yes | Unsure | No |
|-----|--------|----|
| | | |
| | | |
| | | |
| | | |

We do not participate in incentive schemes :

- 5 In this branch/department
- 6 In this division

| | | |
|--|--|--|
| | | |
| | | |

Recognition Schemes

- 7 Outstanding performance is recognised in our department/business unit through bonuses, non-monetary or other awards
- 8 Outstanding performance is acknowledged by the Group Chief Executive Awards
- 9 In our department/business unit, performance is visibly rewarded

| | | |
|--|--|--|
| | | |
| | | |
| | | |

Section C
One of the main reasons for introducing the new reward strategy has been to impact positively on the culture of the organisation

Help us check if we have achieved this by responding to each item in each question

Since the introduction of the reward strategy :

19

- 1 There are still many forms, signatures and authorisations required
- 2 Status still hinders teamwork
- 3 It is more important that my status is determined by my contribution than by my job title
- 4 I understand ABSA's goals
- 5 I understand divisional goals
- 6 I understand my department's goals
- 7 I understand my workteam's goals

| Agree | Unsure | Disagree |
|-------|--------|----------|
| | | |
| | | |
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| | | |
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| | | |

The new strategy has improved my commitment to :

- 8 - ABSA
- 9 - My branch/department
- 10 - My division

| | | |
|--|--|--|
| | | |
| | | |
| | | |

Reward decisions are NOT based on :

- 11 Gender
- 12 Race
- 13 Religion
- 14 Physical ability
- 15 Age
- 16 Length of service

| | | |
|--|--|--|
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| | | |

- 17 I am more motivated
- 18 I enjoy coming to work
- 19 I am less likely to be absent from work

| | | |
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| | | |
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| | | |

- 20 K.P.A.'s are contracted with me
- 21 I get regular feedback on my performance
- 22 I understand the nature of the contribution required in my job

| | | |
|--|--|--|
| | | |
| | | |
| | | |

- 23 I now take more decisions on my own without having to obtain formal approval
- 24 In our branch/department decisions are made more quickly
- 25 In our branch/department decisions are made more accurately

| | | |
|--|--|--|
| | | |
| | | |
| | | |

We are more accessible to our :

- 26 Internal clients (partners)
- 27 External clients

| | | |
|--|--|--|
| | | |
| | | |

We are more skilled/competent to meet our clients' needs :

- 28 Internal clients (partners)
- 29 External clients

| | | |
|--|--|--|
| | | |
| | | |

We have improved our response time (speed of delivery) in terms of client service to :

- 30 Internal clients (partners)
- 31 External clients

| | | |
|--|--|--|
| | | |
| | | |

We are more accurate in meeting clients' needs :

- 32 Internal clients (partners)
- 33 External clients

Agree Unsure Disagree

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Communication has improved in the following areas :

- 34 Between my manager and myself
- 35 In my workteam
- 36 Between employees and management in my branch/department
- 37 Between branches/departments

- 38 The members of my team support one another
- 39 My manager is part of our team
- 40 We are rewarded as a team
- 41 By supporting each other we have improved the functioning of our branch/department

- 42 I trust my manager
- 43 I trust my workteam
- 44 I trust colleagues in other branches/departments

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I perceive the reward strategy :

- 45 As credible
- 46 As fair

- 47 Objective reward decisions are taken
- 48 Reward decisions are taken in team context

- 49 I feel part of the solution
- 50 My manager hears and values my opinions
- 51 Development Board activities encourage participative management practices

- 52 My role has become more challenging
- 53 I am acquiring additional skills to improve my performance

- 54 I have more opportunity to increase my knowledge

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110 Are ABSA employees more productive since the introduction of the reward strategy ?

Yes No

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111 Help us to identify possible areas for improvement, by marking the applicable blocks :

- 1 We are not allowed to think for ourselves
- 2 There are too many bosses/supervisors to ask
- 3 There is too much red tape
- 4 Jobs are too narrow (limiting)
- 5 There is too much bureaucracy
- 6 K.P.A.'s are not properly contracted with all employees
- 7 There is not enough teamwork
- 8 We do not get enough feedback to improve our performance
- 9 There are not enough opportunities for personal growth
- 10 There are no opportunities for multi-skilling
- 11 There are no opportunities to increase my contribution

Agree Disagree

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Yes No

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112 Do you enjoy working for ABSA now?

