

## The impact of performance-related pay on employees' performance: case studies of Omani public and private sector organisations

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**The Impact of Performance-Related Pay on Employees' Performance:  
Case Studies of Omani Public and Private Sector Organisations**

By

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A Thesis Submitted in Partial Fulfilment of the Requirements of the  
University of Wolverhampton for the Degree of Doctor of Philosophy

March 2020

**Declaration**

I confirm that no part of the thesis has been previously presented in any form to any University for any degree.

Signature.....

Date.....

## Abstract

Performance-related pay (PRP) has witnessed growing interest over the past two decades in Oman, alongside increasing attention to human resource management (HRM) practices. However, despite its continued adoption in various cultural contexts, gaps in its effectiveness remain the subject of widespread controversy. Consequently, this thesis is an attempt to examine the impact of PRP on various Omani public and private sector organisations in the form of four case studies. Three of these are on companies in the private sector which form the backbone of the Omani economy and one on a public sector organisation.

The study gap lies in both the lack of studies on PRP in the public and private sectors in Oman, and the few numbers of studies in the pay literature in general in the region. The original contribution being made in this thesis lies in the attempt to bridge the research gap by viewing PRP systems through several lenses: from theoretical framework, managers, employees, contextual and documents (document analysis) perspectives. The different characteristics of the included organisations and the relevant findings can also be considered as an enhancement element of the originality and contribution of the thesis.

However, with respect to the reservations of the participating organisations and to preserve their anonymity and confidentiality, they will be referred as Organisation A, B, C and D. Organisation A is a distinguished global organisation operating in Oman, while Organisation (B) is a local organisation working in the private sector. Organisation (C) is characterised by being a wholly-owned government organisation that operates in the private sector, and finally, Organisation (D) is a government entity operating in the civil service.

Three research questions were formulated to provide a basis for the thesis structure.

Accordingly, the mixed-method approach was adopted as a data collection strategy. The

primary approach was face-to-face interviews with middle managers, while survey questionnaires were used with employees to measure their attitudes. In addition, document analysis was used to diversify the data sources and to increase confidence in the results.

The thesis examination is based on a comparison of findings from multiple perspectives; for example, from those of middle managers, employees, document analysis, and the theoretical framework of the most important theories underlying PRP. These perspectives were then considered in the light of the literature review to determine the effectiveness of PRP in each organisation.

The findings reveal that PRP in Organisations A and B was effective and achieved its goals. The reasons for this can be attributed to the methodological approach adopted in the implementation and operation of the PRP system, which were consistent with the strongest theories underlying the system, such as the agency theory, expectation theory and goal-setting theory, in addition to the systematic activation of the role of HRM and the effective development and preparation of middle managers. On the other hand, the findings related to Organisations C and D show that they do not appear to have achieved the sufficient objectives of PRP. Although the results were somewhat mixed, they revolved around the issues of fairness, favouritism, bureaucracy and the role of HRM.

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## List of Abbreviations

ACAS - Advisory, Conciliation and Arbitration Service

CIPD - Chartered Institute of Personnel and Development

GCC - Gulf Cooperation Council

HR - Human Resources

HRM - Human Resource Management

ICT - Information and Communications Technology

IMF - International Monetary Fund

KPI - Key Performance Indicator

NPM - New Public Management

PPPs - Public-Private Partnerships

PRP – Performance-Related Pay

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## **CHAPTER ONE: INTRODUCTION**

### **1.1 Introduction**

Despite the widespread use of PRP, there appears to be a lack of understanding of the set of its values and principles. In some organisations, the operation of the performance pay system suffers from poor management implementation and outcomes. This may be explained in part by an over mechanical introduction of the system without the necessary awareness of core framework requirements which also includes the main elements that would help in designing a systematic and effective performance pay system.

Addressing the PRP system through one or two dimensions does not reflect the overall picture and does not help in drawing a road map or creating effective common standards to design and implement the system effectively in different contexts. It is believed that there are key values and elements that PRP holds, and it is noted that there may be few studies that attempt to capture these elements and values in a holistic view instead of focusing only on the challenges and problems of the system and the reactions of managers and employees.

Underlying PRP values and elements are derived from the theoretical framework, the most important theories supporting the system such as the agency theory, expectancy theory and goal setting theory. Therefore, here is where the research gap lies, in which this thesis is trying to address by looking at PRP from many dimensions and perspectives associated with PRP in an attempt to answer the research questions.

The interest of decision-makers and HR managers both in the public and private sectors in linking pay to performance has increased dramatically in recent years. Performance pay has been used as a means to influence employee behaviour and performance (Nyberg, Pieper and Trevor, 2016). Moreover, there have been extensive academic studies and discussions on

performance pay that have taken different forms and explored ways to make human resources and organisations more competitive and productive (Spano and Monfardini, 2018). The most recent empirical studies indicate that it has become customary for any increases that employees receive in their pay to be largely based on their performance and work contributions (Wenzel, Krause and Vogel, 2019; Jones et al., 2019). However, the effectiveness of performance pay remains an issue of widespread debate among academics and practitioners (Kuvaas et al., 2017).

Hence, this thesis is an attempt to explore the depths of these controversies in order to provide clear insights into and reach acceptable outcomes on the impact of performance pay on public and private sector organisations in Oman. This is achieved through a mixed method approach, which allows the use of qualitative and quantitative data collection methods. The main approach to collecting the data was by interviewing five middle managers in each organisation. In addition, the data was triangulated by distributing questionnaires to employees. Moreover, document analysis was used to diversify the data sources in order to increase confidence in the results of the thesis and reach a clearer understanding.

In recent decades, the world has witnessed rapid changes and developments related to information and communications technology (ICT), globalisation and the knowledge economy, which have led private sector organisations to adopt a set of principles and values related to human resources (Holland and Bardoel, 2016). Even at public department level, the challenges of the internal and global environments have led to fundamental changes in the level of its jobs, services and activities. As a result, the concept of new public management (NPM) has emerged (Brunetto and Beattie, 2019) as a means to activate and align the public sector with the advances in ICT in order to improve the quality of services and to meet the aspirations of citizens (Gil-Garcia, Dawes and Pardo, 2018), as well as to keep pace with

rapid economic growth. Moreover, with the concept of Public-Private Partnerships (PPPs), it has become necessary to enhance cooperation between the two sectors and exchange experiences in order to achieve the higher goals of the state (Wang et al., 2018).

This means that in this age of fierce competition, the most critical challenges facing organisations revolve around the effectiveness and efficiency of their performance, which is their safety valve for their continuity and achievement of their goals (Kuipers and Giurge, 2017). Whether organisations have massive funding, large physical capital and/or advanced technology, they will never be able to achieve their goals and success without high-performance human resources (Tsai and Yen, 2018). Consequently, the desire to link employees' pay to their performance has been high on the agenda of many public and private sector organisations in many countries, especially developed ones (Knies et al., 2018).

This approach intends to find a strategy aimed at activating the relationship between the organisation and its employees, which can limit the brain drain and also retain and attract talented staff (Sun and Wang, 2017), as well as involving employees and linking their performance to the ultimate goals of the organisation. As a result, there has been significant growth in performance pay strategy in recent years (Bondarouk, Trullen and Valverde, 2018). This strategy is known as performance-related pay (PRP), and is often defined as linking pay to performance, with performance often measured against pre-determined goals (Suff, Reilly and Cox, 2007; CIPD, 2019). In other words, it is a method of pay in which employees receive rises based on a systematic evaluation of their work contributions (ACAS, 2012).

The importance of the PRP system has increased with the liberalisation of the markets and changes in the economic and technological contexts, as well as with increased pressure to improve human resource management (HRM) policies and practices in a work environment characterised by creativity and innovation (Hong, Zhao and Stanley Snell, 2019). The system

has emerged as a tool to influence the behaviour of employees and direct them towards organisational goals, in exchange for an attractive outcome and thus aligning the interests of both parties as employer and employee (Bos-Nehles and Meijerink, 2018). According to the literature, the PRP system is largely based on strong theories that underlie the rationale of its operation (Hewett et al., 2018).

Among the most important of these theories, which will be covered later in more detail, is agency theory, which proposes that organisations should find an effective and objective way to reconcile the interests of employer and employee in light of the high costs of oversight and the difficulty of observing the efforts of employees. In addition, expectancy theory suggests that employees often create expectations of their rewards in exchange for the efforts they make, thus their behaviour can be strengthened by enhancing the reward value. Another important theory is goal-setting theory, which suggests that with the right goals, performance, productivity, and motivation can be enhanced. Additionally, it provides an effective tool for objective measurement of staff performance. In other words, these theories provide an effective framework for operating the PRP system.

It should be noted that when PRP is referred to as a system, it is important to realise that this system can be seen as a set of interdependent and interconnected factors or elements, whose interaction with each other determines the extent to which PRP achieves its goals (De Spiegelaere, Van Gyes and Van Hootegem, 2018). In other words, the elements that make up the system are methodical, systematic and dynamic processes that ensure the success of PRP. These processes, which are intended to ensure the success of the PRP system, may be inspired by theories underlying PRP, as theories often provide a logical explanation of the way a system operates (Parker, Jimmieson and Techakesari, 2017). Consequently, this study

examines this aspect by exploring the mechanisms of PRP operation in the organisations analysed in the research.

Furthermore, it should be noted that the study attempts to examine the PRP system through more than one lens or dimension; for example, it considers the system from theoretical and practical dimensions (method of operation), the contextual dimension, and from management and staff perspectives. It can be claimed that these dimensions are what distinguish this study and make it unique. This is because many other PRP studies only focus on one of these dimensions, without considering the others. In other words, they often focus just on staff reactions or on the responses of other PRP recipients (McNabb and Whitfield, 2007). This makes it difficult to visualise the bigger picture of the system and to identify the success and failure factors.

There has been a widespread increase in the use of the PRP system, especially in the United Kingdom and the United States, which are considered to be the countries of its origin (Jacobsen and Jensen, 2017). However, some research casts doubt on the success of the system, especially in the public sector (Hodgkinson et al., 2018). Nevertheless, significant evidence shows many organisations' continued interest in introducing PRP (Garcia-Lacalle, Royo and Yetano, 2018). In addition, there is a large body of empirical evidence on the positive impact of the system on organisational performance, and the retention and attraction of talented employees in the private sector (Suk Kim and Kotchegura, 2017). However, there remain many gaps and few attempts have been made to measure the main success or failure factors in operating the system, especially in comparative studies between the public and private sectors (Spano and Monfardini, 2018).

It can be said that the philosophy behind PRP is simply about developing a pay system that suits the new global competitive environment and is based on the principle of partnership, so

that employee performance is linked to organisational goals (Kuvaas et al., 2017). This is because it is believed that every individual employee is highly influential and a key contributor to the success of an organisation in achieving its goals; accordingly, an organisation should share its success results with its employees (Lee, Iijima and Reade, 2011). In other words, the ideas behind the PRP system lie in attracting and retaining talent; motivating those who make productive contributions; and ensuring fairness, a high-performance culture, and commitment to organisational goals. Other reasons for PRP include rationalising spending and controlling the wage bill, thus ensuring that incentive funds go to those who deserve them, as well as promoting control over employee behaviour.

Despite the logical objectives of adopting the PRP system, many organisations still have problems in its implementation and operation. Sometimes, instead of satisfying the ambitions of an organisation and its employees, the system creates more chaos and mystery (Rayner and Espinoza, 2016). This is because there are no clear criteria, common standards or magic formula for its success, as each organisation has its own culture, values, context and goals, so it may need to formulate and design a system based on its individual nature and ultimate goals (Yang and Hung, 2017). Unsystematic implementation of PRP leads to favouritism, unfairness and uncertainty in the operation process, which often lead to employee turnover.

## **1.2 Reasons for the Research**

This study exploits the gap in the literature, namely the absence of, or very few studies, that address the PRP system in the public and private sectors in the Arab world, especially Oman. Moreover, it also covers the gap created by the lack of studies that focus on identifying the factors of system success or failure, and whether there are common factors between the public and private sectors. A gap was also noted in the theoretical and practical aspects of PRP implementation. Consequently, this study seeks to consider the extent to which the

operation, practices and processes of the systems in the participating organisations are inspired by the fundamental theories underlying PRP.

The originality of the research lies in the fact that it examines four organisations (four case studies), each of which is different in terms of classification. The first (Organisation A) is distinguished as a global organisation operating in dozens of countries across the world, while the second case study (Organisation B) is considered to be one of the influential organisations in the Omani national economy, operating in the private sector. It should be noted that Organisation A has a stake in Organisation B. The third case study (Organisation C) operates in the private sector and is wholly owned by the Omani government, and finally the fourth (Organisation D) is a governmental organisation. In appreciation of the wishes of the four organisations, which expressed reservations regarding disclosure of their names and data, the research respects their privacy and confidentiality. This will be explained in detail in the following sections.

The study is conducted as an attempt to bridge the aforementioned gaps. In other words, in order to establish the impact of PRP on employee performance in the public and private sectors within the framework of the participating organisations, the main differences and success factors will be explored. PRP remains a subject of widespread controversy, but organisations are still interested in introducing it. The study aims to ascertain why organisations are still keen to introduce PRP even if the system is not effective. These questions arose while becoming immersed in this research journey.

### **1.3 Public and Private Sectors**

At the civil sector level, particularly in the Gulf Cooperation Council (GCC), governments have always tried to develop solutions to the wage challenge, but these are often temporary

and subject to oil prices (Al Sheikh and Erbas, 2013). The civil service in Oman continues to strive to improve its pay system in order to enhance employees' sense of commitment, to improve their performance and to reward those who make productive contributions. Many civil organisations have introduced the performance pay system. However, there remain unresolved doubts and questions about the standards and processes used in its operation.

In many public organisations in Oman, pay policies are still traditional and marred by extensive bureaucracy. Pay progression is often based on seniority, with employees promoted every four years, which means a large wage bill for the state. However, many employees often continue at the same level of performance, without the increases in pay having a sufficient impact on it. This is due to the treatment of average-performing employees on an equal footing with high-performing and productive ones. Furthermore, this is assumed because of the absence of a systematic method of managing the pay system. As a result, there is a lack of motivation among distinguished employees; poor productivity and performance; increased employee turnover; and increased bureaucracy, unfairness and favouritism.

The government in Oman relies heavily on hydrocarbons to finance the wage bill, and with the decline in oil prices, promotions have been frozen for nearly a decade. The civil service in Oman is now facing severe internal and external pressures. Internal pressures concern improving the quality of services, especially in light of public awareness and the spread of the culture of electronic services (IMF, 2019). This undoubtedly requires motivated human resources, effective performance measures and a pay system that ensures the enhancement of performance and retention of competent staff.

On the external level, Oman suffers from pressures from international organisations such as the International Monetary Fund (IMF) to introduce a package of economic reforms. These include privatising some sectors; improving services; lifting fuel subsidies; reducing the

dependence on oil; and diversifying income sources. This is in order to be able to attract more foreign investment and open up the country to the world. It is assumed that all of these measures require motivated human resources and an effective pay system, such as PRP.

In the private sector, many large local and global companies have managed to attract a great number of Omani talents working in the public sector, because of the privileges and attractive incentives they provide. Among the advantages that distinguish these companies, is the performance pay system they operate. The movement of talented employees from the public to the private sector has caused damage to public organisations and become an obstacle to improving their services and performance. This is because the government has invested in the training, education and preparation both at home and abroad of most of these talented employees. With the attraction of foreign investments and the entry of global companies into the Omani market, competition for talented staff in the labour market continues. However, with the current traditional government pay system, there is a potential of losing other numbers of skilled workers. Therefore, pay system policies and their operation should be reviewed and formulated to gain a competitive advantage and ensure the retention of competent staff to enhance overall performance.

#### **1.4 Research Questions**

In light of the above-mentioned factors, it is possible to conclude the extent of the importance of the PRP system in any organisational context. Therefore, the importance of this thesis is that it explores and examines the operational methods of the system, its effectiveness, and its success factors within the four organisations that have adopted the system. In other words, the study aims to answer the following questions:

- What is the impact of PRP on employees performance in Omani public and private sector organisations?
- What are the key differences in the operation of PRP between public and private sectors?
- What are the factors leading to the success of PRP?

## 1.5 Structure of the Thesis

The thesis aims to collect management opinions through the qualitative method of face-to-face interviews as a primary data source. These data are then triangulated using a quantitative method (questionnaires) to obtain employees' perspectives and to validate the data.

Subsequently, documents from the organisations included in the thesis that relate to PRP will be accessed to obtain a comprehensive picture of the system, and will be considered a secondary source of data collection. Finally, the findings are viewed in light of the most important theories underlying the PRP system, as well as in relation to the results of the literature reviews.

**Chapter Two** is the literature review. It reviews the literature on pay and the stages of its development; the role of the labour market in wages; the most important theories of wage determination; the role of the state in wage determination and the civil service; wages inside the firm; performance management systems; and finally the theoretical framework of PRP.

**Chapter Three** is the background. It provides an overview of the regional context of the study; the political context; cultural context; economic context and the Omani labour market.

**Chapter Four** is the methodology chapter. This chapter discusses related philosophical concepts; various research options; data collection methods; validity and reliability; and concludes by justifying the methodology followed in the thesis.

**Chapter Five** presents the findings and analysis. It deals with the responses from the interviews and questionnaires; provides interpretations of the fieldwork results; discusses the relationship between the responses and the theoretical framework of PRP; discusses the difference between the four case studies; and finally addresses the results of each case separately.

**Chapter Six** is the conclusion. This chapter provides a summary of the most important findings from the literature reviews, followed by sections reviewing the summaries of the most important results from the case studies. It then proceeds to address the research questions. Finally, it provides the contributions of the thesis, recommendations, limitations and future research directions.

## **CHAPTER TWO: REVIEW OF PERFORMANCE PAY LITERATURE**

### **2.1 Introduction**

This chapter discusses the main debates associated with the PRP system from several perspectives in order to address the basic premise of this thesis, which relates to the impact of PRP in the public and private sectors, as well as identification of the research gaps and factors contributing to the success or failure of PRP. The study is made through the research questions presented and the most prominent arguments resulting from the literature reviews. Moreover, the roles of the state and the labour market in wage determination are examined, together with the theoretical perspectives of PRP.

In a modern economy that relies heavily on innovation and creativity, the importance of HRM practices and functions has increased significantly (Kowalski and Loretto, 2017). Furthermore, in the current competitive business environment and with the development of ICT, firms and public departments have become more committed to improving their performance and becoming more agile and dynamic (Amarakoon, Weerawardena and Verreyne, 2018). They seem to have realised that improving employee performance is the key to addressing today's challenges (Boon et al., 2018). Consequently, there has been increased interest in enhancing staff motivation and in incentives (de la Torre-Ruiz, 2019), in addition to increased emphasis on pay issues as the driving force for employee performance and achieving the ultimate goals of the organisation (Hartmann and Slapnicar, 2012; Jirjahn and Mohrenweiser, 2019).

The basis of firms' profits, growth, good performance of state institutions and the quality of their services, are highly dependent on employee productivity and performance (Miao et al., 2019). Research results indicate that among the important sources of economic growth is

human resource productivity (Diebolt and Hippe, 2018), which can be inferred by per capita income growth over the past decade. Recent empirical studies have revealed that pay improvement has a clear positive relationship with employee productivity and performance (Way, 2015; Tadjoeeddin, 2016; Delahaie and Duhautois, 2019; Taylor and Omer, 2019). From the above issues, questions can be raised about the importance of the performance pay system, its impact, and its success factors.

Organisations have introduced PRP in an effort to link staff performance to their core business goals (Chi et al., 2018). Although the question of linking performance to pay has been the subject of many research studies (Della Torre et al., 2018), it remains a controversial issue in many debates. PRP proponents consider it a powerful tool to guide and invest in staff effort and time, and to add real value to their achievements (Bonet, Eriksson and Ortega, 2019). However, its effectiveness in the public sector remains unclear, although empirical evidence has indicated a positive impact in the private sector (Bryson, Forth and Stokes, 2017).

The points of controversy are centred on whether the culture, nature and profitability of organisations are critical factors for the success of PRP (Murphy et al., 2019); in other words, whether the context in which the PRP system is being implemented matters. In contrast, from the theoretical PRP standpoint, the success of the system depends on employees' positive attitudes and the mechanisms adopted at the workplace (White, 2018). The findings of the literature reviews emphasize the importance of following theoretical processes to ensure the success of PRP (Hambly et al., 2017). However, the question remains as to whether managers follow these processes.

Throughout this investigation, PRP operation mechanisms will be examined, together with the extent to which they are consistent with the theoretical perspective. The research will also

be supported by evidence collected from the four case studies in the Omani context. One case addresses one of the most important organisations in the civil service, while, the remaining cases deal with three largest oil and gas companies in the private sector.

It should be noted that many organisations remain interested in introducing different models of performance pay (McNabb and Whitfield, 2007; Spano and Monfardini, 2018). However, there is a huge gap between the values advocated by organisations and what is actually being applied on the ground (Madden and Vekker, 2017). If PRP is not effective, why are organisations still keen to introduce it?

In order to conduct a systematic investigation to uncover this confusing debate, which is sometimes contradictory and controversial, this chapter addresses five fundamental dimensions of the pay system. The first dimension starts with arguments associated with PRP and then moves on to case studies to highlight the key controversies and the most prominent practices, while the second dimension addresses the labour market and factors influencing pay systems. The third dimension is associated with the state role and discusses the tools used to determine and influence wages, while the fourth dimension looks inside the firm and deals with pay structures and bonus systems, in addition to various aspects of labour relations and HRM. Finally, the fifth dimension deals with the core element of the research topic. It begins by discussing the concept of performance management to understand how performance relates to pay, before proceeding to the theoretical basis of PRP.

## **2.2 Research Questions and Objectives**

Research questions are one of the most important elements of a research project. Designing good questions is a stressful process, especially for subjects involving ambiguity, conflict or controversy (Bryman, 2007). However, research questions remain the key element that drives

research in a structured and systematic framework to ensure meaningful contributions to the body of knowledge. Therefore, this thesis seeks to address the following research questions:

- What is the impact of PRP on employees' performance in Omani public and private sector organisations?
- What are the key differences in the operation of PRP between public and private sectors?
- What are the factors leading to the success or failure of PRP?

These questions revolve around the effectiveness of the PRP system. Moreover, they aim to help understand the main differences in the operation of the system between the public and private sectors and to examine success and failure factors.

Furthermore, it is believed that setting clear objectives for the thesis will sharpen the focus and ensure that the research path is not derailed. The following objectives are set to complement and reinforce the research design and to facilitate the answering of the questions posed. Therefore, the research objectives are:

- To explore the nature of PRP practice in Oman.
- To identify the key differences in the operation of PRP in the public and private sectors.
- To determine the criteria that help PRP succeed or prevent it from failing.

### **2.3 Arguments in PRP**

Organisations often resort to the PRP system to achieve their ultimate strategic goals; to change staff behaviour (DeVaro, Kim and Vikander, 2017); or to link pay to employees' contributions and performance (De Spiegelare, Van Gyes and Van Hootegem, 2018).

However, the risk that PRP will undermine employees' intrinsic motivation exists (Ashraf, Bandiera and Jack, 2014). The PRP system continues to suffer from a lack of a clear

theoretical framework that supports its practical application; in addition, there is a lack of a systematic or common method to implement it, which makes it even more difficult to succeed.

The operational methods of PRP vary according to the objectives, nature and structure of the organisation (Bryson, Forth and Stokes, 2017). Despite the large number of related empirical studies, it is difficult to reach precise conclusions that are consistent with what is happening on the ground. This may be due to the fact that studies are often conducted in different environments, cultures and sectors and therefore have mixed results. However, there are some elements and processes that cannot be separated when operating PRP, regardless of the context or environment. The empirical findings suggest that the theoretical framework is one of the obstacles to the success of the system (Nyberg et al., 2018).

The pay system is an important element in the employment relationship. It is also important to the organisation's economy in terms of achieving its objectives and retaining competent and experienced staff (Nyberg, Pieper and Trevor, 2016), especially in markets where human resources have become more valuable than any others (Hausknecht, Rodda and Howard, 2009; Ybema, van Vuuren and van Dam, 2017). The increasing competition for talented workers and the development of HRM practices have increased the interest of organisations in PRP (Bonet, Eriksson and Ortega, 2019).

The point of the argument is that people differ in their personal qualities in terms of knowledge level, education, experience and skills; in addition, there are differences in the work environment, responsibilities and circumstances (Bayraktar et al., 2017). All these factors are linked remotely or closely to employee performance. Pay determinants vary from one organisation to another. However, in today's competitive market economy, pay is often determined by an employee's contribution to the organisation or production (Wynen et al.,

2019). In other words, employees' performance, qualifications, abilities and skills have become the main determinants of success. Research results have shown a positive correlation between pay and productivity (Blundell, Crawford and Jin, 2014). However, poor organisational performance and staff turnover have become a significant challenge for organisations, made even more of a problem in the absence of effective motivation tools, especially in the competition between organisations for competent employees.

Therefore, given the disparities between staff characteristics, it is illogical to treat all staff equally in light of their differences in performance, productivity and contributions. Ignoring this fact could lead to the loss of talented employees and the weakening of organisational competitiveness. As a result, it has become difficult to overlook an effective pay system as a strategy to ensure fairness, motivation and the retention of competent staff (Lockey, Graham and Zhou, 2017). Working environments also vary from one organisation to another, as each organisation has its own norms and set of values that distinguish it from others. This indicates that no single model of a performance pay system can be appropriate for all organisations.

The reasons for introducing a PRP system may vary depending on the nature of the organisation. Some introduce the system to impose controls over employees (Wenzel, Krause and Vogel, 2019). However, research results suggest that employees will have negative attitudes if they realise that the system has been introduced to control their behaviour rather than motivate their performance (Jacobsen and Andersen, 2014; Lee, Idris and Tuckey, 2019). Consequently, it is important to clarify the goals and avoid sending wrong messages when introducing such a system (Dhiman and Maheshwari, 2013).

It has been argued that PRP works more efficiently in the private sector because of its nature and characteristics such as profitability (Bryson, Forth and Stokes, 2017). However, there is little evidence of system effectiveness in the public sector. The question remains as to

whether working values, organisational culture and context have an impact on PRP outcomes, in light of the fact that the private sector generates profits and its employees contribute to maximising these, unlike in the public sector, which focuses on providing services to the public.

The competition for competent, qualified and experienced employees in the labour market has increased. Some organisations are seeking to attract talented staff, while others are trying to retain those they have. Although findings suggest that the PRP system has become a key strategy in contemporary organisations, little research has explored the deeper philosophy that helps improve system application. Most studies focus on measuring results and analysing participants' reactions.

Consequently, there is still much debate about the impact of PRP, how it is operated, and its success factors. The following section addresses the main arguments surrounding the PRP system. The pay system inevitably produces tension for any organisation, which may be due to many factors, such as relative wage differences in labour markets and between competing organisations. It is also considered to be an emotive issue in employment relations (Cox, 2000; Stokes, 2017), increasing pressures on public organisations to improve their effectiveness, efficiency and quality. In addition, the competitive pressures faced in private sector organisations have forced the sector to adopt PRP. Evidence suggests that highly qualified people prefer to work in organisations that adopt a performance pay system (Guest and Conway, 1997 in Harris, 2001; Suff, Reilly and Cox 2007; Artz, 2008; Ogbonnaya, Daniels and Nielsen, 2017).

It can be claimed that the key argument in favour of the PRP system is that it aligns staff efforts with organisational strategy by developing indicators that measure staff performance objectively (Bryson, Forth and Stokes, 2017). Consequently, this allows staff to share the

positive results achieved by an organisation. Moreover, it eliminates the conflicting interests between management and staff and unites them in one common goal (DeVaro, 2017). In contrast, the traditional pay system does not help to distinguish between competent staff who contribute effectively and staff who work normally.

There is another debate about the effectiveness of the PRP system in the public and private sectors. PRP advocates point out that performance pay is more effective in the private sector as it encourages a culture of creativity and innovation (Yanadori and Cui, 2013; Curran and Walsworth, 2014), while it is not so effective in the public sector because of the complicated formal structure, strict hierarchy and bureaucracy. Another assumption is that it is difficult to measure the final results for non-profit organisations. However, others argue that profitability is not a determining factor in the success of PRP; instead, the method of implementation, the criteria and standards used, the measurement tools, the element of fairness, and the setting of clear objectives are the most critical factors (Kim et al., 2018).

When the PRP system was introduced in the UK in the 1980s, organisations had positive hopes and expectations. They were very optimistic that the system would make major changes and bring values that promoted individual performance and organisational culture (Suff, Reilly and Cox 2007; Troster, Van Quaquebeke and Aquino, 2017). It was considered to be a strategic reward tool to promote the right behaviour and motivate employees' performance and commitment and seen as a way to recognise staff achievements and provide flexibility to retain them.

PRP still plays a key role in the private and public sectors in terms of payment and performance management. Research results indicate that PRP is not dead and will not die; in fact, it is growing slowly (Brown and Armstrong, 1999; Chubb et al, 2011). Moreover, there has been a gradual improvement in its implementation and operation, as well as in the

documentation of its experiences. However, some practitioners indicate that there is a continuing gap between what is supported by theories and what is being delivered in actual practice.

Individual performance-related pay (IPRP) has been claimed to be more effective and influential. According to Suff, Reilly and Cox (2007, p.2), IPRP is defined as “a pay progression system where individuals receive a financial reward based on their performance”. Findings indicate that most managers support the idea of rewarding employees with high performance and they believe that IPRP can contribute significantly to the effectiveness of the organisation. It is also suggested that employees who receive IPRP and profit sharing have a greater sense of job satisfaction (see Heywood and Wei, 2006; Green and Heywood, 2008; Kruse et al., 2010 in O'Halloran, 2012).

However, other findings in the literature on pay show that some organisations fail to design an appropriate PRP system. In particular, they fail to align the characteristics of the system with the nature and culture of work in their organisations. Consequently, they end up designing complex systems with unexpected consequences (Bullock, Stritch and Rainey, 2015). The importance of involving and engaging line managers and employees in the design of the PRP system has also been ignored to some extent. This is due to a lack of appreciation and miscalculation of its impact on the effectiveness of the system application.

The PRP literature emphasises the importance of involving line managers and staff in system design, which is considered to be a critical factor in the success of the system (Cox, 2000; Sihag and Rijdsdijk 2018). PRP should not be seen as simply a motivational tool; it also needs to be considered as a key enabler for creating a culture that links good performance and rewards. Moreover, it must be designed to focus more on recognising and rewarding workers who have made additional efforts and encouraging them to do more in the future. “An

organisation must develop its own unique approach based on its own circumstances, and that the reward strategy must link to the broader business strategy of the organisation” (White, 2001, p.94).

However, before designing a PRP system, it is important to conduct an in-depth analysis of what needs to be achieved and what employees expect, in order to make it clear to employees what behaviours and efforts that must be made to achieve any reward. It is also important to clarify how these efforts contribute to organisational strategy (DeVaro, 2017). This reflects “the fact that reward systems are fundamentally about techniques of management control over the behaviour of employees” (White, 2001, p.94).

PRP links the organisation's strategic goals and employee performance; it should reward and encourage employees who contribute to achieving its goals. Furthermore, it should be able to distinguish between different levels of performance among employees. This is usually established through a three phase process: first setting clear objectives for staff; then conducting performance appraisal to evaluate their performance against the objectives set; and finally determining the deserved pay based on the performance achieved (Cox, 2000; Bullock, Stritch and Rainey, 2015).

For many organisations, PRP is considered as a solution to the problem of staff turnover. Empirical evidence from research conducted by O'Halloran (2012) shows that employees who receive PRP, whatever the type of scheme, have the lowest turnover rate. The study indicates a negative relationship between PRP measures and staff turnover. Furthermore, the results show that employees' awareness of the key organisational goals enhances understanding of their missions and tasks, therefore facilitating better results. Moreover, it ensures that employees are more productive and efficient and more committed to organisational values and goals.

## **2.4 Case Studies on PRP**

This section examines and discusses empirical studies conducted on the performance pay system and draws conclusions from them.

### **Case study 1**

Marsden (2015) conducted a study aimed at exploring the impact of the new performance-related pay (PRP) system that had been implemented in the educational sector in England and Wales in 2014. The survey included a sample of around 2,950 teachers. The new scheme had been built on the basis of making employees' pay progress contingent upon the performance appraisal conducted by their line managers.

The results generally indicate that there was a widespread negative view held by teachers of the impact of the system on their performance. Many employees expressed concerns about the issues of favouritism and the lack of funding for pay increments that teachers deserved, which meant waiting until funding was provided. This was based on their belief that schools do not generate profits and that even increasing and boosting their performance would not produce income.

However, many teachers also expressed a positive view of the performance appraisal procedures and the goals assigned to them, although this contrasted with their concerns and fears about the prospect of favouritism. It can be concluded from these findings that there is a gap in the objectivity of the evaluation procedures followed, as well as a failure by schools to convince teachers about the availability of funding for the system. Consequently, this feeling of mistrust may not serve the objectives of the system.

This seems to suggest that the PRP system did not achieve the desired effect in terms of creating trust and transparency among teachers. This was evidenced by teachers' concerns about favouritism and scepticism about the ability of schools to provide the necessary funds for teacher increments.

## **Case study 2**

Burgess et al. (2010) undertook an empirical study to assess the impact of the PRP system on employee performance in the UK civil service, specifically at the tax office. The study lasted nine months and included treatments groups who had received incentives and a control group that had not received any. The results show clearly that financial incentives contributed effectively to raising individual performance. However, the notable finding was that the competent staff, who had been reallocated for various incentivised tasks, made a more effective contribution in terms of overall outcome.

Moreover, the results show a marked alignment between staff and managers' objectives in terms of organisational goals. It can be concluded that the positive outcomes of PRP at the tax office were the result of good system design and an appropriate work structure. Success was also attributed to the well-qualified managers and the clarity of the tasks and objectives assigned to staff.

Therefore, it can be concluded from these previous studies that certain critical factors must be provided, without which PRP objectives cannot be achieved. These include transparency; avoidance of favouritism; ensuring the availability of qualified and effective line managers; clarity of tasks and objectives assigned to staff; and ensuring appropriate PRP design.

To gain a more in-depth understanding of PRP, the following sections will address pay in the context of the labour market, the role of the state, labour relations and wage determinants in order to understand the development stages of pay systems and their related success or failure factors.

### **Case Study 3**

Swabe (1989) noted that a performance payment system has become very popular in Britain, as around 85% of private sector companies use some form of the system. In one of his case studies, he stresses the importance of understanding the meaning of the performance pay system. He defines the system as an increase in employees' wages, in which the increase depends on their performance appraisal. He divides staff performance levels into three categories: the first category contains the middle performers who will be receiving an average increase in pay. The second category suggested that performers above the average will receive an increase higher than the average. Whereas the third category suggested that performers below the average will receive a lower increase than those on the average.

The case study was included a company in the financial sector, which had about 9,000 employees in England. The management did not feel happy when the system was introduced, because they felt it would not be easy rewarding employees selectively without objective justification. Some staff were enthusiastic about the system hoping that it would create a positive change. Among the reasons that led the company to introduce the system were to reward staff more fairly.

In the first year, the company conducted a survey to find out employees' views of the new system, and the results showed that 77% thought that the performance pay system is better than the previous system. The respondents stated that the performance pay system has

improved communication with their managers, which has contributed to the development and agreement on consistent work objectives. However, few respondents thought that objectives were imposed on them rather than being negotiated.

It is also worth noting that the performance pay system was introduced after two years of study and planning, whereas among the main objectives that led to the introduction of the system were to rationalize pay cost as well as to motivate good performers. The results showed during the survey conducted in the first year, the system achieved its objectives.

#### **Case study 4**

In a qualitative study conducted by Geary (1992), where he interviewed a number of managers and staff in three private sector organizations looking at their reward systems and their effectiveness. Geary noted that the intention of the organizations was to direct the organizational norms and culture towards individual-related pay based on performance.

However, the results showed that more than half of the employees were not happy with the system. Lack of fairness appears to be one of the reasons for the failure. The Management admitted that there were challenges in the application of fairness and in making evaluation more objective. However, the results revealed that there is a reasonable level of satisfaction with the performance pay system.

Further, the system contributed to countering some challenges, as well as creating a kind of positive wage flexibility and containing competent employees. It has also assisted employees and made them more willing to adopt behaviours and skills that can help them improve their performance. However, the results also showed that the introduction of the performance pay has changed and increased staff responsibilities of employees, which in turn led to an increase in their wages.

### **Case study 5**

In a longitudinal case study conducted by Proctor et al (1993), in an electronic company, to find out the problems and challenges of the performance-related pay system, where the results of interviews showed that the company introduced the system to undermine the strength of trade unions and collective bargaining. Overall, the results indicate that the system was a more acceptable alternative among employees.

However, the results also indicated that the operating cost was high, and the standards were not at the required level. The financial constraints under the economic situation were also one of the reasons for the deterioration of the system. In addition to that, the grievance system was not effective at all, some respondents acknowledged that the appeals system was not clear and that many staff were unaware of it, as one of the respondents described it as a 'wasted journey'.

Another deficiency found in the operation of the system is the failure of management to instil the value of fairness in their employees, which made employees sceptical about the PRP process. The findings concluded that the system was not effective enough to positively influence the organizational working culture.

### **Case study 6**

The results of a case study conducted by Lewis (1998) in financial services, showed that managers were not familiar with the value or the amounts of bonuses that employees will receive, and it seems that even the staff were not aware of their expected reward. This contradicts with the expectancy theory that suggests that employees' performance and behaviours are determined by their beliefs about the value of the reward to them, which is known as the valence.

Moreover, the findings indicated that the objectives set for the employees were not clear and even more difficult, which was disappointing the staff. In addition to that, managers were lacked the necessary skills and training to manage the performance pay system. This led to uncertainty in the evaluation process and thus inaccuracy of the results, which made the entire evaluation process more subjective and unjustified.

For Lewis (1998), favouritism and subjectivity were the most negative factors affecting the performance pay system. This concluded that unqualified managers; the absence of a systematic approach to employees' goal setting; the absence objective appraisal system; the existence of favouritism, were the main factors causing the failure of the system.

## **2.5 Role of the Labour Market in Wage Determination**

The purpose of this section is to identify the mechanism by which the labour market operates and its impact on wages. The labour market is often seen as the place where labour exchange takes place; it is similar to the commodity market, where goods are bought and sold. The supply and demand of labour are often the most influential factors in the labour market (Bova, Tovar and Kolerus 2018). The authority concerned with the labour force in any state often seeks to create a balance between the supply of and demand for labour in the market. However, there are economic, social, cultural and technological factors that have an impact on such supply and demand (Sarfati, 2019). To understand pay systems, it is important to understand the mechanism of how supply and demand for labour works in the market.

The term 'demand for workers' in classical economic theory refers to the number of employees an employer wants to hire, while labour supply refers to the workers ready to enter the labour market. The labour market allows employers to find the workers they need, and also allows workers to offer their services in different jobs. Therefore, the balance in the

labour market is the result of the interaction between labour supply and demand (Shimer, 2017). However, there are other influential factors that may affect the elements of supply and demand, such as wages and productivity.

The supply and demand theory often assumes that markets are inherently competitive. This theory works well in some cases, but in other cases it may fail. It works in cases where the number of buyers (employers) of workers in the market are numerous, which often creates a kind of balance. However, when there is only one buyer, a so-called “monopsony”, a market situation in which there is only one employer and many sellers (workers), the demand for labour will decrease (Ashenfelter, Farber, and Ransom, 2010). This often leads to a lowering of wages, unlike the situation when there is more than one employer, when there is competition for workers and therefore the wages offered tend to be higher in order to be more attractive to talented workers.

Another factor affecting supply and demand in the labour market is the wage rate. High wage rates often result in reduced demand for labour (Manning, 2016). It is evident that pay is an influential factor in labour demand (Bracha, Gneezy and Loewenstein, 2015); however, in cases where productivity is high, the demand for labour is greater, especially if this will enhance the profitability of organisations. This in addition to the levels of education and experience possessed by the workers, and the skills and capabilities which often affect staff pay, together with labour supply and demand.

Some of the results of literature reviews have shown that wage control has an influential effect on labour market supply and demand (Camarero, D'Adamo and Tamarit, 2016). However, intervention in wage determination is often justified, as it is one of the key factors in promoting social and economic stability. Moreover, changes in wages are also attributed to other factors, such as the transformation of bargaining structures, legislative intervention,

income policies and the impact of inflation. Rising wage levels are often attributed to the increased demand for labour compared with the supply in the labour market.

In contrast, other classical economists suggest that wages can adjust themselves to suitable levels in the long run (Brown and Nolan, 1988; Lavetti, 2018). In addition, there is the assumption that demand for workers often depends on their productivity, and that the higher the workers' productivity, the higher the demand; consequently, the higher the productivity, the higher the wages. This leads into the conclusion that wages and productivity often move in two parallel lines, with the assumption that they are factors which influence labour supply and demand.

Some findings in literature reviews indicate a relationship between wages and the type of qualifications employees have, in addition to the match between the job and qualifications possessed (Montt, 2017). However, the labour market often focuses more on skills than qualifications (Pietrykowski, 2016). This suggests that employees' skills, qualifications and experience are among the pay determinants.

These explanations suggest that there are a number of influential factors, therefore leading to the conclusion that wage flexibility can produce a balance in labour market demand and supply and promote market productivity and competitiveness. Moreover, it indicates that wages can be affected by market productivity and labour skills, experience and level of education. Therefore, pay disparities between organisations can have an impact on supply and demand.

In contrast, in the case of high unemployment, it is very likely that employment in the labour market will focus on skilled, rather than unskilled, labour (Rubery, 1997). However, increases in labour supply would have negative consequences for the employment of low-

skilled workers. This suggests that an increase in the supply of skilled workers leads to a decline in the demand for unskilled ones.

Moreover, labour supply and demand can also depend on the nature of the market. For example, in a perfectly competitive labour market firms compete with each other in recruiting certain type of workers (Azevedo and Gottlieb, 2017). Wages in a perfectly competitive market are influenced by the element of supply and demand (Lipsey and Chrystal, 2015), in which firms can offer high wage rates to attract skilled workers.

However, in a monopsonic market, which refers to a labour market in which a single employer has the market power in buying (hiring) workers, the employer has the ability to offer any wage rate they think appropriate (Webber, 2016). Employers in such a market used to pay a single or equal wage to all workers of one type, because a difference in pay for the same job may lead to a deterioration of worker morale. However, in these markets, the level of employment and the wage rate are always low compared to those in a competitive market (Bennett and Chioveanu, 2017). An example of this situation is when a particular company dominates a particular labour market without having any competitors and thus exploits its position in setting a certain wage according to its wishes.