113 By completing this questionnaire I have :

- 1 Voiced my opinion
- 2 Wasted my time
- 3 Provided input which will be valued

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Thank you for your co-operation

TRANSFORMATION PROCESS
 IMPLICATIONS FOR REWARD STRATEGY

BUSINESS CULTURE

Deliverable

Incentive schemes
 Flatter structures
 Cost management
 Performance management
 Recognition schemes
 Increased contribution

Impacts/Benefits

Decreased bureaucracy
 Commitmen/shared vision
 Cost effective practices
 Non discriminatory practices
 Job-satisfaction
 Focused job outputs/role clarity
 Flexibility
 Focused customer service (internal & external)
 Increased productivity
 Multi-skilling
 Improved communication
 Increased decision making

LEARNING CULTURE

Deliverable

Development Board functioning
 Performance Management
 Increased contribution

Impacts/benefits

Teamwork
 Multi-skilling
 Perceived performance linked reward
 Job satisfaction
 Individual growth and development
 Improved communication

LEGITIMACY

Deliverable

Development Board functioning
 Equitable reward decisions
 Understanding of reward principles
 Explanation of reward principles

Impacts/Benefits

Trust
 Integrity
 Non-discriminatory practices
 Participative Management
 Job satisfaction
 Decreased bureaucracy
 Multi-skilling
 Improved communication

CONSTITUENT VARIABLES

Performance Management Frequency
 Development Board Meeting

QUESTIONS GROUPING

Sections B (Q1-Q8) and C (Q9-Q13)

BUSINESS CULTURE

Deliverable

| | |
|------------------------|-----------|
| Incentive schemes | 4(1-6) |
| Flatter structures | 1; 11(2) |
| Cost management | 2 |
| Performance management | 3(1,5-8) |
| Recognition schemes | 4(7-9) |
| Increased contribution | 5; 11(11) |

Impacts/Benefits

| | |
|---|-----------------------------|
| Decreased bureaucracy | 9(1-3,23,24); 11(3,5) |
| Commitmen/shared vision | 9(4-10) |
| Cost effective practices | 2(3-6) |
| Non discriminatory practices | 9(11-16) |
| Job-satisfaction | 9(17-19) |
| Focused job outputs/ role clarity | 3(9); 9(20-22) |
| Flexibility | 5; 9(53) |
| Focused customer service (internal & external) | 9(26-33) |
| Increased productivity | 10 |
| Multi-skilling | 5(2); 9(52,53); 11(4,10) |
| Improved communication | 9(34-37); 11(8) |
| Increased decision making | 11(1) 9(23,24); |

LEARNING CULTURE

Deliverable

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|----------------------------------|-----------|
| Development Board functioning | 6(1,7-10) |
| Performance management | 3(1,5-8) |
| Increased contribution | 5; 11(11) |

Impacts/benefits

| | |
|--|------------------------------|
| Teamwork | 2(5); 9(7,38-41); 11(7) |
| Multi-skilling | 5(2); 9(52,53); 11(4,10) |
| Perceived performance linked reward | 4(7-9);7(6) |
| Job satisfaction | 9(17-19) |
| Individual growth and development | 3(7);6(8);9(52-54); 11(9) |
| Improved communication | 9(34-37);11(8) |

LEGITIMACY

Deliverable

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|---------------------------------------|-----------|
| Development Board functioning | 6(1,7-10) |
| Equitable reward decisions | 7 |
| Understanding of reward principles | 8 II |
| Explanation of reward principles | 8 I |

Impacts/Benefits

| | |
|---------------------------------|----------------------------------|
| Trust | 9(42-44,49,50) |
| Integrity | 9(45-48) |
| Non-discriminatory practices | 9(11-16) |
| Participative Management | 2(4,5); 3(8); 9(49-51); 11(6) |
| Job satisfaction | 9(17-19) |
| Decreased bureaucracy | 9(1-3,23,24); 11(3,5) |
| Multi-skilling | 5(2); 9(52,53); 11(4,10) |
| Improved communication | 9(34-37);11(8) |

CONSTITUENT VARIABLES

| | | | |
|----------------------------------|--------|--------------------------|----|
| Performance Management Frequency | 3(1-4) | Validity check | 11 |
| Development Board Meeting | 6(2-6) | Loyalty/skills retention | 12 |