Combining the concepts of industrial relations and economics can help to understand the reality of wage determination and the labour market (Dunlop, 1985). This implies that social, economic and even psychological variables have an impact on wage structures and determinants (Adams, 1975). This therefore leads to the conclusion that in order to gain an in-depth understanding of wage determination, industrial relations and economic concepts should not be separated.

Even at the level of wage determination theories and theories underpinning the performance-related pay (PRP) system, which will be addressed in the following chapters, most of these are a combination of disciplines. For example, agency theory is one of the important economic theories, and underpins the concept of the PRP system; as does goal-setting theory, which is closer to management and organisational behaviour disciplines; together with expectancy theory, which is a psychological theory. It is therefore not possible to examine pay systems without delving into and understanding the combination of theories associated with different disciplines.

The most prominent economic principle of wage determination is the notion that the price of workers is determined by the supply and demand component. However, reality suggests that there are other exceptional factors or theories that impose themselves in labour markets.

Wages are an essential tool for enhancing the competitive advantage of an organisation, as well as for increasing productivity by involving staff in achieving organisational objectives and sharing the organisation's success. Wages are also an important element in retaining competent staff.

It has become necessary for organisations to balance the cost of wages and employee motivation, so they can maintain organisational competitiveness and sustainability. Based on the assumption that staff differ according to their skills, abilities and level of qualifications, as these elements reflect their performance and contributions to work, it is essential that the benefits of wages are attractive so that the organisation can attract competent and skilled staff.

The most common assumption is that supply and demand are the most influential determinants of wages, although wages can also be negotiated through trade unions and collective bargaining. However, there are other factors that have an impact on wage

determination, which can be considered as exceptions in determining wages aside from labour demand and supply. Such exceptions (theories of wage determination) are addressed in the following section.

### 2.5.1 Theories of Wage Determination (The Exceptions)

Workers are the most important elements of production; Karl Marx described the worker as the sole "creator of all value" (Hamilton, 1973, p.199; Grimpe, Kaiser and Sofka, 2018). They mainly receive wages for the tasks or time they spend at work. Organisations develop certain levels of wages that may be based on wage levels in the market (Zhou and Bloch, 2018) or different standards based on economic wage theory criteria. In general, wages in the economy are the price paid by employers to workers for their contribution to the production process, or in other words, the money paid to employees in return for the work they perform (Georgellis et al., 2017). It is often defined as the price of labour, which can provide workers with basic needs; however, wages are not necessarily linked to food and basic necessities, as people's needs depends mainly on their habits, nature and desires (Hicks and Hollander, 1977). Furthermore, wages are also part of the expenses incurred by operating a particular organisation or business.

The process of wage determination is an important element and is considered as a central process, which contributes significantly to economic analysis (Brown and Nolan, 1988; McDonald, 2019). Daily or hourly pay is the most common method of payment used (White, 2018). Since the idea of the work staff provide to the employer is often understood as an abstract idea governed by the amount of time, challenges remain over how to estimate employees' wages and measure their performance.

Although wage rates often depend on the ability of the employer to pay, in addition to comparison with the average wage provided by competitors, and also taking into account the

minimum wage, there are however several other factors that have an impact on wages, such as the company's profitability and productivity, the cost of living, labour unions, collective bargaining, industry wage rates and individual performance (Blanchflower and Oswald, 1990; Carlsson, Messina and Skans, 2014). Moreover, there are other factors that influence wage determination; for example, the level of education or skills possessed, although some view a person's experience as the major determinant of wages, rather than education or skills (Grugulis and Stoyanova, 2011).

Economic theories have attempted to analyse wages by observing market operations and commodity prices as determinants of relative wages. However, in practice it seems that there are other influences and determinants, especially in light of the contemporary challenges of labour markets and the effort to adapt to economic and social changes. Therefore, the following section reviews the most important theories of wage determination in an attempt to understand the mechanisms of determining wages, through theoretical and practical reality in the context of economic changes.

The important theories of wage determination include marginal productivity theory; efficiency wage theory; human capital theory; segmentation theory; non-competing groups theory; and pay for performance.

#### 2.5.1.1 Marginal Productivity Theory

Marginal productivity theory is an economic theory developed in the nineteenth century, which argues that organisations should pay employees within the limits of what they add to the welfare or profits of the organisation (Moss, 2010; Humphries and Schneider, 2018). The theory assumes that the production process can determine the value of employees' wages and suggests that workers' wages increase as their productivity increases. This implies that workers will be paid according to their contribution to production (Lowe, Papageorgiou and

Perez-Sebastian, 2018). The theory assumes that markets are competitive, and that firms can maximise their profits or minimise costs (Biewen and Weiser, 2014).

However, employers hire workers based on the assumption that they have the ability to contribute to production (Stelzner, 2017). Marginal productivity measures often depend on the relative quantities of the product resulting from the total product or capital (Handsaker and Douglas, 1938; Aaronson et al., 2018). Workers will be paid based on their contribution; if they contribute more to production, they will be paid higher wages. However, the theory does not explain how wages are determined; it simply guides employers to employ workers up to the level at which marginal productivity equals the price.

On the contrary, the limitation of the theory lies in its incompatibility with the current dynamic economy, competitive factors and other factors of production, as it cannot be accurately measured. In the light of economic changes and modern technology, it is difficult to reconcile the theory of marginal productivity with today's economic reality (Restuccia, 2019). Moreover, marginal productivity theory cannot explain how the share of income will develop under the uncertainty of demand elasticity (Hicks, 1932, in Syll, 2014).

The theory suggests that marginal productivity is what drives workers' wages. However, marginal productivity may not reflect the real performance of each worker, as the productivity could be a result of a group's or particular team's contribution. Therefore, the claim that marginal productivity can function as a wage driver may be inaccurate, because it may overestimate workers' contributions or even underestimate them.

Therefore, it can be assumed that if this theory were applied in the real world today, it would not be compatible and effective in such a business environment, since there is no single wage rate, with wages varying from one organisation to another and from person to person,

depending on their abilities, skills, competencies, experience and qualifications.

Consequently, employees should not be entitled to the same level of wages. In addition, the theory applies to the commodity market in certain circumstances only, as this market is often competitive and influenced by supply and demand factors. Therefore, it can be concluded that this theory has little application to the present practical reality.

Alfred Marshall, the father of neoclassical economics (Aspers, 1999) attempted in his book "Principles of Economics" to make the economy more mathematical, rigorous and scientific through the concepts of supply and demand, marginal utility and production costs. His objectives were to promote economic well-being and improve the situation of the poor (Aspers, 2010). His analysis was dependent on competitive markets, as well as on the impact of government actions on economic welfare (Wagner, 1891). Marshall assumed that wages depended on labour supply and demand and that they could be determined by the value of the products produced by the workers.

However, Marshall felt that occupations that require certain qualities or high skills, such as physical endurance, should have higher wages; in other words, that wages should not be rigid, but more progressive, flexible and adjustable (Price and Marshall, 1892). He assumed that when a firm requires workers with exceptional new skills, it should offer high wages at the beginning due to the scarcity of such workers (Levitt, 1976). However, if the jobs offered do not require exceptional skills or abilities, it will be normal to have a plentiful supply of workers, so in this case wages will be low.

#### 2.5.1.2 Efficiency Wage Theory

The essence of efficiency wage theory is to provide employees with wages that are above the market clearing rate in order to enhance their productivity and also to motivate and retain them (Campbell, 1993; Viegelahn et al., 2017). It can be argued that the introduction of

efficiency wage theory was an attempt to justify why companies paid workers higher wages than the market rate. Moreover, among the reasons that can be attributed to the development of this theory is the cost of monitoring employee performance. Efficiency theory assumes that wage increases lead to increased productivity (Chen and Edin, 2002; Perkins and White, 2011; Vives, 2017), with the expectation that productivity increases may cover the costs incurred of raising wages.

However, the argument is that when employee wages in a particular job are higher than those of peers in other competing organisations, this will make staff more committed to their work and more willing to do everything they can to retain their job (Georgiadis, 2013). In addition, this will create a more positive working culture among staff and reduce turnover rates, especially when labour turnover costs are high and constitute a burden for an organisation.

The evolution of the theory can also be attributed to the existence of problems between the employer (principal) and the employee (agent), which is known as the agency theory, in which the principal seeks to harmonise his relationship with the agent (White, 2018).

Therefore, this theory may be an attempt to give explanations for the higher wages paid by employers to influence employees' behaviours and make them more inclined towards and in line with the objectives of the organisation.

The basic idea of efficiency wage theory is to promote workers' efforts and productivity by providing them with attractive wages. "The efficiency wage hypothesis says that the services a labourer renders are a function of the wage he/[she] receives. One well-paid worker may do what two poorly paid workers can do" (Stiglitz, 1976, p.186). The assumption is that high wages could lead to increased worker productivity. Wright (2004) argues that in efficiency wage theory, an organisation can rely on a fewer number of productive and engaged employees. The theory suggests that higher wages increase employees' efforts and

productivity, and also promotes their skills and experience. Workers consider high wages as an incentive to perform better, which in turn may lead to improvements in firm performance, as highly paid workers fear losing their jobs, which makes them work hard to ensure this does not happen (Perkins and White, 2011).

Therefore, the theory suggests that employee productivity and performance are the functions of the pay they receive. Improving work performance and raising production efficiency are the main objectives that efficiency wage theory attempts to achieve. In this sense, the theory suggests that the more effort employees make in performing their tasks, the higher the wages they receive, which subsequently increases the productivity of both employees and the organisation itself.

#### 2.5.1.3 Human Capital Theory

Human capital refers to the skills, abilities and knowledge of employees acquired from education, which reflect the quality of their productivity and performance at work (Munir, Elahi and Hussain Khan, 2018). Human capital theory suggests that human capital is a set of attributes such as knowledge, talent, skills, abilities, expertise, education and training that employees possess (Sweetland, 1996; Sequeira, Santos and Ferreira-Lopes, 2017). These attributes constitute fundamental elements that can be directed towards achieving the objectives of the organisation and increasing economic value (Le Van et al., 2018). The theory suggests that organisations should invest in their human resources to enhance their productivity and competitive advantage (Teixeira, 2014).

On the other hand, various findings suggest that income must be positively correlated with the average amount of investment in human capital and the level of employees' contribution to enhancing work productivity; in other words, human capital theory proposes that the development of human capital must be positively correlated with compensation (Mincer,

1958; Schulz, Chowdhury and Van de Voort, 2013), since it is believed that education and training enhance organisational productivity by transferring useful knowledge and skills. This therefore suggests that in order to maintain a good level of employee motivation and productivity, their pay should be commensurate with their performance and contributions. In addition, the findings suggest that investment in human resources leads to a reduction in staff turnover (Le Van et al., 2018).

The assumption is that staff with educational achievements and professional qualifications who expect to contribute to increasing organisational productivity in the future because of their skills and knowledge usually receive high wages (Storey et al., 1995, in Laing and Weir, 1999; Della Torre et al., 2018). This suggests that staff who have considerable skills and experience in a particular industry or sector are likely to receive high wages (Lindley and McIntosh, 2017) to help their retention.

However, the debate over the hypothesis that individuals with high skills and a good level of education are highly productive at work remains controversial, as the theory does not provide a clear insight into how training and education can be translated into high productivity and high pay, especially in the presence of experienced and productive employees who do not have a high level of education. Therefore, the relationship between investment in human resources and its outcome in terms of staff productivity and the reflection on wage increases remain unclear and require empirical evidence.

#### 2.5.1.4 Segmentation Theory

There is a claim that labour markets lack sufficient descriptions of their main issues as there are many unjustified practices, with some findings suggesting that wage problems are a result of labour market segmentation (Taubman and Wachter, 1986; Moore et al., 2018). The assumption is that this segmentation leads to unfair distribution of wages. However, the

labour market is often seen as a dynamic context that seeks to maximise profits, which could justify the high wages of employees who contribute to maximisation of profits (Alt and Iversen, 2017). In other words, this suggests that wage variations may be correlated with the levels at which individuals contribute to their organisations (Kuang and Wang, 2017).

Segmented labour market theory assumes that there are two types of market, namely the primary and secondary labour markets (Chung, 2018). The primary labour market is characterised by advanced labour skills, better jobs, higher wages and a high degree of stability, whereas, the secondary market uses simple production methods and its workers often less skilled and receive lower wages (Rubery, Keizer and Grimshaw, 2016). In primary markets, work habits are often stable and there are opportunities for career ladders; wages are relatively high, and skills are usually acquired at work. On the contrary, in the secondary market work habits are not stable; there are few job ladders; high turnover exists; jobs are usually filled by minority workers; and wages are low.

It is believed that labour market segmentation is not coincidental, for many reasons. These include changes in supply and demand factors as a result of technological changes and increased demand for high-efficiency labour, while secondary markets comprise mostly small and medium sized enterprises with weak production and more vulnerability to shocks. In addition, there is a role played by trade unions in such markets. The evolution of the economy and the factors of globalisation and technology have led to the emergence of many primary and secondary sectors (Tausch, 2018). In addition, increasing global competition has also led to the migration of jobs from developed to developing countries, and vice versa. Therefore, it can be argued that the segmentation of the labour market is a historical process that has evolved with the development of the economy, which has led to the division of the market

into segments characterised by behavioural rules and work characteristics, as well as on the basis of skills and specialisation (Cooke and Jiang, 2017).

The segmentation within the primary sector consists of subordinate and independent primary jobs. Subordinate jobs are usually characterised by dependability; require more discipline in the face of rules and regulation; respond to authority; and consider the firm's goals and objectives (Chung, 2018). On the other hand, independent primary jobs require creativity, problem-solving and self-initiative, employees are highly motivated, and their achievements are rewarded. However, the secondary market requires low-qualified workers with little chance of obtaining promotion. The segmented labour market is considered as an important element in determining wages (Jaoul-Grammare, 2007).

It can be concluded that the segmentation of the labour market has contributed to the further development of wage theories. The basic concept of market segmentation suggests that there are good types of jobs and bad types, and that this has an impact on compensating wage differentials (Alt and Iversen, 2017). In addition, the different characteristics of primary and secondary markets and of good and bad jobs are clearly related to the issues of wage disparities, because some groups, such as women, minorities and unskilled workers, often have bad jobs (Moore et al., 2018).

Overall, it can be concluded that the human resources required by firms are often not similar in terms of skills and abilities. There is no particular type of employment that suits all firms. Each firm has its own requirements, and needs different skills and abilities from its labour resources. Labour skills and abilities are the major drivers of organisational and industrial productivity and performance. This is why there are segmented labour markets that differ according to the nature of production and the quality of workers available. This also justifies why qualified and highly skilled employees are often paid higher wages. Moreover, it

provides the basis for the idea that dealing with employees varies according to their skills, abilities and the different industries to which they belong, which indicates that wage determination depends on whether the provision of labour skills meets the requirements of employers.

#### 2.5.1.5 Non-Competing Groups Theory

A labour market is characterised by a number of non-competing groups, with the productivity of the workers varying based on their abilities, skills and level of education (Marshall, 1890; Baker and Holmstrom, 1995; Fishback, 1998; Ingold, 2018). Non-competing groups are often divided into four categories: unqualified workers; craft workers and retailers; engineers and managers; and professionals in the sciences and arts (Cairnes, 1874; Dimou, 2004; Cooke and Jiang, 2017). Labourers can be further classified into three categories: skilled, semi-skilled, and unskilled.

Within the non-competing groups in the labour market, each group represents different occupations and different levels of qualification or skills. Often the employees in one group are not eligible for occupations of other groups. Wages usually depend on workers' productivity, and highly skilled jobs usually pay better wages (Lipsey and Chrystal, 2015). This suggests that the differences in the level of skills and productivity among individuals also contributes to the formation of the idea of non-competing groups, which often helps to explain differences in wages. Many studies suggest that differences in wages should be justified and convincing. Observing the non-competing groups, wage disparities might be justified according to the requirements of the job in terms of skills, education, physical abilities or acquired talent.

On the other hand, the theory of non-competing groups assumes that individuals differ in terms of their abilities, talents and knowledge, and as a result they form non-competing

groups of workers who cannot easily be replaced by one another (Chowdhury and Mukherjee, 2016). Therefore, this disparity in individuals in non-competing groups leads to wage disparities between the individuals or groups in the short term, while in the long term, individuals may move according to their groups to jobs with somewhat higher pay, depending on the development of their knowledge, skills and contributions.

However, non-competing groups may arise as a result of several factors such as quality and efficiency of labour, which might be due to inborn qualities or training and education. In the labour market workers are usually heterogeneous (Vooren et al., 2018). The supply of labour often consists of different types of workers in terms of mental and physical capacities, as well as their level of education and training. In some groups, qualified workers are relatively scarce, while other groups have large numbers of qualified workers. The supply and demand forces are the key determinant of non-competing groups and accordingly wage differences are determined among different categories of workers.

Some factors lead to significant differences in wages among different occupations. The main factors that explain this great disparity between wages are labour supply and demand. There are certain types of workers whose market supply is very low compared to the high demand for them. Usually members of these groups do not compete with each other. The low supply of these types of workers is attributed to their scarcity, which is because of their unique abilities, skills or physical attributes. Therefore, these types of workers can make high returns and profits for their employers; for example, professional athletes, fashion models and Hollywood stars. According to Lipsey and Chrystal (2015, p.226), “some income differentials arise because of basic human characteristics”. It can be concluded from non-competing groups theory that in the long term employees can become more competitive in

their field through developing and practising their work (Vooren et al., 2018), consequently enabling them to move to higher paying jobs based to their contributions.

## **2.6 Role of the State in Wage Determination**

One of the most important roles of the state is to create a favourable macroeconomic environment in order to promote employment growth. It is also responsible for regulating the labour market and ensuring that all types of discrimination are prohibited. This is in addition to its role in determining the minimum wage in order to achieve social justice and raise the level of economic growth. In this context, it can be concluded that the state has three main roles in the labour market: as regulator, employer, and wage regulator.

State rules and regulations related to wages play an important role in creating economic stability. There are several reasons for government intervention in the labour market; among the most important are to ensure subsistence wages for the poor; avoid exploitation of employees; and combat wage inequality (DeVaro, Ghosh and Zoghi 2018). Such inequality is not necessarily attributable to workers' qualifications, skills or abilities.

However, the reasons might be due to the discrimination, such as that based on gender (Healy and Ahamed, 2019), ethnic origin or even age. Moreover, wages may also be at a low level in the market when the employer is a monopsony; in other words, when there is only one employer who has exclusive ownership of a particular service or product, and may apply to companies or even government agencies.

Consequently, this requires state intervention in the enactment of laws which protect individuals from such practices, such as discrimination, racism or exploitation (Hamann and Bertels, 2017). One of the important mechanisms on which the state relies in regulating

market wages is the establishment of a minimum wage, which aims to reduce income discrimination among groups.

The state sets a minimum wage that is compatible with economic changes and the cost of living in order to avoid inflation or an increase in the unemployment rate (Clemens and Strain, 2018). There are many reasons for government intervention, such as to secure a decent life for individuals; to ensure that individuals are able to meet their basic needs; to prevent inflation and rising unemployment; to ensure individuals' rights; and to create social justice and eliminate gender and race pay gaps (Lewis, Boyd and Pathak, 2017; Jones, Makepeace and Wass, 2018).

Furthermore, the state often acts as a protector of minimum standards in employment. This protection occurs through legislation in relation to racial discrimination, unfair dismissal and equal pay (Dundon and Rollinson, 2011). Countries are often very cautious in determining a minimum wage for fear of rising inflation, which will challenge the national economy (Brecher and Gross, 2018), although in some cases increasing the minimum wage helps to boost labour productivity and has a positive impact on improving economic growth rates (Totty, 2017).

A minimum wage is introduced to protect workers from exploitation and to ensure they are able to meet basic living needs (Rani, Belser and Ranjbar, 2013). In accordance with Convention No. 131 of 1970 promulgated at the General Conference of the International Labour Organisation (ILO), which established the terms of the Minimum Wage Agreement, the minimum wage was defined as the wage imposed by the force of law that must be paid to workers irrespective of their skills level (ILO, 2017).

The assumption is that the minimum wage limits staff exploitation and contributes to ensuring a decent living for individuals (Christl, Koppl-Turyna and Kucsera, 2017).

However, findings from the literature review show that raising the minimum wage may increase unemployment rates and reduce the demand for low skilled workers, in addition to its negative effects on attracting investment (Clemens and Strain, 2018). Furthermore, raising the minimum wage is also assumed to increase production costs. This in turn can lead to higher prices of goods and services and lower sales volume, which will consequently affect an organisation's profits and threaten its continuity in the market.

However, it is believed that the intervention of the state in setting a minimum wage is to protect workers with low skills and to ensure that they have a decent life and can afford the basic necessities (Schiller, 1994). The state is an important player in employment relationships, as it has the power to enforce the law and to ensure compliance with it (Wilkinson and Wood, 2012).

Economic and social stability are among the most important goals that the state seeks to achieve. Moreover, an important role is played by the state in the development of labour laws that regulate employment relations, prevent discrimination and ensure workers' rights. The state also sometimes organises collective bargaining activities and trade unions.

The state has direct and indirect effects on the labour market. Its direct role as an employer makes it responsible and allows it to send messages to the private sector on how it should treat workers. As a responsible party, the state also promotes trade union membership in the public sector, which has made the role of trade unions stronger as a result of the great response from public sector employees. Not all unions have the power to influence; however, when they are strong, they can promote the interest of their workers through collective actions (DiSalvo and Kucik, 2018).

Moreover, the state often has the ability to control prices and wage levels, either by direct intervention or indirectly through economic instruments. It can intervene directly in its role as minimum wage regulator, as well as through price regulation and stability of inflation rates. For example, in the 1970s, the UK government, along with employees and unions, attempted to develop income policies, but in the 1980s, the Conservative government refused to follow these policies and suggested setting prices and wages based on interest rates, public spending and money supply (Dundon and Rollinson, 2011).

Another state intervention method is as an economic manager; this method focuses on macroeconomic policies such as money supply and fiscal operation. It aims to enhance labour market operations and utilises manpower by providing incentives that encourage return-to-work and labour mobility. The state also provides training to address shortages in skills and as a means to providing job seekers with qualifications (Nilsson, 2010); to bridge the unemployment gap; to protect welfare and workers from total dependence on employers; and to ensure economic stability and growth, especially in times of economic stagnation or crisis.

Despite numerous studies on the minimum wage, there are few studies on its impact on staff behaviour and performance. However, there is some evidence to show that it has a positive impact on staff commitment and turnover (Zeng and Honig, 2017), in addition to its positive impact on productivity improvement (Rizov, Croucher and Lange, 2016). This generally leads to the conclusion that the minimum wage has a positive impact on staff performance, commitment and retention.

Many studies claim that the role of the state in determining the minimum wage is an attempt to create a kind of equality and to combat the exploitation of staff. However, this does not necessarily mean that the wage enhances staff performance or the overall performance of the organisation. This leads to discussion of the concepts of employee relations in the following

section in order to gain a broader insight into how these concepts relate to the performance pay system.

### 2.6.1 The Civil Service

States often consist of institutions, with each institution having certain authority or power.

This power or authority is often described as bureaucracy, which indicates the rules, procedures and hierarchy governing a certain institution (West, 2004; Jimenez, 2017). States are often divided into three powers (Dahrendorf, 1977; Weiner, 2014). The first of these is legislative power, which is represented by Parliament, whose role lies in enacting laws and scrutinising the government. The second power is the judiciary, which represents the court system, and finally there is executive power, which refers to the government (Flinders, 2002; Russell and Cowley, 2018). The government is divided into ministries and their representative bodies. The civil service is part of the government that represents the interests of citizens and is responsible for providing services to them (Dean, 2018). It comprises formal government bodies, often non-political and non-military (Spann, 1956; Russell and Cowley, 2016). Civil servants are often selected according to merit and through competitive examinations of their abilities and skills (Schuster, 2017).

It should be noted that civil servants do not change, even if policies change or a new government comes into power. Most of the tasks and services performed by the civil service, either directly or indirectly, affect people's lives on a daily basis (Martin, 2017); for example, health, education and social security services (Morison, 1926; Gladden, 1945; Head, 2016). However, the lack of motivation and effective performance measurement tools are among the reasons why some employees avoid performing their duties efficiently. This in turn leads to a deterioration of overall organisational performance. Many developed countries, such as the United Kingdom, have resorted to introducing new public management (NPM) as a means of

improving organisational performance, eliminating bureaucracy and as a method of managing public organisations with the same spirit, techniques and methodologies applied successfully in the private sector (Carter et al., 2011).

With the advancement and development of the economy and modern technologies, the challenges have intensified (Lindquist and Huse, 2017). The civil service in many countries faces pressures and challenges to improve the quality of its services (Vyas, 2017), especially in light of high public awareness and the spread of the culture of electronic services. This undoubtedly requires efficient and skilled human resources to be able to improve services and increase organisational productivity, along with tools to measure public performance.

Some civil service organisations have invested in developing their staff to overcome these challenges and keep pace with developments (Miao et al., 2017). However, the poor pay system in some civil organisations undermines their staff performance (White, 1996; Frey, Homberg and Osterloh, 2013) and often leads to a loss of competencies. It exacerbates the issue of high-quality employees moving to the private sector, which has become a contentious issue among civil service organisations. Empirical studies have shown a wage gap between the public and private sectors, which threatens the retention of competent staff (Murphy et al., 2019). The rigidity of pay in some public organisations has led to the loss of talented and experienced employees (Crosby, 2014), which has wasted the money spent on preparing and training those talented staff, in addition to the costs resulting from replacing them. Subsequently, this severely affects civil organisational performance and the services provided.

There have been concerted efforts over the past few years to reformulate the public service model from one of a rigid hierarchy, inflexibility and bureaucracy to a business-like model, which is known in the literature as new public management (Dawson and Dargie, 1999;

Fredriksson and Pallas, 2016). This encourages the adoption of performance-enhancing tools such as the PRP system (Choi and Whitford, 2017). However, unlike the private sector, the public sector suffers from the absence of objective performance measures (Kasdin, Barnow and Newcomer, 2018), which use profit or return on investment as a key measure of performance. Nevertheless, improving overall economic performance and increasing the satisfaction of public service beneficiaries can be used as indicators of the overall performance of public organisations.

In the UK civil service, unions have in the past played a key role in pay determination, but changes in the economic environment and increased labour market pressures have imposed a new reality (Kessler, 1993; Gill-McLure, 2018). The civil service came to realise the importance of improving its pay system in order to attract, retain and motivate competent people, as well as enhancing administrative efficiency, improving services and confronting union pressure. PRP was the result of the development and reform of the civil service pay system in the 1980s (Kangasniemi and Kauhanen, 2013). However, operational difficulties and traditional and bureaucratic practices in the civil service appear to have been the biggest challenges, meaning the question of the effectiveness of the PRP system in the public sector remains unclear.

In profitable organisations, increased profitability reflects employee productivity and performance (Djellal and Gallouj, 2013). This makes the formulation of goals clearer and strengthens employee motivation. However, in public services, the lack of clear final indicators that can reflect overall organisational performance hinders the formulation of objectives for employees (Capaldo et al., 2018). This is in addition to the absence of a resource that can financially support the performance pay system. However, the power of tax

collection can help boost the system, but only when employees are motivated and services are improved.

Overall, for many public organisations PRP is seen as the best option to improve performance and retain outstanding employees (Langbein, 2010; Bregn, 2010; Kroll and Tantardini, 2019), as well as competing with the private sector in terms of attracting and retaining outstanding employees. However, the effectiveness of linking pay to employee performance remains unclear, especially in the public sector (Kessler and Purcell, 1992; Bryson, Forth and Stokes, 2017; Tweedie et al., 2018). This aspect is undoubtedly lacking in-depth empirical studies which systematically focus on the context. In particular, comparative public-private sector investigations are required to identify gaps and differences in the implementation and operation of PRP. It is worth noting that many studies on performance pay focus on samples and participants' reactions rather than looking at the context in depth.

In terms of the Omani context, the civil service faces a number of challenges and pressures, the most important of which are reducing the dependence on oil; improving government services; attracting foreign investment; and diversifying sources of income. It is noteworthy that these pressures come from two levels: the internal level (from public opinion) and the external level (from international organisations such as the International Monetary Fund) (IMF, 2019). At both levels, it is assumed that these challenges can be overcome only by improving and motivating the performance of employees, especially those with experience and competence, in addition to the establishment of a performance culture and the development of clear and fair performance indicators linked to pay. Therefore, PRP may be the best option to alleviate these pressures and improve performance and government services.

To further discuss this objectively, it is necessary to conduct a comprehensive examination from different dimensions. Consequently, the following section addresses the impact of pay inside the firm. It also touches on certain concepts related to employee relations and human resource management (HRM), their impact on the emergence of individual doctrine, and the relationship of the individual employees with management inside the firm. In addition, the implications of all these issues on performance pay and on organisational performance are discussed.

## **2.7 Inside the Firm**

This section aims to understand wage policy within a firm. There is often a variation in wages at firm level, which means employees are protected from external market conditions and changes (Baker, Gibbs, and Holmstrom, 1994; Oh, 2018; Ge, Fang and Jiang, 2019). In addition, wage increases are often associated with promotion, although the amount of any increase related to staff promotion between one grade and the next is often low (Schmidt, Pohler and Willness, 2017). Research results also indicate that firms will raise employees' pay if they see that their productivity has increased or if the market value of a particular job has increased (Li and Yu, 2016).

There are no systematic studies which illustrate the policies or mechanisms for determining wages within a firm. Instead, wages are often consistent with the market or sector in which a firm operates (Delahaie and Duhautois, 2019). However, staff differ in terms of productivity, skills, qualifications, efforts and contributions (Trevor and Brown, 2014), but these elements are not necessarily key in determining wages, especially for newly recruited staff (Uren and Virag, 2011; Brencic and Pahor, 2018).

On the other hand, some firms determine their wages based on staff efficiency and productivity, although some studies have shown that this has negative implications on perceptions of fairness (Doris, O'Neill and Sweetman, 2019). Some findings in the literature indicate that large changes in the composition of workforces related to changes in the labour supply in terms of workers' education and experience versus demand for labour in the advanced technology era have led to an increase in firms' wage inequality (Aaronson and Phelan, 2017; Cosic, 2018).

However, the pay element in firms is critical in achieving organisational strategic goals, and it is often the largest bill incurred (Johnston, 1963; Chen and Hou, 2018). On the other hand, for employees pay is the main driver of their productivity and a reflection of their standard of living. Therefore, pay can be seen as a philosophy and an investment that seeks to achieve organisational productivity. On the other hand, restricting and attempting to control pay bills may result in lower productivity and quality of work, based on the assumption that pay is the key influence in employee behaviour.

On this basis, firms determine their pay levels and policies based either on the market level, or at levels lower or higher than the market. The prevailing assumption is that paying higher than the market level has the potential to attract talented staff and generate better productivity. Wage costs are thus assumed to be reflective of firms' productivity; firms that pay high wages are expected to perform better than those who pay low ones.

Some organisations divide their workforce into two main groups, the core group of workers and an ordinary group of workers. This also relates to pay schemes. The regular workforce includes employees who do not contribute to the core business of the organisation. For example, if an organisation's business is related to oil exploration, administrative staff will not be considered within the core group of workers, as they do not directly contribute to the

company's core business, unlike engineers, who work directly in oil exploration.

Consequently, it can be said the core workforce comprises employees who perform vital company activities.

Some organisations believe that designing special benefits for the core workforce is an important factor to ensure the stability, continuity and competitiveness of the business, as core workers are considered to be critical to business operations. It should be noted that core staff often enjoy more job security than ordinary employees, as an organisations' operations often depend on their work.

The pay policy in firms consists of elements such as the level of pay (the rate paid by the organisation for a particular job) and the pay structure (pay grades/scales based on organisational structure). These elements might be influenced by legal and market factors or organisational objectives. For example, at the legal level, an organisation often takes into consideration that the minimum wage and overtime pay need to be consistent with regulations established by the state. At the market level, organisations need to consider setting levels of pay that will attract and retain competent staff, whereas at the organisational level, firms often consider organisational objectives; fairness and equity; and the quality of the staff they need.

All these factors are interrelated; for example, pay structures and grading systems require evaluations of job tasks, and their responsibility and accountability. On the other hand, determination of basic pay and allowances means taking into account the cost of living, the cost of labour in the market and the element of attraction and retention of competent staff.

Every organisation has its own pay structure, which consists of jobs and their associated pay grades, as most firms link their jobs to such grades. These vary according to the

responsibilities, tasks, difficulties and requirements of the job (ACAS, 2006). Among the strategic reasons for setting pay grades are to ensure equality in internal wages among employees in terms of the jobs they have and the qualifications they hold, as well as providing a fair and non-discriminatory job hierarchy. The other purpose of pay structures is to ensure fair career advancement and wage progression for employees.

On the other hand, there is another pay scheme that organisations often use in parallel with the pay system, which is known as the bonus or incentive system (Bonet, Eriksson and Ortega, 2019). This system aims to align employee performance with organisational goals and rewards exceptional staff contributions. The system is often classified by either team or individual rewards (Sanders et al, 2018). A bonus system helps to increase the quality of work and productivity; however, if it is not designed systematically, it may lead to demotivation of employees (Kollmann et al, 2019) and create feelings of unfairness or favouritism.

Performance systems are prevalent in contemporary workplaces, but the extent of their impact varies depending on HRM policies and the role they play. The design of reward systems is one of the most important functions of HRM. The following chapter therefore reviews the importance of the role of HRM and its relationship with the performance pay system.

### 2.7.1 Employee Relations

The concept of employee relations is seen as an alternative that has replaced industrial relations. It is an idea designed to focus more on individuals' relationship with their organisations rather than on collective relationships (Geare, Edgar and McAndrew, 2006; Rodriguez, Johnstone and Procter, 2017). However, industrial relations focus more on the

representation of employee interests and employment-related procedures such as wages, working environments, working hours and other staff needs (Newman et al., 2018).

In industrial relations, the issues and demands of staff are collectively negotiated (Grimshaw et al., 2017), whereas in the context of employee relations, the relationship between the employee and employer is straightforward. In other words, employee relations promote the idea of individuality (Audenaert, George and Decramer, 2017), which involves a direct relationship between individual employees and the employer, while industrial relations include the relationships between more than two parties or approaches, such as employees, employers, trade unions and collective bargaining.

Modern organisations have recognised the importance of finding appropriate ways to conduct direct negotiations with staff individually (Gooberman, Hauptmeier and Heery, 2017) and the importance of achieving mutually satisfactory results in order to enhance performance, retain staff and undermine the role of trade unions. Employee relations often focus on the importance of increasing employees' participation and incentives to improve productivity and organisational performance. They therefore focus on the importance of providing clear information to employees on the final organisational goals and the role of employees in achieving these goals (Felstead et al., 2019). Although there is still the presence of trade unions, it is not as prevalent as before, as modern organisations have become more aware of the importance of motivation and employee incentives to enhance organisational performance and retain competent staff, rather than engaging in disputes with employees and letting them resort to other parties to defend their interests.

Intervention in an organisation's policies and direction of management about what should and should not be done by external parties such as trade unions undermines the role of the organisation towards its employees. Therefore, modern organisations have realised that

harmony between them and their staff may weaken the role of other parties, such as trade unions. This has prompted organisations to strengthen their relationship with their individual employees (Bacon and Storey, 2000) and improve their pay and reward systems to create a balance between the needs of the organisation and the needs of staff to enhance organisational performance and weaken collective bargaining and trade unions. Organisations have become fully aware that focus on the individual employee is the key element in improving organisational performance and undermining the role of trade unions.

For example, in the Omani context, foreign companies have been able to attract qualified and skilled human resources because of their attractive environments and the financial incentives they offer. This problem has put governmental and private organisations under pressure as to how to retain their talented resources, especially in the traditional working culture of many local organisations (Budhwar, Al-Yahmadi and Debrah, 2002). Moreover, these challenges have created a high degree of awareness among management regarding the importance of strategic approaches to maintaining and retaining talented staff.

It can be concluded that the lack of experience in engaging with industrial relations actors, or in other words, the absence of serious trade union and collective bargaining experience in some developing countries, is among the reasons for the late maturation of employee relations practices and tardiness in keeping pace with changes in global work environments. However, with these challenges, culture and concepts have begun to be shaped by the conviction that employee relations approaches aim to create a culture that seeks to develop, retain and attract talented employees, as well as encouraging innovative ideas to maintain competitive advantage and increase productivity.

On the other hand, there are different levels at which collective wage bargaining can occur: for example, at the national, sectoral or corporate levels. Unionised workers might bargain for

high wages, especially if there is the potential for strikes. Firms in this case may decide to opt for strategic employment, as it can predict the outcome of any bargaining (Kornelakis and Voskeritsian, 2016). There is considerable support by some firms for rigid wages, especially among highly skilled workers; however, it has been suggested that rigid wages could lead to worker demotivation and reduced job opportunities for workers with lower skills (Boeri and Burda, 2009).

The literature on pay has touched on many wage determinant subjects. However, there are still significant gaps in this issue, as the wage determination process lacks a clear approach that justifies wage disparities among workers. In the following section, wage determinants will be discussed under theoretical framework perspectives, with consideration of individual differences in workers' characteristics, qualifications, abilities, skills and talents.

It is thus argued that workers' interests can be achieved as a result of interaction between the parties involved in industrial relations (actors); for instance, in the negotiations that take place with workers' representatives and through collective bargaining. In other words, the interaction between actors within the framework of industrial relations can serve the interests of staff and act as a source of working environment stability and improvements in workers' wages.

However, this assumes that organisations with weak trade union representation may be weak in terms of wage levels. This suggests that union representation may help raise staff wages, but may put pressure on organisations, which may hinder their ability to survive, as some organisations have to respond to union requests in fear of strikes that could be organised, which may result in a halt to organisations' production.

This leads to the conclusion that interaction between actors does not in all cases result in benefitting the interests of the parties involved because of the conflicts that may occur between them. Although some findings suggest that interaction between actors may have a positive effect on raising wages, this interaction may sometimes lead to conflicts of interest between actors or even workers' strikes, resulting in negative effects on the finances of the organisation and the economy in general.

It can be concluded that the notion of employee relations is the result of the evolution of the competitive business environment and also a consequences of industrial relations conflicts, which have drawn the attention of many organisations to the importance of building direct individual relationships with their staff to enhance their competitiveness and performance. In other words, for example, there are union employees who have certain rights with regard to union membership. In this case, a violation of any employee rights, the employer may face pressure from the union, and the issue may sometimes reach a collective strike of employees, which is why many ideas of employee relations have emerged. To further understand this, the following section discusses and addresses wages inside a firm to identify the main challenges associated with the performance pay system.

### 2.7.2 Human Resource Management (HRM)

Human Resource Management (HRM) emerged in the 1980s as a fundamentally different philosophy of personnel management (Schuler, 1987; Rotich, 2015), calling for the importance of job analysis and aligning it with the organisation's strategy and objectives. The significance of training, development, performance appraisal and staff rewards was recognized as among the key pillars for an organisation's success, without which productivity, competitiveness, creativity, innovation and sustainability could not be achieved in an era of rapid economic and technological changes (Chadwick and Li, 2018). Even at the

performance level, HRM plays a major role, as research findings have shown a reciprocal and positive relationship between HRM practices, staff performance and the well-being of employees (Guest, 2017). It is therefore possible to conclude that among the reasons for the emergence of HRM was the ability to deal with rapid industrial technological changes, trade union conflicts, government intervention and competition in labour markets.

However, the pioneers of HRM argued that it was unlikely to achieve its objectives without consistency and harmonisation between HRM activities, the organisational structure and organisational strategy (Fombrun et al., 1984; Sanders et al., 2018). In other words, involving HRM as an effective element in the organisational structure and in formulating an organisation's strategy is an important factor to achieving the goals of the organisation. It is also suggested that if HRM policies are balanced and it is ensured that they comply with organisational objectives, they will have an impact on staff behaviour, as it has been proven that HRM policies and practices have a direct impact on employee behaviour, commitment and quality of work (Guest, 1991).

Furthermore, based on the belief that human resources are the cornerstone of achieving organisational objectives and strategic plans, organisations have recognised the importance of HRM as a key unit for the continuity of an organisation in order to enhance their competitiveness and maintain their valued employees. This is also based on the belief that staff are assets of an organisation, rather than simply a variable cost (Beer et al., 1984). HRM has become one of the most studied topics in the field of labour relations (Collings, 2007; Chadwick and Li, 2018), especially after workers began to look at it with great optimism, and as a result of the failure of some trade unions to deal with their problems and address their issues.

Moreover, HRM has been established as a strategic unit in modern organisations with the aim of planning and managing everything related to human resources. It can be said that HRM is a set of interrelated philosophical principles and values adopted by the organisation (Storey, 1989), which ensure that it can achieve its objectives. In today's competitive environment and with the effects of globalisation, it has become crucial to understand HRM practices, as their policies cannot be separated from modern work environments and current competitive dynamic labour markets (Dunlop and Weil, 1996).

On the other hand, HRM is seen as a product of the natural evolution of the labour movement. Its functions often consist of several activities, including recruitment, training and development, performance appraisal and rewards. Moreover, HRM seeks to achieve a balance between the organisation and collective bargaining or with trade unions, as well as dealing with the government in relation to labour laws. In other words, the system seeks to create a balance between industrial relations. Rewards are one of the key functions of HRM, as they are a contributing factor in attracting and retaining highly skilled employees. Therefore, contemporary organisations are keen to have an effective reward system capable of promoting staff motivation (Hume, 1995; Sanders et al., 2018).

However, the design of an effective reward system remains one of the most critical challenges facing management, indicating that the impact of such a system varies according to the culture of the organisation and even the state. This leads to the assumption that the effects of rewards vary according to cultural contexts (Van Eerde, 2015). When dealing with highly skilled employees, the reward system is critical to ensuring that they are motivated and can be retained.

The reward system is often defined as a system based on a set of criteria and processes undertaken by the organisation's administrative structure, in which eligible members are

selected to receive such rewards (Kerr, 1975; Lawler, 1983). The system is divided into three categories: rewards based on tangible results and results which are often quantitative; rewards based on performance, behaviour and creative contributions; and non-performance rewards based on job tenure, experience and the nature of the work (Von Glinow, 1985).

Before the introduction of a reward system, It is essential for any organisation to study the nature of its culture, as culture is one of the most influential factors, either directly or indirectly, in the process of allocating rewards and in obtaining the desired effects. However, reward systems are influential factors capable of shaping organisational culture and influencing employee behaviours, directing them towards the goals that the organisation believes in and wishes to achieve. This suggests that culture is one of the important determinants when introducing such a system to ensure that it adapts to the cultural context of the organisation.

The findings of a recent study of 1,598 employees and 186 managers in 29 organisations across 10 countries concluded that the relationship between performance-based rewards and innovative behaviour was much stronger if there was a strong presence of human resource management, and staff understanding of their practices (Sanders et al., 2018). In addition, the findings also indicate that performance-based rewards implemented without involving or referring them to HRM often led to undesirable results.

This leads to the conclusion that HRM plays an important role as a key framework in ensuring that the performance-based reward system is successful, besides the need to consider staff understanding of the functioning of the system and its operations. Based on these issues, it can be stated that activating the role of HRM and involving it in formulating organisational goals and policies would enhance the effectiveness of operating a PRP system. This makes HRM an essential pillar in the success of such a system.

### 2.7.3 SHRM and the Wasta Culture

Strategic Human Resource Management (SHRM) is part of a wider management debate, both academic and practical, into the nature of strategy. It involves both notions of planning within the firm and an awareness, depending on the sector, of the importance of responding robustly to external changes – markets, regulation, competition, and technology. Strategy tends to encompass risk assessment as well as pro-active management initiatives, and this applies across the board to HRM (Beer 1997; Paauwe and Boselie, 2005 ). Key elements of SHRM include being embedded in the wider management of the firm, awareness of skill sets and the relevance of buying key workers from the external labour market or development of existing staff through training and career paths. Much depends on the nature of the business with public sector typically good at developing mainstream core business staff but also needing to recruit functional experts (Richard and Johnson, 2001; Oppel, Winter and Schreyogg, 2019). The essence of SHRM lies in creating a studied environment that enables an organisation to achieve its goals (Collins, 2020).

One of the critical issues that SHRM focuses on is ensuring the availability of efficient human resources and how to motivate, develop and retain them. It is clear that pay and performance are at the heart of any such strategy. Consequently, SHRM's role lies in providing efficient human resources and ensuring a fair and equitable environment in terms of compensation and rewards that secure the retention of the good performers. All this requires activating its true role in formulating an organisation's strategies and goals. It has been concluded that the effectiveness of the PRP system is related to the existence of practical alignment and complementarity between the elements of the theoretical framework and SHRM concepts, and the effectiveness of the system cannot be achieved in the absence of one of these elements or if it functions as separate entities when operating the system. In

other words, the outcomes concluded that the effectiveness of PRP depends to a large extent on the appropriate integration of SHRM and the elements of the theoretical framework.

Part of the planning process is to flag up obstacles to the implementation of strategy, and to prepare for ways to overcome any such problems. The culture of Wasta is one of the barriers that undermine the effectiveness of the PRP system in the Arab world (Barnett et al 2013). Among its common forms at the workplace is the preference of family members or friends regardless of fairness, rights, and objectivity and at the expense of the eligible and competent employees. It opens the door to favouritism and unfairness as it turns a blind eye to employees' performance and contribution. It has parallels in the form of Chinese 'quanxi' (Wen and Seifert 2017), and in American notions of a 'favour bank'. This culture represents a negative phenomenon and an ethical obstacle in the work environment especially in the public sector. Wasta constitutes a form of privilege for those who belong to famous tribes or who have strong connections with the Politically Exposed Persons (PEPs). This culture permeates the Arab world being mostly tribal societies, although it contradicts the Islamic values, the notion of equality and the principle of equal opportunities.

In the context of PRP, the culture of Wasta adversely impacts employees' perceptions and their attitude towards management and operations of the performance pay system and processes. This clashes with the values that PRP calls for, which in turn negatively affects employee performance, behaviour, and confidence in the integrity of procedures and organisational processes. This culture opens the doors for favouritism and unfair treatment. Among the reasons for the spread of this culture are the weakness of the governance system, laws and regulation. Moreover, the absence of objective procedures and clear goals, which undermines the process of staff evaluation and system operation in general.

## 2.8 Performance Management

The importance of the performance management system lies in its activities, which adopt a set of practical processes aimed at improving staff performance by directing and focusing their attention, efforts and behaviour on organisational goals (Gagne, 2018). In other words, the performance management system is a set of processes that seeks to direct employees' focus and ensure their contributions are in line with the organisational strategy and objectives. Such a system has become very common and a key element in all sectors (Williams and Beck, 2018). It has become essential as a tool for measuring performance, and its growing importance is attributed to the technological and economic changes and developments taking place, as well as recent global trends. The most recent works on performance management indicate that it is one of the key factors affecting the success and failure of organisations (Okwir et al., 2018; Franco-Santos and Otley, 2018; Pinto, 2019).

Performance management consists of a set of interrelated processes that occur most often at the beginning of the year, from performance planning, to forecasting expectations and objectives to deciding employee objectives (Tweedie et al., 2018). These are then followed by periodic performance reviews and feedback. Performance management is also a key element that must supplement and be attached to the pay system (Chi et al., 2018). The findings of the literature reviews have shown that systematic performance management activities contribute to enhancing organisational performance and identifying staff weaknesses, which helps improve their performance, together with fostering a culture of commitment, engagement and innovation (Chen et al., 2018; Tweedie et al., 2018).

However, the implementation of effective performance management depends on a combination of factors, including ensuring that there are qualified line managers; ensuring that staff objectives and tasks are clear; and ensuring that staff assessment processes are clear

and fair. In addition, and more importantly, there should be drivers and motivations associated with the performance management system that stimulate employees to achieve what is expected of them (Kamphorst and Swank, 2018). Employees may have the competence and ability, but the absence of motivation may prevent them from achieving what is required.

Literature reviews describe the performance management system as a framework designed to guide staff performance in line with the organisation's strategic objectives (Tweedie et al., 2018). Studies also emphasise the importance that when a performance management system is designed, consideration should be given to identifying factors that ensure that the system's processes (such as employee performance appraisal) are consistent with the nature and culture of the organisation.

However, the element of subjectivity in performance management is among the most challenging factors that organisations face. Failure to set objective criteria is often a cause of failure in the performance management process. Such management is often seen as an integral part of HRM functions, which supports the achievement of the organisation's strategy and objectives. The performance management system is expected to save considerable time and energy if implemented in a planned manner.

On the other hand, although performance evaluation is a main focus of performance management and constitutes a key measure of an organisation's performance, if it is not implemented properly it can turn into a negative experience for staff and management. The evaluation process takes much time and might be very stressful for managers and a burden on them, especially if they have a large number of employees. There are often risks of errors in assessment or unintended bias, which may not reflect reality. This is because the process is

subject to human evaluation and often this evaluation is not quantified, which makes it difficult to analyse and measure.

Therefore, if the performance management system is not planned properly, it would be a complete waste of time and create a stressful environment for all those involved in the process. With regards to performance pay systems, in order to ensure its success, effective evaluation process must be ensured (Sanders et al., 2018). It is suggested that performance pay and evaluation process should be treated as a single entity, so that each one complements the other (Norberg, 2017).

### 2.8.1 Linking Pay to Performance

The basic idea of linking pay to performance is often attributed to Frederick Winslow Taylor (Locke, 1982; Schachter, 1989; Young, Beckman and Baker, 2012; McGaughey, 2018), who is considered to be father of scientific management, as he was the first to examine employee behaviours and performance and propose the idea of incentivising employees financially to increase their productivity in the engineering sector (Martin-Rios, 2018). Taylor (1911) stressed the importance of the role of management in designing an effective incentive system to overcome the challenges of employee control and the factors that constrain production and waste time. He believed that the best cure for inefficiency depended on scientific management methods, seeking to direct human resource efforts correctly by using tools that motivated employees and increased their productivity (Sheer, 2017). He also stressed that organisations cannot achieve their goals unless they achieve a reasonable degree of well-being and prosperity for their employees.

Furthermore, Taylor is seen as one of the major contributors to motivation theory, as he noted that pay was the most important incentive for workers to enhance their efficiency and productivity (Spencer, 2018). He believed that financial incentives were the main motivation

for workers, through which maximum prosperity could be achieved for both employees and employers (Fry, 1976; Oppong, 2017). March and Simon (1958, p.82) also suggested that “the greater the dependence of monetary reward on performance, the more favourable are the consequences perceived as resulting from a decision to increase production”. Taylor assumed that people would work hard and do their utmost to maximise their income. However, the most important principles that were put forward by Taylor were the importance for managers to use scientific methods in planning their work and performing tasks, as well as in the selection, training, rewarding and development of staff.

On the other hand, Taylor suggested replacing the traditional rule of thumb, which lacked precision, with systematic scientific methods, by paying workers according to their tasks and goals assigned to them (Taneja, Pryor and Toombs, 2011). For scientific management, practices such as selection of workers, training and development, job design and teaching workers how to perform the jobs, task specialisation, collaboration between managers and workers, and continuous feedback constitute a true science through which an organisation can achieve the highest level of efficiency and productivity (Turan, 2015).

Taylor believed that the waste of human resource efforts was worse than wasting material resources. However, in his view the performance and productivity of staff depended on the environment and the policies available from the organisation (Smith, 2017). Producing competent human resources is very important for national efficiency and was one of the aspects stressed by Taylor (Turan, 2015). He pointed out that companies are often looking for an efficient, ready-made employee, while the responsibility of the organisation is to train people and motivate them to make them competent, rather than looking or hunting for ready-made employees.

The basic idea advocated by the theory of Taylorism was how to strengthen the relationship between staff and the tasks they perform so that their efficiency and productivity can be increased, consequently improving organisational performance (Lauer Schachter, 2010). It stressed the importance of considering scientific selection of workers; in other words, the importance of selecting the right workers for particular tasks, then training them to perform their tasks efficiently, and subsequently providing financial incentives to encourage workers and to raise their efficiency.

Taylor realised that there were two reasons for a lack of efficiency at work. First, the failure of management to set appropriate standards and criteria for work, and secondly the absence of incentives that drive employees to increase their productivity. Henry Ford noticed the benefits that Taylor's ideas could bring to his operations, so he took advantage of his experience and strategies to enhance efficiency and increase productivity (Paxton, 2012).

The idea of inefficient performance among staff was the factor that had a significant impact on weak productivity from Taylor's point of view. He believed that workers should be paid on the basis of their productivity and efficiency. Therefore, he introduced the Piece-Rate System (Caldari, 2007), which proposes that employees who achieve standard output or exceed it should be paid more, while employees who fail to achieve the standard output should be paid less. The core of Taylor's ideas was to improve working methods through certain time and motion techniques that promoted productivity and efficiency, the provision of the necessary training for employees, and monetary incentives to enhance wages (Taylor, 1911). Based on Taylor's perspective, these ideas would align the relationship between employer and employee and thus enhance efficiency.

However, there have been many criticisms of Taylor's ideas. Some commentators believe that Taylor ignored humane worker aspects, viewing workers as machines and focusing on the

elements of time, productivity, profitability and efficiency (Derksen, 2014). They perceive this as ignorance of individual differences in talents, abilities and skills and consider his ideas to be an exploitation of workers.

On the other hand, others have criticised Taylor's idea that money is the only motivator for workers, as he ignored social and other personal needs, which may play an important role in motivating workers. However, Taylor claimed that money was what workers most wanted (Locke, 1982), which may reflect the reality of the circumstances at the time. Moreover, critics have also noted that Taylor called for a separation of planning from implementation, suggesting that such a separation would exclude the involvement and participation of workers in planning, and also reduce the importance of workers' suggestions, therefore distancing planning from reality.

Many organisations adopt wage systems based on time, which compensates employees for the time spent at work, regardless of their productivity. This gives a degree of freedom, whereby employees are not forced to do their work hastily, since wages are determined and not based on output (Sessions and Skatun, 2017). Moreover, this pay method makes it difficult to distinguish between competitive and non-competitive staff. In addition, it requires more control measures and continuous supervision (Sihag and Rijdsdijk, 2018). In spite of these issues, time-based pay is still widely popular.

However, as competitive pressures increased alongside a changing business environment in the late twentieth century, organisations were forced to direct their focus on performance-related pay, because of its objective criteria and focus on harmonizing employee performance with organisational objectives (Audia and Tams, 2017). Therefore, performance-related pay schemes have been developed to suit the new global competitive environment. Accordingly, performance pay programmes are designed on the principle of partnership, so that an

employee's performance is linked to organisational objectives, based on the idea that organisations should share with its employees the successful outcomes achieved (Zhang et al., 2015).

Consequently, organisations have recognised that traditional wage structures are no longer valid, effective nor beneficial in retaining competent staff (Walsh, 2017), especially in the light of modern recruitment techniques such as headhunting, which aims to attract competent staff, and of contemporary organisational structures that attract competencies. Hence, contemporary organisations seek to find ways to align their interests with those of their employees, to be able to direct employees' behaviour and efforts towards organisational goals (Sessions and Skatun, 2017), based on the principle that staff will perform better if their performance and contributions are linked to their pay.

Linking performance to pay has proven to be worthwhile (Dee and Wyckoff, 2015), but the real problems in implementing the plan remain with the development of appropriate standards that enhance the objective evaluation of performance and help to distinguish between competent employees who contribute and low-performing staff. However, there remains confusion over the optimal way to design the PRP system and fears of rewarding employees based on their usual goals that are part of their regular tasks, for which they receive their basic pay (Bellé, 2015).

## **2.9 Performance-Related Pay**

This section begins with a detailed review of the different performance-related pay (PRP) definitions, then discusses the cultural background of the system and its impact on the performance of employees. Subsequently, it considers the rationale of the system and the

concept of motivation from the point of view of the system itself and its relationship with performance.

### 2.9.1 Definition of PRP

Performance-related pay (PRP) is also known as individual PRP or merit pay. It is a financial reward which relates all or part of the salary of an individual or a group of people to performance, which is measured according to objectives that are agreed to be accomplished within a certain period of time (Feeney, 1982; De Gieter and Hofmans, 2015). It is also defined as a system “that link[s] individual and group performance to pay, including non-consolidated elements such as bonus schemes” (CIPD, 2016), which the salary of employees depends mainly on their achievements and appraisal (Boachie-Mensah and Dogbe, 2011). It

Recently, many organisations have shown great interest in performance pay; some have already implemented it, while others are in the process of doing so. Performance pay is a powerful tool for influencing culture (Kerr and Slocum, 2005) and a powerful way to control employee behaviour and enhance their performance if there is an effective organisational culture (Awadh and Alyahya, 2013). The difficulty of PRP lies in how to design, implement and align it with the nature of the tasks in the organisation. An effective PRP system can be very useful for employers and employees in many ways. The fair outcomes of the system will encourage employees to perform better and make them work more efficiently and effectively (ACAS, 2016).

Many studies indicate that organisations often struggle to achieve the goals for which the system has been introduced. Among the most common failures involve the achievement of equity and motivation of employees (Isaac, 2001; Walsh, 2017). This is due to the lack of

clearly defined planning goals (De Menezes and Kelliher, 2016). There are many reasons which may drive organisations to implement PRP, such as to rationalise spending; to establish more control over employees; to change the organisational culture; to attract the best candidates; and to retain the best employees (Beardwell and Holden, 1995, in Boachie-Mensah and Dogbe, 2011). Another reason is to undermine the trade union effect (Kessler and Purcell, 1995).

Although many studies have shown that the performance pay system has been proven to be more effective in improving performance, there is no special recipe for its success or even certain recognized ways to apply it effectively (O'Halloran, 2012). Some people believe that the reasons for the failure of many performance pay systems were because their operations and practices were not based on scientific practices or evidence; in fact, they were implemented based on the experiences of other organisations. Some findings also indicate that small financial rewards have no effect and do not motivate employees (Voorberg et al., 2018), while other researchers argue that financial incentives must be accompanied by systematic operations, processes, objectives and clear tasks, as it is an integrated system (Sanders et al., 2018).

Some pay systems may seem very chaotic because of the lack of clear criteria, objectives and measures of success (Livy, 1988). Top managers often claim that the system is found to create fairness and motivate diligent employees, while many employees express their displeasure and dissatisfaction and complain about a lack of fairness. However, it has been demonstrated in some organisations that have successfully implemented a performance pay system that they had clear measures for the success of the system, which is why they were able to achieve its objectives.

### 2.9.2 Performance-Related Pay Culture

Kilman et al. (1986, p.5, in Inceoglu, 2002, p.16) define culture as “the shared philosophies, ideologies, values, assumptions, beliefs, expectations, attitudes, and norms that knit a community together”. For Siehl & Martin (1984, p.227, in Inceoglu, 2002, p.16), organisational culture is “the glue that holds together an organisation through a shared pattern of meaning”. Such culture is among the important subjects in the literature on performance pay and management practices (Alvesson, 2013), and is seen as an important element that drives and guides individuals' actions (Zhang et al., 2015).

Among the positive aspects of the application of PRP is the creation of a unified culture characterised by transparency and clarity (Liao, 2018), especially with regard to the measurement of staff performance. Despite the fact that some PRP opponents suggest that it leads to inequality among staff, this depends mainly on how the PRP system is implemented and what criteria and policies are in place (Kavanag, Benson and Brown, 2007; DeNisi and Gonzalez, 2017). The rationale of introducing a PRP system is to give value to employees' achievements and contributions and to ensure that their performance continues at the same pace or even better. Moreover, it aims to make them feel that their outstanding efforts are appreciated by the organisation, which increases their commitment to the organisational goals.

On the other hand, the PRP system carries certain messages to staff which influence the organisational culture and instil certain values that guide employees' behaviour in the direction that serves the organisational goals. In other words, it sends a message to staff that “this is what we expect from you” (Ogbonnaya, Daniels and Nielsen, 2017). In any organisation, senior management in some way or another are responsible for shaping and framing the organisational culture. Most managers are aware of their culture, but may be

unsure how to make it influential, or to maintain and transmit it (Tenhiala and Laamanen, 2018). However, the aspirations of cultural management might pose some concerns for organisations in terms of its intervention into organisational regulation and the shortening of the distance between the purposes of individuals and organisations.

The PRP system has a great impact on fostering the culture of initiative and innovation, as well as on promoting an open culture of effective communication if the system is properly implemented. This because employees often have the motivation to achieve predetermined objectives that are associated with a meaningful outcome that is valuable to them, which should encourage continuous dialogue between managers and employees. Organisational culture usually reflects the attitudes, beliefs and values of its staff and therefore these values and beliefs should promote the cultural norms that affect the behaviour of employees (Kerr and Slocum, 2005).

One of the important cultures that PRP seeks to produce is that of fairness. Fairness is seen as the basis of the PRP system because it eliminates favouritism and personal tendencies in dealing with bias (Hartmann and Slapnicar, 2012). It is intended to make clear to staff what is required and expected from them, and accordingly employees are evaluated. The system should set clear criteria for dealing with employees, as it is not logical to evaluate or judge staff performance without objective criteria.

Many organisations have used the system as leverage to promote job commitment and constructive communication (Ogbonnaya, Daniels and Nielsen, 2017). Although the main purpose of some companies in introducing the system is a means to undermine the perceptions of employees about the strength of unions, they have succeeded in enhancing commitment values and improving performance (Kessler and Purcell, 1994). Linking pay to performance gives the organisation the ability to direct the behaviour of employees, to

influence them, and direct their efforts towards the ultimate goals of the organisation. This also reinforces management control and its ability to distinguish between exceptional and normal performance and to make rewards fairly and accordingly.

In addition, the system makes management and managers susceptible to questions, so enhances the sense of accountability and creates transparency. This compels managers to make accurate and fair decisions about employees' pay and also creates mutual evaluation between employees and managers. If a manager fails to assess an employee in a fair manner, the employee has the right to appeal and therefore the manager's decision will be evaluated to ensure its accuracy and integrity, which creates a balanced process.

There is no doubt that the PRP system adopts many Western cultural values and principles and is widely practised in Western society, proving its usefulness in relevant organisations. The entry of many multinational organisations in emerging economies has influenced local organisations, and the multinational working culture and values have been absorbed. The local organisations have been forced to adopt this system to enhance their competitiveness and remain in the market, as well as to retain their outstanding staff.

Some local organisations have been able to acclimatise and adopt the system, while others have failed to do so because the culture was not favourable or because of improper implementation. Later, the system was introduced and applied in some public sector entities for the purpose of rationalising spending, enhancing efficiency and changing the culture. This is the issue that this research seeks to diagnose and analyse in order to establish how successful the import of this experiment has been and how it has been adapted to local culture. It also identifies the most important challenges and constraints faced with the application and introduction of the system in different types of organisations.

Individual PRP is found to increase productivity more than group PRP because in the latter it is difficult to measure the effort of each member of the team. Therefore, some team members might take advantage and be rewarded for other members' efforts, while doing nothing themselves. This situation can demotivate the hard workers, who will consequently make less effort.

In situations where employees are able to select the tasks they wish to focus on, they are more likely to concentrate on higher status ones and ignore those of lower status, which leads to a reduction in the productivity of the organisation. Therefore, there is no clear proof that PRP is definitely a tool that increases productivity (Gielen et al., 2010). However, this is often based on the method of implementation, the policies and the mechanisms used.

According to CIPD (2016), PRP involves three important topics: (1) relating performance to pay progression as a way of boosting performance; (2) promoting a high-performance culture in the organisation; and (3) introducing the concept of fairness and equality. Competition is growing dramatically between markets. For an organisation to survive and improve its productivity, it has to invest in its workforce. One of the tools that organisations are using to improve their workforce performance and productivity is PRP. According to Gielen et al. (2010), there are two reasons why PRP increases productivity. The first is that PRP can motivate employees to make the correct amount of effort for a specific task, which can help become aware of the abilities of each employee. The second reason is that during recruitment PRP can be used to encourage the most suitable candidates to apply for a specific job.

Salaman et al (2005) suggest that there are two types of individual performance-related pay schemes. The first is related to and measured according to performance; for example, the extent to which employees can achieve their specific individual objectives. The second is merit rating, which is related to behaviour as a measure of performance; for example, it

evaluates employees' performance based on their reliability, creativity, initiative, cooperation and problem-solving abilities. According to surveys reviewed by Kessler (1993, in Salaman et al., 2005), both types of PRP are growing significantly, especially among employees who have fixed salaries and annual increments based on the length of their experience. Despite this growth, individual PRP causes problems in some organisations due to the inefficient handling of the systems, and obsessions of employees associated with the system, which might make their performance too related to pay, ignoring other aspects of performance management, which can lead to demotivation. PRP can be very beneficial to an organisation if it is well planned and handled; for example, by taking into account group PRP instead of individual PRP. The system should be planned logically by specifying the organisation's objectives and focusing efforts on the correct places, and pay should be based on results and not the effort made.

According to Durant and Durant (2012), performance-related pay is based on expectancy and reinforcement theory. Expectancy theory suggests that employees have a tendency to put more effort into a task if they believe that they will get a valued outcome such as more money. On the other hand, reinforcement theory suggests that there is a relationship between certain behaviour and pay. It proposes that pay can create high performance and thus influences employees' behaviours positively.

Reinforcement theory can be affected by different variables, such as employee characteristics (e.g., seniority, sex, or age), which in turn can be influenced by the pay system design (pay levels, individual or group pay, bonuses or additional pay to the basic salary). Environmental conditions such as organisation size, appraisal structure, competition and alternative jobs in the market can also affect pay system designs, as well as job characteristics such as job security, feedback, managerial status and measurability of goals. Such variables can greatly

affect PRP outcomes in terms of employees' performance, commitment, trust and satisfaction.

Employees receiving performance-related pay will make great efforts in their job if they appreciate the financial rewards and believe that they can be obtained through increased effort (Durant and Durant, 2012). According to Bellé (2015), PRP is not in decline, but instead is reviving and becoming more popular. Although the PRP system is still being used and continues to be disseminated in many organisations, there is still conflict in the results of recent studies on its effectiveness. The system mostly depends on the objectives of its introduction, design and operation, and its measures and operations must be clear for management and staff.

### 2.9.3 Motivation

Motivation is linked to individuals' characteristics such as initiative, efficiency, competency and the desire to achieve or accomplish something (Kamphorst and Swank, 2018). It refers to the highest and maximum possible results that employees are willing to produce through their greatest efforts to serve the goals and desires of the organisation (Mills et al., 2007; Mostafa, Gould-Williams and Bottomley, 2015). Most work motivation definitions suggest that motivation is directed intentionally or voluntarily, and in most cases it attempts to enhance organisational performance and achieve its goals. Motivation also can be considered as a choice that individuals make to expand their energy and effort to achieve organisational goals (Pieper, Greenwald and Schlachter, 2018). Motivation can have two dimensions: intrinsic or extrinsic. In intrinsic motivation, individuals perform their tasks without the presence of rewards, whereas extrinsic motivation refers to performance that leads to external rewards (Dumbach, 2013). Extrinsic motivation is also concerned with the consequences of the activity, rather than the activity itself.

Moreover, intrinsic motivation is linked to doing something because it is interesting in itself, while extrinsic motivation often refers to doing something because it leads to a particular result or outcome (Gerhart and Fang, 2014). In other words, internal motivation might be influenced by the task itself, whereas extrinsic motivation may come from sources outside the task. Deci and Ryan (1985, in Gerhart and Fang, 2014) argue that intrinsic motivation is "based in the innate, organismic needs for competence and self-determination"; however, they also suggest that extrinsic rewards can diminish and weaken intrinsic motivation (Gerhart and Fang, 2014, p.47). Money can be an effective tool for intrinsic or extrinsic motivation if used effectively, but it is important to measure the importance of money as a motivator, for example by observing people's behaviour in response to money. There is also empirical evidence that extrinsic motivation can even affect intrinsic motivation positively (Roberts et al., 2006, in Dumbach, 2013).

## **2.10 Theoretical Basis of Performance-Related Pay Models**

The idea of the performance-related pay (PRP) system is grounded in theoretical frameworks that constitutes a systematic approach through which the system can be applied effectively. These frameworks provide a set of process theories that help in addressing questions and drawbacks and challenges that surrounding the PRP system and also draw attention to circumstances in which pay might be effectively motivated. This section discusses the most important theories supporting the PRP system.

### **2.10.1 Expectancy Theory**

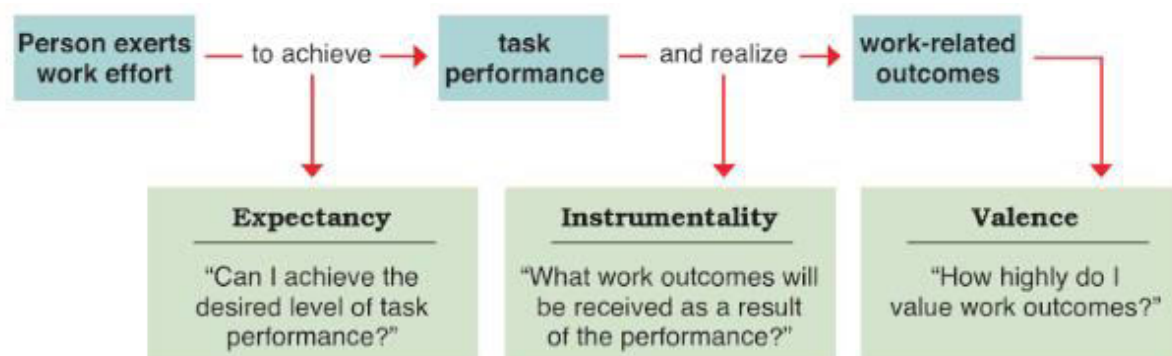
There is no doubt that expectancy theory is one of the most widely accepted theories in the field of motivation, performance enhancement and employee behaviour (Backes-Gellner and Pull, 2013). The general notion is that it is possible to influence employees' work behaviours once their expectations about the outcome are predictable, or by influencing their perceptions

about the outcome that can result from their efforts or performance. According to Vroom (1964) “An expectancy is defined as a momentary belief concerning the likelihood that a particular act will be followed by a particular outcome”.

The theory was developed in 1964 by Victor Vroom, and its origin concept contains three components: Valency, Instrumentality and Expectancy (VIE). Valency refers to the predictable value of the outcome, or in other words the value the reward that staff expect to obtain for their performance (Wong and Kuvaas, 2018), while instrumentality refers to the relationship between performance and outcome, or the perception of employees that a certain performance level will lead to a certain value of reward/outcome.

The third element is expectancy, which represents the relationship between effort and performance; that is, employees believe that a certain effort will lead to a certain performance level. The theory suggests that the higher the employees' expectancies, the greater the efforts they will exert (Lloyd and Mertens, 2018). The theory suggests that employees will make a higher effort if they think that this will lead to a desirable performance which will result in a valuable outcome. Figure 2.1 describes the elements of expectancy theory.

Figure 2.1 Elements of Expectancy Theory



Source: Schermerhorn (2001, p.369)

The theoretical framework of the theory seems to be very logical and practical. If employees' expectations of rewards are clear and positive, these will be reflected positively in their efforts and performance (Nimri, Bdair and Al Bitar, 2015). However, if staff expectations are not clear about the level of performance expected from them, or of the rewards they will receive for this, this will adversely affect their performance.

On the other hand, many criticisms have been made about the components of the theory, in that they are ambiguous and lack a clear approach in terms of operationalisation or clear criteria for application (Wabba and House, 1974; Chacko and Conway, 2019). If the theory is considered in-depth, it can be concluded that its essence is the choice of behaviour, which takes place under certain conditions (Lee and Raschke, 2016), assuming that employees will make rational decisions axiomatically based on their assumptions. However, any violation of these axioms or assumptions would be considered irrational behaviour.

The theory seems to conclude that employees' motivation is determined by their belief that they have the ability to conduct certain behaviour, and that this behaviour will lead to expected performance. Subsequently, the performance will lead to a certain outcome, which is valuable to employees (Peters, 1977; Downes and Choi; 2014). At first glance, the theory appears to be very logical. On the other hand, it also appears to be based on descriptive assumptions. Therefore, it raises the question of how these assumptions can be applied on the ground, and what characteristics of the environment and staff are necessary to ensure the success of its application.

### 2.10.2 Goal Setting Theory

Goal setting theory assumes that setting specific objectives for employees leads to better performance and helps focus their efforts on organisational goals (Locke and Latham, 1990; London, Mone and Scott, 2004). The theory also states that linking goals to rewards enhances employees' commitment and performance (Porter and Latham, 2013). Previous findings suggest that the success of the PRP system depends on developing or adopting systematic approaches and criteria that support its operation. It can thus be claimed that among the important approaches and theories that underpin the PRP system is goal-setting theory, as it promotes objective and fair performance appraisal (Seijts and Latham, 2005).

The theory was developed by Edwin Locke in the 1960s and was proven to be an effective approach to motivating employees through extensive field investigations (Locke and Latham, 1990; Fred, 2011). It assumes that employees should be assigned realistic and achievable goals related to their job tasks so that they can estimate the amount of effort required to achieve the desired results and effectively accomplish the given task.

The goal-setting approach may fail if it is not systematically applied, which may lead to staff underestimating their tasks. Consequently, goals should be clearly defined in terms of time, method of implementation and expected results. Findings indicate that the more difficult the goals, the more they motivate staff (Latham, 2003). The results also suggest that employees' understanding of how their tasks and objectives relate to organisational end goals makes them appreciate their contribution (Asmus et al, 2015). In addition, it motivates them and makes them feel the importance of their role.

The theory suggests that performance disparities between employees are due to different performance objectives assigned to them. Moreover, employees' performance and commitment to goals may depend heavily on the difficulty of the goals and the reward

mechanism allocated in the event of the goals being achieved. This is because staff often adjust their performance and efforts to the level of tasks and objectives they are expected to accomplish, in addition to the value of the expected outcome obtained for the achievement. This all serves the evaluation process and the development of standards and measures necessary to assess employee performance.

Locke and Latham (1990), in their book "A Theory of Goal Setting and Task Performance", suggest that among the important elements that define successful goals are clarity, challenge, commitment, feedback and task complexity. The findings suggested that the more challenging the goals, the more enthusiastic and motivated staff will be (Catania, 2014).

It can be said that the relationship between the PRP system and goals-setting is an integral relationship, as assigning goals to employees makes the appraisal process more objective and helps identify employees' contributions. This suggests that goal-setting can be used as a tool to control employee performance and guide their efforts towards organisational objectives.

However, goal evaluation criteria are not easy to define objectively because some types of jobs or tasks are highly subjective and difficult to quantify, making them subject to bias and favouritism. Furthermore, if staff feel that the goals are not measurable and that the criteria set are not sufficiently objective, they will feel a loss of control over their achievements or even a loss of motivation to achieve the goals.

### 2.10.3 Equity Theory

This theory provides insights into how employees position themselves and make decisions in their organisation in general, as well as in terms of their performance and attitude. The theory is often seen as one of the important ones on motivation and as an important means of

providing in-depth understanding of the perspective of fairness from the point of view of the organisation (Cohen, 2015).

Equity theory was established by John Stacy Adams in 1963. It suggests that employees often expect fair compensation for their efforts at work (Mathis et al., 2017). It is "based on the premise that people are motivated to obtain and preserve equitable treatment for themselves" (Pride et al., 2010). The theory assumes that the greater the employees' expectations of fairness and equity, the greater their motivation to work hard.

However, if employees perceive unfair treatment, this will negatively impact their performance (Selvarajan, Singh and Solansky, 2018). The theory is based on the assumption that employees compare their input (performance, contribution and effort) and output (compensation and reward) with their co-workers, either in their organisation or at industry level. Therefore, employees often expect fair outputs for inputs they provide.

Furthermore, fairness and equality are essential for the success of any pay or reward system (Odeku, 2014). The idea of the PRP system suggests that outstanding performers should be rewarded by increasing their pay to establish the principle of fairness, which is the core value of the system's working culture (Hartmann and Slapnicar, 2012; Bos-Nehles and Veenendaal, 2019). Adams' (1965) equity theory of motivation confirms that employees' productivity and performance expected by management can only be achieved if there is a balance between inputs (e.g. efforts) and outputs (e.g. reward), together with employees' sense and belief that there real fairness in the process (Cohen, 2015).

Most employees often agree on the principle of the system being effective, although performance measurement may indicate that the system does not sufficiently motivate staff. However, employees' conviction/support of the principle of the system is due to the fact that

many of them were dissatisfied with the conditions they had before its introduction, when their wages may have been lower and unfair (McHale, 1990). Therefore, it can be said that the criterion of equity/fairness may be more robust as an indicator of the effectiveness of the system because it is often difficult to gauge the level of employee motivation.

#### 2.10.4 Reinforcement Theory

Reinforcement theory focuses on guiding employee behaviour in a certain direction that serves business objectives, using the element of reward and punishment. The theory assumes that effective incentives lead to a repeat of positive behaviour (Villere and Hartman, 1991; Wei and Yazdanifard, 2014), while punishment is used as an effective deterrent to not repeat undesirable behaviour. In other words, the theory calls for a balance between reward and punishment (Hendijani et al., 2016). Behaviour modification is the term given to the staff behaviour change mechanism (Babb and Kopp, 1978; Ibrahim et al., 2016). The assumption is that modifying behaviour often lies under the law of effect, which suggests that positive behaviour is mostly repeated (Sims Jr and Szilagyi, 1975; Kim, Yu and Park, 2017), whereas behaviour that is not reinforced is not repeated.

The theory is considered to be one of the important theories of motivation that focus on extrinsic reward and punishment. It suggests that behaviour that achieves desired results can be rewarded, for example by promotion or pay increases (Latham, Ford and Tzabbar, 2012). On the other hand, undesirable or unwanted behaviour will be punished; for instance, with demotion or no pay increases. Reinforcement theory concerns the relationship between behaviour and its consequences, while the behaviour of the staff is influenced by the optimal use of rewards or punishment (Gibson, 2004). As a result, employees can either receive positive or negative reinforcement based on the consequences of their behaviour.

It is noted that an effective reward system is a major driver of the theory, as it promotes the culture of positive behaviour that the organisation wants (Zuiderwijk and Spiers, 2019). In terms of positive reinforcement, the theory seems to be very similar to expectancy theory, in which workers believe that positive behaviour will be recognised, appreciated and rewarded. On the other hand, staff expect that undesirable behaviour will not be accepted and inevitably will not be rewarded. The assumption is that employees will always try to adjust their behaviour to avoid undesirable outcomes.

Reinforcement theory stems from the premise that positive incentives can attract employees' attention and drive them towards behaviour that serves organisational goals. Moreover, it should be noted that reinforcement theory has commonalities with the previously discussed theories, such as expectancy, goal setting and equity theories. It is concluded that the theories discussed earlier can form an effective framework for the application and operation of the PRP system. Perhaps the failure of PRP in some organisations is the result of a lack of integration of some important elements covered by previous theories.

#### 2.10.5 Agency Theory

The agency relationship is often seen as a contractual one. For example, in the employment relations context, it is a contract made between an agent (employee) to perform a service for an employer (principal) by delegating some authority to agents that will enable them to perform their work (Delery and Doty, 1996; Franco-Santos and Otley, 2018). According to Jensen and Meckling (1976) in their important paper in the context of corporate organizations about conflicts of interest between the directors (agents) and the owners (principals), it is difficult to expect managers to monitor the business with the same degree of vigilance that the owners themselves carry, and therefore it requires to align the interests of both parties to reach a win-win situation.

The theory assumes that the agents are likely to favour their own interests rather than those of the principal (Eisenhardt, 1989; Van Puyvelde et al., 2013). Consequently, the principals should develop controls and rewards that limit such behaviour, so that their interests are aligned with those of the agents (Wright and McMahan, 1992; Lopes, 2016). In economics, the principal-agent problem is manifest in most major firms and modern organisations. The relationship is considered to be one of the oldest and most common codified relationships in social interaction (Ross, 1973; Murray and Ali, 2017). The problem may arise in different contexts, such as lawyers and their clients, customers and their suppliers, insurer and the insured, voters and the politicians who represent them, and regulators and public utilities (Heller et al., 1986; Hong et al., 2017). The basic relationship is between owner/shareholders (principals) and their employee/manager (agent).

A common example of the principal-agent problem could arise when owners (principals) appoint a Chief Executive Officer or managers (agents) to achieve their interests or to perform certain work. The problem has been developed to address issues such as when the principal (for example, the owner of the company) is unable to observe the level of effort exerted by the agent (manager) (Grossman and Hart, 1983; Johnson and Droege, 2004; Kogovsek and Kogovsek, 2013). The key point is that the agent might have different views, goals or objectives from principal. For example, in business principals might have a different perspective than agents, often wanting to maximise profits (Franco-Santos and Otley, 2018) so they can achieve the maximum return on their investments, both in terms of the share price and the dividend. However, agents involved in the business and who make day-to-day decisions might have different perspectives, which conflict with those of the principal, which is what creates the principal-agent problem.

The problem is also known as an asymmetric information problem, because it is difficult for the principal to observe directly what the agent is doing. It suggests that information asymmetry arises when the agent is more informed than the principal, which makes it difficult for the principal to know whether the agent is working in their best interests, and "no outsider can observe the agent's income (so there is asymmetric information)" (Thomas and Worrall, 1990, p.368).

The decisions and performance of the agent are difficult to monitor accurately, which in essence is the principal-agent problem; for example, the agent may want to maximise the firm's turnover, whereas the principal seeks to maximise profits. To overcome the principal-agent problem, "designing incentives to align the interests of principal and agent, monitoring, and sanctioning in the acting for relationships that unfold on their substantive terrain" is important (Shapiro, 2005, p.282). Some principals are tempted to give managers a five or ten year contract for a job security, which will hopefully encourage them to take longer-term decisions on the best interests of the business from a profitability point of view, rather than focusing on short-term goals.

Problems or conflicts arise when there is no alignment of interests or incentives between the principal and agent, and also when the principal establishes a compensation contract for the agent to perform certain tasks, the agents might attempt to work in their interests rather than those of the principal. According to Shapiro (2005), the goals of the principal and agent may contradict because of asymmetric information, and principals usually have doubts whether the agents are working in their favour or not, so for this reason they attempt to provide optimal incentives to align agents' interests with their own. Principals usually move first to offer compensation contracts to agents, and in order to maximise principals' utility, they will

offer contracts that encourage agents to perform their duties in a way that maximises the principals' benefits (Roberts, 2004).

On the other hand, agents will choose the optimal scheme from their point of view, which assumes that owners cannot monitor or observe managers' actions, as they usually do this by pursuing firms' financial performance and profits. This suggests that the profits of organisations depend on the actions of managers, whereas in fact there are other factors that are outside the control of the managers that can occur randomly, so if a company's performance is good, it will not be clear to the owner that this was due to the manager's efforts, or if was by luck (Jirjahn, 2016).

Earlier analysis of principal-agent relationships focused on the short term. The simplest form or model of the relationship can be expressed as a 'two move game'. First, the principal decides the compensation function for the agent, and second the agent decides the action (Heller et al., 1986; Van Puyvelde et al., 2013). Outcomes are determined based on the agent's actions, as well as some external random events. Therefore, according to the compensation announced by the principal in the first move, the resulting utility that goes to the principal will depend on the agent's compensation and outcome. This suggests that compensation depends on the result, which reflects the assumption that the principal cannot observe the agent's work or environmental events.

The principal-agent relationship can lead to moral hazards in contexts when the principal and agent have different desires. K. J. Arrow was the first in economics to make a formal analysis of this and also to draw attention to the importance of moral hazard (Campbell, 2006).

Conflicts of interest are inevitable in principal-agent relations. Agents usually put considerable effort into the tasks delegated to them by managers, but sometimes if they do

not receive satisfactory benefit or incentive for their efforts, they might make less effort (Franco-Santos and Otley, 2018). Basically, any contractual relationship contains principal and agent elements. A large amount of economic literature on moral hazard problems reveals that there is great concern with respect to the problems raised by the agent (Gomez-Mejia, Wiseman and Dykes, 2005).

An agent's efforts may not be considered to be part of a contract, and the principal cannot easily observe these efforts, so the principal should carefully consider when deciding on compensation packages offered to the agent. Agents also may consider opting for excessive risk in order to obtain bonuses or benefits if they succeed, but in the case of failure, the principal is the one who will bear the costs. This type of moral hazard can occur because agents' actions cannot be simply observed by the principals. It is worth paying attention to the fact that the efforts made by the agents in order to maximise their utility can also maximise the principals' utility. Principals also should bear in mind when selecting compensation that the agents may have other better and more attractive employment opportunities elsewhere.

#### 2.10.6 The key interconnected concepts of PRP theories

Theories often provide a model or explanation of how things work and they help design systems and processes in a systematic way and without a theoretical framework for designing or operating a specific system is similar to building a house without a blueprint, leading to random, non-systematic processes. According to Townsend et al (2019), theory is a set of principles and ideas that explain how something works and also explains the purpose of a certain thing and gives an idea of why this thing happened. In the area of employee relations and HRM, theory helps practitioners and researchers understand issues and improve interpretations and predictions in the workplace and this applies to the PRP operators as well. Thus, suggesting the best processes and operations that can improve work and organisational

performance. Consequently, it is possible to draw from this perception and from literature reviews that the three theories: expectancy theory, goal-setting theory, and agency theory are among the most important effective practical and process theories capable of driving the operation of the PRP system. This is in terms of giving PRP's designers, operators and stakeholders, in general, the most effective way to influence employee behaviour and direct their efforts towards achieving the desired performance.

It can be concluded that there is an interconnection between the three theories above. While the expectancy theory is related to the inputs that the employee will make, which are driven by the motivation of the value of the expected return, those inputs must be clear and objectively measurable according to what the goal-setting theory urges. Consequently, the effective employment of the two theories can prevent conflict between the two parties (the employer and employees) and align their interests in an objective manner, as urged by agency theory. Here is where the effective interconnection between the three theories could be employed if they are combined together integrally without separating or ignoring one from the other. This is because separating one of these theories from the other means opening a door to unfairness and favouritism.

## **2.11 Conclusion**

It can be concluded from the literature review that there are several reasons for the introduction of PRP. In the private sector, for example, the main reasons are to promote profitability; enhance organisational performance; motivate and retain highly qualified people; and respond to intense competition for competence in the light of economic and technological development. On the other hand, in the public sector the reasons are to enhance government services; reduce the brain drain; address internal and external pressures; rationalise spending; achieve economic diversification; and to attract foreign investment.

However, with regard to these reasons, PRP implementation, operation and final results are uneven.

In addition, the reviewed case studies have shown concerns about PRP operation in terms of issues such as favouritism, fairness, clarity of tasks and clarity of goal setting. However, a relationship between organisational culture and the success of PRP was observed. This suggests that organisational culture needs to be properly understood and aligned consistently with PRP by promoting the values of fairness, equality, transparency, non-favouritism, clarity of tasks and objectives.

Some evidence has been found of the success of the PRP system in the private sector.

However, there is no clear evidence of system success in the public sector. This suggests that the success factors remain unstable and uncertain. Theoretically, the premise is that the PRP system enhances motivation and therefore reflects productivity and performance, while practically system application and operation seem ambiguous to management and staff.

It can therefore be concluded that there is still uncertainty about the effectiveness of the system, which seems to lead to confusion in its processes. It is assumed that failure to engage the theoretical aspects underlying PRP is among the reasons for its ineffectiveness. The question remains about the context in which the PRP is operated, and in addition, some results indicate that the lack of involvement of line managers and staff in PRP design is one of the obstacles to its success.

According to the literature review, PRP imposes a new reality and has become a strategic necessity for contemporary organisations that want to achieve organisational goals, enhance performance and retain competencies. However, the success factors remain unclear, as many studies focus on the perceptions of the PRP beneficiaries rather than the method of operation

and success and failure factors. Overall, the literature concludes that ignoring the importance of the implementation method and failing to define clear and transparent performance criteria and standards are among the most common causes of PRP deterioration. Employees are likely to accept and to be influenced by the PRP system whenever they feel it is clear and fair. This suggests that the PRP system is capable of creating a healthy competitive environment if its operations are transparent and systematic. This means that the tasks assigned to the employees should be based on predetermined applicable goals and their outcomes are predictable. This is what confirmed by the most supportive theories of PRP, such as expectancy theory and goal-setting theory.

However, despite the accumulation of knowledge about performance pay in the literature, there remain some problems that need to be addressed and clarified regarding the success factors of PRP in the context of the public and private sectors. Consequently, this study contributes to filling this knowledge gap by examining the PRP system through three lenses: the theoretical; that of management; and that of employees. This is in an attempt to contribute to the management literature in Oman in particular, and in the Arab world in general.

The following chapters and sections seek to explore in more depth the impact of the PRP system in Omani public and private sectors in order to address the factors of success and failure, and to answer the research questions. The following chapter focuses on giving the general background of the context of the research, before concentrating on the research design and the methods adopted.

## **CHAPTER THREE: BACKGROUND**

### **3.1 Introduction**

The empirical examination of this thesis focuses on the Omani context, specifically the public and private sectors. With regard to the public sector, it addresses the performance pay system in one of the most important organisations in the government, whereas in the private sector it examines the system across the three largest oil and gas companies in the country. The importance of the governmental organisation lies in it being the backbone of the state and a policymaker. As mentioned in the previous chapter, Omani public organisations need to improve their overall performance in order to meet internal and external social, economic and political pressures.

On the other hand, the oil and gas contexts were chosen as these are the main foundation of the national economy, producing the main commodities on which the country depends.

Moreover, they were selected for being the most attractive industry for many job seekers and also for experienced employees in the public sector and other organisations in the private sector because of the incentives they offer (Swales and Al Fahdi, 2011). Most importantly, they were chosen because of their long experience of using performance pay systems.

However, there is no research which established the effectiveness of the system in the Omani context (Aycan, 2007).

The chapter starts with a brief introduction to Oman and then provides some of the more important details about the Gulf Cooperation Council (GCC). It then addresses political, economic and cultural aspects of Oman, before finally providing an overview of the evolution of the labour market and human resources in the country.

Real development in Oman began during the reign of Sultan Qaboos in 1970 (Gardner, 2015). Despite the relatively short period of the Omani renaissance, it was able to achieve

significant economic progress and create effective educational and social institutions that have contributed to the development of the work environment (Bontenbal and Aziz, 2013). However, to some extent tribal values are still present, arguably even at the level of the business environment (Fromson and Simon, 2019). The working culture of many institutions is a hybrid between local and global values in terms of individual and organisational behaviour in the work environment.

Oman is an Arab (Islamic) state located in the southeast corner of the Arabian Peninsula (Al-Hamadi, Budhwar and Shipton, 2007), specifically in Southwest Asia. The country is also known as the Sultanate of Oman, and its capital is Muscat. Since ancient times, Oman has flourished with its naval leadership and great historical links with ancient civilisations, as well as its maritime activity in the Indian Ocean (CIA, 2016). It is the third largest country in the Arabian Peninsula and is considered as the oldest independent state in the Arab world, and also one of the most traditional countries in the Gulf region. Oman has been ruled by the Al Bu Said family for over 250 years (Peterson, 2016).

However, Oman was isolated from the world until 1970 (BBC, 2016). The total area of the Sultanate is 309,500 square kilometers and it has total land boundaries of 1,561 km (UAE 609 km, Yemen 294 km, and Saudi Arabia 658 km), and a coastline of 2,092 km (CIA, 2016), as shown in Figure 3.1. The country is characterised by different types of terrains, including mountainous lands, desert terrain, plateaus and plain lands. Its climate can be described as a dry and hot desert climate in the interior, and hot and humid along the coast, generally with low annual rainfall, but with a strong southwest summer monsoon between May and September in the far south.

Figure 3.1 Map of Oman



Source: Central Intelligence Agency (2016)

The population of Oman is 4,547,060, of which 2,465,130 (54.20%) are Omanis and 2,081,930 (45.80%) expatriates (NCSI, 2016). Moreover, in 2012 Oman's density of physicians density was 2.43 per 1,000 population. Omanis are ethnically diverse, made up of many different ethnic groups such as 'Arab, Baluchi, South Asian (Indian, Pakistani, Sri Lankan, Bangladeshi), and African'. Oman shares three seas: the Arabian Sea, the Persian Gulf and the Gulf of Oman (Phillips and Hunt, 2017).

Oman's economy relies heavily on oil and gas. However, its insufficient oil reserves compared to its Gulf neighbours have forced it to recognise the importance of diversifying its sources of income and reducing its dependence on oil (Fromson and Simon, 2019). On the other hand, the expansion of natural gas production has become the main thrust of Omani strategy, as the production of electric power mainly depends on gas. However, overall economic diversification is one of the most important objectives of the Oman 2020 long-term

strategic plan, which was developed in 1996. This is mainly related to development, increased efficiency and improvement in the performance of public organisations (Alkalbani et al., 2012).

Oman has been in trade relations with East Africa since the Middle Ages (De Bel-Air, 2015). Its relations with the Indian Subcontinent (Balochistan), East Africa (Zanzibar), Persia and the rest of the Gulf region have had a major impact, as people have travelled between Oman and these areas in search of a dignified and safe life. Many Baluchis have joined the armed forces, while other Omanis have settled in Tanzania and elsewhere in East Africa.

According to the CIA (2016), ‘the nascent sultanate in Muscat’ signed the first treaty with Britain in the late 18th century, even though Oman has never been a British colony. His Majesty Sultan Qaboos bin Said came to power in July 1970, and his intensified development program has had a profound impact on the modernisation of Oman and opened it up to the outside world.

In the middle of the twentieth century, especially after the independence of Pakistan and Tanzania, many Omani, as well as indigenous people from those areas, returned to Oman (Phillips and Hunt, 2017). After the inauguration of Sultan Qaboos in 1970, Omani expatriates were encouraged to return home due to the need for manpower, especially after the oil boom in 1973, which made the sultanate an importer of foreign manpower. The 2010 Human Development Report, titled “The Real Wealth of Nations”, affirmed that the Sultanate of Oman had achieved the highest growth in human development at the global level compared to that of 1970.

In 2011, as a result of the Arab Spring that swept across the Arab countries, some Omani people held demonstrations demanding economic reforms and provision of more jobs (Said,

2016). In response to this, Sultan Qaboos implemented several economic and political reforms in 2011, such as giving more legislative and regulatory powers to the Oman Council (Majlis al-Shura). The Sultan also ordered an increase unemployment benefits and implementation of a national plan to create employment opportunities for thousands of Omani in the public and private sectors (CIA, 2016). Figure 3.2 provides some information and performance indicators about Oman.

Figure 3. 2 Information about Oman and some Performance Indicators

| <b>Oman</b>  |                             |                               |                             |                             |
|--|-----------------------------|-------------------------------|-----------------------------|-----------------------------|
| Region   | Western Asia                |                               | Surface area (sq km)        | 309 500                     |
| Population (proj., 000)  | 4 655                       |                               | Pop. density (per sq km)    | 15.0                        |
| Capital city   | Muscat                      |                               | Capital city pop. (000)     | 838 <sup>a</sup>            |
| Currency   | Rial Omani (OMR)            |                               | UN membership date          | 7 October 1971              |
| <b>Economic indicators</b>                                       |                             |                               | <b>2005</b>                 | <b>2010</b>                 |
| GDP: Gross domestic product (million current US\$)               |                             |                               | 31 082                      | 58 641                      |
| GDP growth rate (annual %, const. 2005 prices)                   |                             |                               | 2.5                         | 4.8                         |
| GDP per capita (current US\$)                                    |                             |                               | 12 398.6                    | 19 920.6                    |
| Economy: Agriculture (% of GVA)                                  |                             |                               | 1.6                         | 1.4                         |
| Economy: Industry (% of GVA)                                     |                             |                               | 62.1                        | 62.8                        |
| Economy: Services and other activity (% of GVA)                  |                             |                               | 36.3                        | 35.9                        |
| Employment: Agriculture (% of employed) <sup>b</sup>             |                             |                               | ...                         | 5.2                         |
| Employment: Industry (% of employed) <sup>b</sup>                |                             |                               | ...                         | 36.9                        |
| Employment: Services and other (% of employed) <sup>b</sup>      |                             |                               | ...                         | 57.9                        |
| Unemployment (% of labour force) <sup>c</sup>                    |                             |                               | 7.0                         | 6.6                         |
| Labour force participation (female/male pop. %) <sup>c</sup>     |                             |                               | 25.4/77.1                   | 27.6/80.7                   |
| CPI: Consumer price index (2000=100)                             |                             |                               | 102                         | 134                         |
| Agricultural production index (2004-2006=100)                    |                             |                               | 112                         | 122                         |
| Food production index (2004-2006=100)                            |                             |                               | 112                         | 122                         |
| Index of industrial production (2005=100) <sup>b</sup>           |                             |                               | 100                         | 165                         |
| Balance of payments, current account (million US\$)              |                             |                               | 5 178                       | 4 884                       |
| <b>Total trade</b>   |                             | <b>Major trading partners</b> |                             | <b>2015</b>                 |
|  | (million US\$) <sup>f</sup> |                               | (% of exports) <sup>f</sup> | (% of imports) <sup>f</sup> |
| Exports  | 50 718.3                    | China                         | 44.1                        | United Arab Emirates        |
| Imports  | 29 303.1                    | Republic of Korea             | 14.8                        | Japan                       |
| Balance  | 21 415.2                    | Asia nes                      | 7.5 <sup>g</sup>            | China                       |
|  |                             |                               |                             | 32.5                        |
|  |                             |                               |                             | 12.2                        |
|  |                             |                               |                             | 4.8                         |
| <b>Social indicators</b>   |                             |                               |                             |                             |
| Population growth rate (average annual %)                        |                             |                               | 2010-2015                   | 8.5                         |
| Urban population (%)   |                             |                               | 2015                        | 77.6                        |
| Urban population growth rate (average annual %)                  |                             |                               | 2010-2015                   | 8.5                         |
| Fertility rate, total (live births per woman)                    |                             |                               | 2010-2015                   | 2.9                         |
| Life expectancy at birth (females/males, years)                  |                             |                               | 2010-2015                   | 78.9/74.7                   |
| Total dependency ratio (Pop. aged 0-14 & 65+ per 100 pop. 15-64) |                             |                               | 2015                        | 30                          |
| International migrant stock (000/% of total pop.)                |                             |                               | mid-2015                    | 1 845.0/41.1 <sup>h</sup>   |
| Tourist arrivals at national borders (000)                       |                             |                               | 2014                        | 1 519                       |
| Refugees and others of concern to UNHCR                          |                             |                               | mid-2015                    | 390                         |
| Infant mortality rate (per 1 000 live births)                    |                             |                               | 2010-2015                   | 7                           |
| Health: Total expenditure (% of GDP)                             |                             |                               | 2014                        | 3.6                         |
| Health: Physicians (per 1 000 pop.)                              |                             |                               | 2013                        | 2.4 <sup>i</sup>            |
| Education: Government expenditure (% of GDP)                     |                             |                               | 2014                        | 5.0 <sup>e</sup>            |
| Education: Primary gross enrolment ratio (f/m per 100 pop.)      |                             |                               | 2014                        | 114.9/105.8                 |
| Education: Secondary gross enrolment ratio (f/m per 100 pop.)    |                             |                               | 2014                        | 98.3/105.5 <sup>j</sup>     |
| Education: Tertiary gross enrolment ratio (f/m per 100 pop.)     |                             |                               | 2014                        | 33.8/24.7 <sup>j</sup>      |
| Intentional homicide rate (per 100 000 pop.)                     |                             |                               | 2014                        | 1.1 <sup>j</sup>            |
| Seats held by women in national parliaments (%)                  |                             |                               | 2016                        | 1.2                         |

a Muscat governorate. b Data classified according to ISIC Rev. 3. c Estimate. d Series linked to former series. e 2013. f 2014. g See technical notes. h foreign citizens. i 2012. j 2011.

Source: World Statistics Pocketbook (United Nations) (2016)

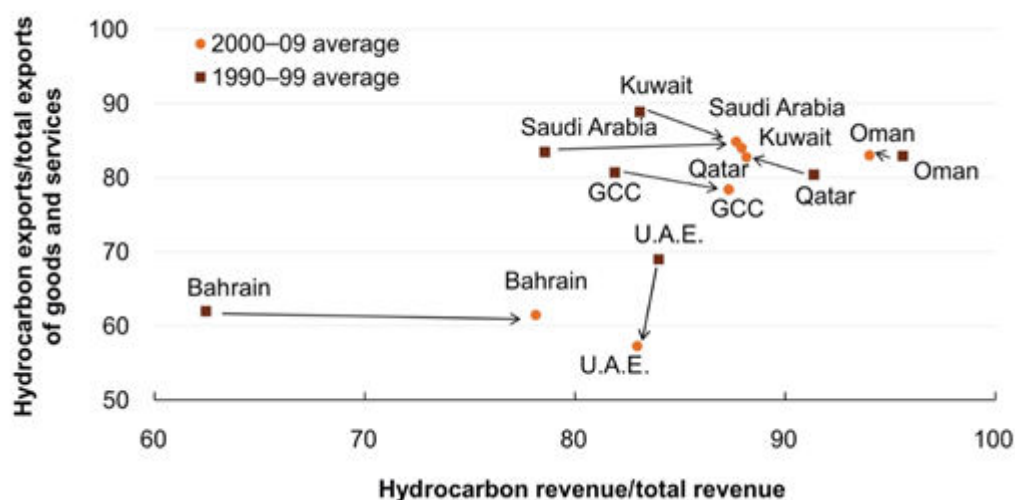
### **3.2 Gulf Cooperation Council (GCC)**

The Gulf Cooperation Council (GCC) is an regional Arab organisation composed of six member states (WTO, 2014), Oman, together with Qatar, Kuwait, United Arab Emirates, Bahrain and Saudi Arabia. In November 1981, the GCC established a free trade zone, in which tariffs and other trade restrictions were eliminated between GCC members (Hamdi, Sbia and Tas, 2014). GCC countries have liberalised many of their sub-sectors, such as telecommunications, banking and financial services and tourism services, and they are continuing to liberalise many other sectors gradually.

GCC counties have a common economic vision in terms of diversification, reduction in the dependence on oil, and the creation of more jobs for young people (IMF, 2011). It is worth noting that most of the GCC common plan focuses on five key aspects: raising efficiency and improving education and health; raising and improving public sector efficiency; improving the business environment to attract investment; increasing productivity and competitiveness; and encouraging self-employment by financing small and medium enterprises.

The GCC economy relies heavily on hydrocarbons. According to the International Monetary Fund, in the period between 2000-2009 GCC reliance on hydrocarbons increased to 80% of exports and 90% of total revenue, as shown in Figure 3.3.

Figure 3.3 GCC Hydrocarbon Dependency



Source: International Monetary Fund (2011)

The non-hydrocarbon sector made little contribution in total revenue, so therefore the general policy of the GCC aims to provide low taxes to encourage and stimulate the business environment and the private sector. Figure 3.4 shows a decline in the GDP of most of the Gulf States in the years 1990, 2000 and 2010.

Figure 3. 4 GCC Percentage of Non-Hydrocarbon Share of Total GDP

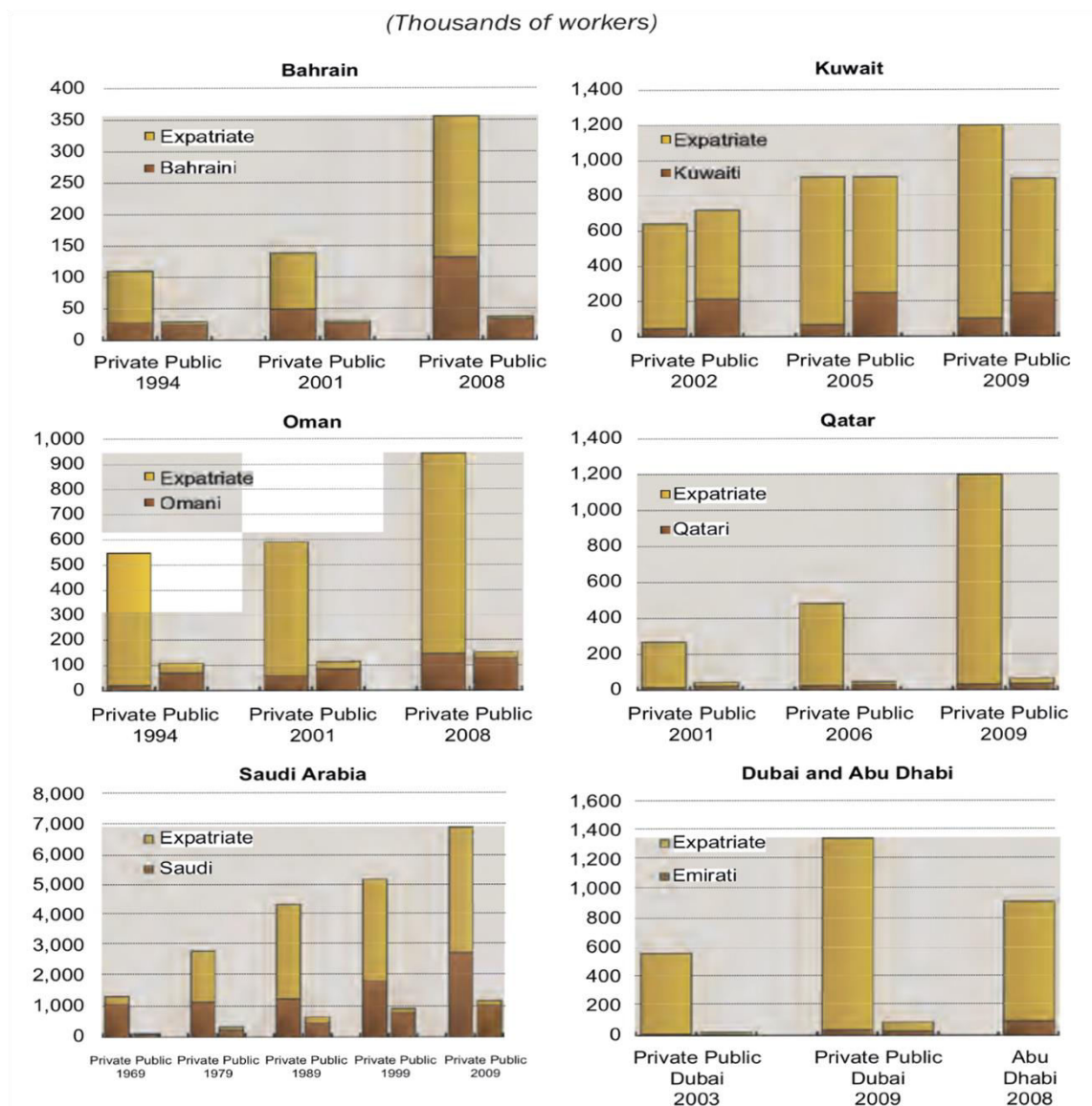
|              | 1990 | 2000 | 2010 |
|--------------|------|------|------|
| Bahrain      | 81   | 72   | 75   |
| Kuwait       | 52   | 48   | 48   |
| Oman         | 52   | 49   | 46   |
| Qatar        | 62   | 40   | 43   |
| Saudi Arabia | 64   | 59   | 48   |
| U.A.E.       | 60   | 71   | 66   |
| GCC          | 61   | 59   | 51   |

Source: International Monetary Fund (2011)

Gulf countries have experienced a sharp increase in the recruitment of foreign labour over the

past decades. The IMF reports that the shortage of jobs for GCC citizens might be attributed to the types of job available. Furthermore, GCC countries created seven million jobs in 2000-2010; two million of which were filled by its own citizens and the remainder by expatriates. Figure 3.5 shows the sharp increase experienced by the GCC in the recruitment of foreign labour between 1969 and 2009.

Figure 3.5 GCC Workforce by Sector and Origin between 1969 and 2009



Source: International Monetary Fund (2011)

### 3.3 Omani Political System

The government system in Oman is an absolute monarchy. His Majesty Sultan Qaboos bin Said is the head of state, and is considered to be the longest serving ruler in the Arab world, coming into power on 23 July 1970. The Sultan holds several positions in the state, such as Prime Minister, Foreign Minister, Finance Minister, Minister of Defence, Supreme Commander of the Armed Forces (CIA, 2016) and Chairman of the Supreme Judicial Council (CAAJ, 2014). He also responsible for issuing laws and legislation through royal decrees and for appointing all the members of the Council of Ministers (the cabinet).

In 1981 Sultan Qaboos issued a royal decree for the establishment of a State Consultative Council (SCC) in an attempt to build a healthy civil society and allow citizens to participate in the government's efforts to implement its plans (Allen and Rigsbee, 2013). Parliamentary work in Oman has evolved gradually, and as a new step in continuing progress in the country's democratic experience, the Oman Council was created, which includes two Chambers, the State Council and the Consultative Council (Majlis Al Dawla and Majlis Al Shura) (Kumar, 2015). In 2011, by Royal Decree 99/2011, some provisions of the Statute were amended to expand the legislative and regulatory powers of the Council of Oman.

Oman's foreign policy is characterised by neutrality at the international level, which provides a favourable climate for development at the local level (Colombo, 2017). It has been able to maintain friendly relations with all countries over time. According to the constitution, the Sultan's successor must be a descendant of Turki Bin Said, the third grandfather of the Sultan. The Council of the royal family must determine the successor within three days of the death of the Sultan. If they fail to reach a unanimous agreement on the choice of successor, the Defence Council, the heads of the State Council and the Consultative Council, and the

President of the Supreme Court, together with two oldest of his deputies, will put in place the person who the Sultan mentioned in his letter to the Royal Family Council (MOLA, 2003).

### **3.4 Omani Culture**

Oman is a Muslim Arab country that embraces all Muslims, including Ibadi (the majority), Sunnis and Shias. It is divided into several regions, each of whose inhabitants follow the same tribal cultural. The national language of Oman is Arabic, but there are people who speak Urdu, Indian dialects, English and Baluchi (CIA, 2016). English is spoken as a second language and is used in hospitals, petroleum companies, and some private companies, and is taught in schools. The national symbol of Oman consists of two daggers (Khanjar) which cross each other, and this symbol is found on the Omani flag and government documents.

The tribal system in Oman originated from the migration of Arab groups that came from different parts of the Arabian Peninsula, especially from Yemen. It can be argued that the tribe has had a profound influence on shaping the culture of the country. Moreover, the organisational culture in Arab society in general is often influenced by political attitudes and government ideology. However, the results of studies show that a large segment of Omani employees believe that religious values, principles and cultural customs have a profound impact on policies and practices in the workplace (Al-Hamadi, Budhwar and Shipton, 2007).

At the work environment level, community culture, individual values and beliefs often have an impact on practices, especially in the public sector (Kuo and Tsai, 2019). This has negative implications on the overall performance of organisations, often resulting in favouritism, unfairness and lack of objectivity (Krausert, 2014). However, in the private sector there are often shared values and an organisational culture that govern business practices and staff behaviour (Buick, Carey and Pescud, 2018). Studies have indicated that

working culture is the core, reflecting the way employees behave and their interaction with management.

Consequently, the need for an organisational culture and values has been emphasised, as work is based on small communities who must share the common values that guide staff behaviours and serve organisational trends and objectives (Naseer et al, 2019). The performance pay system, as supported by expectancy theory, is seen as a powerful tool capable of creating a common organisational culture and promoting work efficiency (Nam and Park, 2019), in addition to the goal setting theory. These theories are believed to be capable of influencing organisational culture if implemented correctly.

### **3.5 Omani Economy**

The Omani economy is heavily dependent on hydrocarbon resources, which constitute more than 70 percent of government income (USA International Business Publications, 2013).

Despite being a middle-income country with limited resources compared to other Gulf states, however, the oil revenues have sufficiently contributed to the significant development in Oman. The liberalisation, diversification and privatisation of the economy have become key objectives of Oman's strategic plans. Oil and gas constitute the largest share of GDP in Oman, reaching 52.2% in 2012 (WTO, 2014); in the same year, the contribution of services to GDP was 35.4%. The share of agriculture and fisheries accounted for 1.1%, while non-oil industrial activities represented 4% in 2012. This puts pressure on the Omani government and exposes it to economic shocks whenever oil prices fluctuate.

Tax rates in Oman are low, competitive and attractive to foreign investment (Eudelle and Shrestha, 2017). However, challenges lie in the government bureaucracy and the lack of integration between the units of the state administrative apparatus (Arslanian, 2013). As a result, serious efforts are being made to move to e-government in order to facilitate and

improve government services, as well as to enhance transparency (Verkijika and De Wet, 2018). These challenges are being addressed within the framework of the Strategic Vision Oman 2020.

The Omani government is fully aware of the important role of the private sector. Therefore, serious steps have been taken towards major regulatory reform and modernisation of the economy to stimulate the private sector and attract foreign investment (Phillips and Hunt, 2017). However, transition to a more flexible economy is slow and faces challenges such as government intervention in the private sector, overdependence on oil and government ownership of the largest oil companies (The Heritage Foundation, 2016).

However, the government has recognised the importance of flexibility in its administrative work, and that rigid measures constrain the objectives of Oman's vision of opening up to the global economy and achieving prosperity. Therefore, the following objectives are among the main pillars of Oman's 2020 vision (Al-Hamadi, Budhwar and Shipton, 2007):

- Develop human resources and ensure they keep pace with technological advances.
- Develop the private sector and ensure its ability to optimise the use of human and natural resources.
- Provide favourable conditions for economic diversification.
- Improve people's livelihoods and promote justice and equality.
- Maintain, preserve and develop the achievements of the past.

Privatisation is also an important pillar of Oman's strategy in its role of promoting the economy and increasing productivity and efficiency. The aims of privatisation are to:

- Develop the economy and attract foreign investment.
- Increase efficiency, utilise resources and create a competitive environment.
- Create job opportunities for citizens.

- Reduce the financial burden on the government.

### **3.6 Labour Market in Oman**

At the beginning of the Omani renaissance in the seventies, the country witnessed a significant increase in the number of expatriates (ILO, 2010). It relied heavily on these in the implementation of its development plans and programmes, due to the limited number of qualified Omanis at the time. As a result, the ministry in charge of the workforce facilitated the issuing of permits for foreign workers to work in the various economic sectors.

Later, government departments began to consistently monitor the labour market to remove obstacles to citizens and balance the workforce in a wide variety of occupations (Schmierer, 2016). The fourth five-year plan (1991-1995) mainly focused on different means of encouraging Omanis to take up various jobs in the private sector by aligning graduates, trainees and vocational trainees with technological developments and labour market needs (Al-Hamadi, Budhwar and Shipton, 2007).

Oman has ratified ILO conventions and has incorporated its standards into national practices. It is now actively pursuing an Omanisation policy, which the government considers to be one of the national priorities and the main pillar of Oman's vision 2040 (ILO, 2017). This aims to increase employment opportunities for citizens in the private sector through the following measures:

1. Monitoring expatriate labour in private sectors in occupations that can be handled by Omanis workers.
2. Preparing Omanis to meet private sector needs.

3. Improving working conditions in the private sector to make it more attractive to Omanis.

As a step towards ensuring justice and equality, the Government established an Administrative Court under Royal Decree No. 91/99, which is competent in adjudicating administrative disputes to ensure justice, equality and individual rights. This also has reinforced the existence of a legal framework independent from government units which guarantees the rights of employees.

The Omani government recognises the importance of developing national human resources to replace foreign labour and also to meet the needs of the labour market. It issued a decree to establish a Human Resource Management (HRM) department in all government organisations. Another decision based on Ministerial Decree No (22/2019) was issued, which provides for the localisation of the post of Director of Human Resources Management in all private sector organisations. This is one of the measures to reduce dependence on foreign human resources and to increase the efficiency of the national workforce. Moreover, this move came as an attempt by the government to boost the national economy and reduce remittances abroad, as well as addressing unemployment rates.

Organisations in Oman have recognised the importance of HRM's role in planning, maintaining and providing skilled and competent employees to achieve their goals (Mamman and Al Kulaiby, 2014). Human resource development has become one of the cornerstones of Oman's economic vision and future plans. There is a real political will to replace foreign workers with national ones and to increase the efficiency and productivity of the public and private sectors (Ennis, 2014). The government has launched human resource development plans and programmes, including training programmes, and undergraduate and postgraduate

scholarships at home and abroad, which allow all public and private sector employees to compete for these opportunities.

### **3.7 Conclusion**

Oman is witnessing many major economic transformations, which involve all its public and private organisations. Attracting investment and the entry of foreign organisations into the country poses new challenges and increases competition between private and public sector organisations. This in turn pressurises the government to improve its services and move towards e-government. In light of all these factors, all organisations are expected to adapt to these changes to ensure their continuity, efficiency and high performance. This can only be achieved through a positive working environment, and motivation of outstanding employees through a pay system that ensures staff retention and development.

It is notable in many organisations that there is a huge gap between the values advocated and what is being applied on the ground. Many organisations claim that human resources are their assets and capital, while in reality their practices do not reflect this. This may be due to the prevailing superficial view of the role of HRM in some organisations.

However, the ongoing economic transformation in Oman should justify the importance of accelerating the activation of HRM roles and practices by linking them closely to their business strategies (Boxall and Purcell, 2008). Improving work environments and making them more attractive to employees is an important element in strengthening the national economy, as well as in promoting organisational productivity, competitiveness, sustainability and retention of talented employees.

One of the most important challenges facing organisations, especially public ones, is the resignation of trained and talented staff due to their dissatisfaction with the levels of payment and the reward systems operated, especially given the high cost of living and other social

challenges. In addition, there is a lack of clear employee objectives and tasks, as well as the marginalisation of the role of HRM in some organisations.

By reviewing the Omani context, it can be concluded that the homogeneity of the culture and its tribal nature, especially in the public working environment, are among the factors that promote the existence of favouritism and unfairness. However, this may not apply so much to the work environment in the private sector because of the nature of its business; for example, as profitable organisations, organisational and staff goals are clearer. Moreover, the elements of competition and motivation of employees are strongly present in the private sector landscape.

The findings show that unattractive pay and lack of fairness make employees look for other opportunities, which leads to a brain drain of trained and talented employees. Another issue is that the types of reward offered by some organisations do not reflect real staff performance and productivity. This can be attributed to weak policies or even to unqualified senior management responsible for developing and introducing working policies, strategies and standards.

On the other hand, some may argue that the performance pay system often depends on the nature of the organisations and the context in which they operate. For example, in public organisations, the high performance culture may differ from that in the private sector, where profits are the real engine that enhance performance and productivity. This is the perception and belief that is often prevalent among public and private sector employees. In public sector organisations, employees who perform averagely may receive a reward equivalent to that of outstanding and high performers without objective justification, which demotivates those with high performance and who make tangible contributions. However, in private sector organisations, it is assumed that rewards are often go to employees who make real

contributions to increasing organisational performance or profits. This is what this study seeks to explore.

It will do this by reviewing the results of the empirical investigation in the chapter following the methodology chapter, which will discuss the methods adopted in the study and the research tools used, as well as the ethical aspects of the fieldwork.

## CHAPTER FOUR: METHODOLOGY

### 4.1 Introduction

This chapter discusses the strategy adopted to achieve the objectives of the research. It demonstrates the concepts related to research philosophy, followed justification for the approaches used (Ralph, Birks and Chapman, 2015). A systematic and rigorous approach has been considered in formulating a research design to ensure the validity of the results (Jensen, 2015; Horrigan-Kelly, Millar, and Dowling, 2016). This is because a research design inconsistent with the nature of the research often leads to misleading and unreliable outcomes (Chamberlain-Salaun, Mills and Usher, 2013).

A good research design allows for the best possible research data that enhances the outcome validity. It is sometimes difficult to determine what the most effective design for research is (Headley and Plano, 2019). However, the clarity of the research questions and objectives are often a key element in developing an appropriate design for a study. Research design is similar to a logical blueprint (Yin, 2011; Kong, Mohd Yaacob and Mohd Ariffin, 2018), which serves as a plan that provides clear evidence of how the research is implemented and its strategy.

Gaps in research are often debatable issues that are still disputed, and which have not been addressed sufficiently by previous studies (Li, Easterby-Smith and Bartunek, 2009; Sandberg and Alvesson, 2011). In this thesis, the gap is associated with the questions developed which drive the investigation to find logical answers. The questions covered in the following section relate to the research questions.

The chapter begins by addressing the essential concepts of research philosophy, such as ontology, epistemology, positivism, interpretivism, pragmatism, and deductive and inductive

reasoning. This is to illustrate the philosophical methods adopted by the study. It then discusses the process of selecting the data collection methods, which involve a mixed methods approach. Finally, it addresses the research design plan, which includes the sampling technique, interview, survey, time horizon, research validity and reliability, research bias, and research ethics.

## **4.2 Research Gap**

Three research gaps were identified through reviewing the literature. First, despite the widespread application of the PRP system (Bryson, Forth and Stokes, 2017), it was noted that there were no or maybe only very few studies on performance pay in the public and private sectors in Oman. Moreover, few studies focus on the success or failure factors of the system and whether there are common factors between the public and private sectors. In fact, most studies focus on participants' reactions. Furthermore, despite the large number of studies on the performance pay system, very few examine the system from a multiple perspective, such as middle managers, employees, document analysis and theoretical framework.

Second, regardless of the popularity of PRP systems, their effectiveness is still unclear, as there are no common or recognised elements or principles that agree on how the system should be implemented and operated. This indicates a gap between the theoretical side and practical side of the system (Tkachenko, Hahn and Peterson, 2017), despite the ability to derive processes from theories underpinning the system, which can be applicable in any context. Third, a gap was also observed between descriptive and empirical research and the actual application of the system, which raises questions that call for investigation. Many studies confirm that there is a positive impact of the system in improving performance, retaining employees and in enhancing organisational productivity. However, these studies do not explain what the road map is and what the criteria for achieving these positive results are.

In general, it can be argued that the basis of this study lies in exploiting the gaps in the pay literature mentioned above, since there are few studies that have either touched upon or sought to make comparative studies between public and private sector organisations, with their diversified classifications such as global, local private sector or wholly-owned government organisations. In addition, few studies consider the PRP system from different perspectives simultaneously, that is, from theoretical, management, and employee viewpoints.

### 4.3 Research Questions

Developing a research question for any study is not an easy task. Such questions are among the first and most important elements to consider before undertaking any research (Abdulai and Owusu-Ansah, 2014). Hence, the accuracy and clarity of the research questions must be taken into consideration as they are the main driver of the research, and determine the most appropriate methodology. In some cases, even after identifying the research questions, the ability to obtain evidence capable of answering them remains uncertain.

However, it is believed that well-formulated and precise questions will lead to a systematic investigation, which in turn can produce reliable outcomes (Guest, 2012). The research questions were identified after reviewing a range of studies in the pay literature.

The first question (**What is the impact of PRP on employee performance in Omani public and private sector organisations?**) seeks to understand the nature of PRP and its effectiveness in the public and private sectors in Oman. It is assumed that the answers to this question will address and facilitate those to the second question (**What are the key differences in the operation of PRP between public and private sectors?**). This in turn

can help to ascertain the most important factors that can lead to the success of PRP, which addresses the third question (**What are the factors leading to the success of PRP?**).

The attempt to answer the first question will be made through data collected from management and employees by the methods which will be addressed in the following sections. Subsequently, the answer to the second question can be formed by considering how the PRP system is operated; management and employee reactions within the PRP theoretical perspective; and in light of the literature review outcomes. Through these measures, it is hoped that the results will lead to the establishment of effective factors and criteria for the success of PRP, which will answer the third question. The organisations selected for the research face great challenges in light of economic changes, technological development and competition for talented employees in the labour market.

It is expected that answering the research questions will contribute to the pay literature, particularly that on the Arab world, as well as deepening understanding of the reasons for introducing PRP systems. Furthermore, it will highlight the operating methods and the best way and standards for improving the operation of the system. The following section explains the research philosophy adopted.

#### **4.4 Essential Concepts of Research Philosophy**

Understanding concepts of research philosophy helps to understand the different dimensions of research problems and also helps to answer research questions more systematically (Shannon-Baker, 2015). However, the lack of a systematic approach and the use of traditional methods in investigating social issues leads to unreliable outcomes. On the other hand, following a systematic approach raises critical and in-depth questions (Aspers and Corte,

2019) related to the dimensions of the subject studied. This leads to the production of critical arguments and dialectical questions related to the research subject.

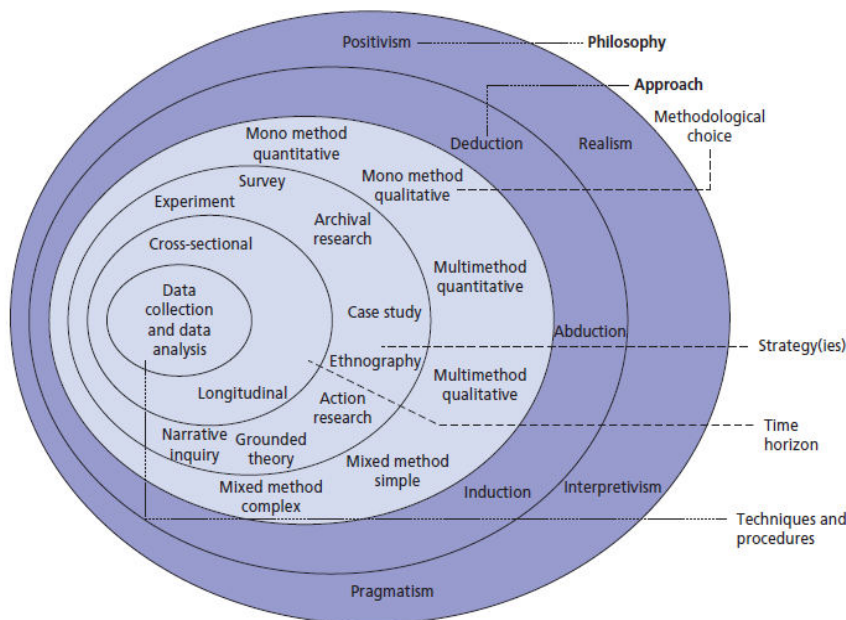
Researchers often focus on developing a well thought-out plan, as this has a significant impact on enhancing and strengthening the validity of the study and also helps to address the research problem (Mertens, 2010). It is important for researchers to have a clear understanding of philosophical standpoints due to their importance in determining the research design. Adopting a particular design that fits a research problem is an important factor for producing good research and valid results. Social science research often involves three components: the philosophical worldview, research design and specific methods (Agee, 2009). Researchers need to consider their philosophical worldview assumptions, which will help them set up research methods that assist in translating their approach into practice (Creswell, 2014).

Moreover, it is important to show how research results are obtained to enhance the validity of the research (Dellinger and Leech, 2007) and also to convince the community interested in the particular area about the validity of the results and how they were obtained. To understand research philosophy, it is essential to address its basic concepts, such as ontology, epistemology and other important concepts. Ontology is concerned with what exists, while epistemology leads us to wonder how to know about it (Fleetwood, 2005); it concerns studying the necessary situations that exist (Jensen, 1995). Ontology can be considered as something that the researcher attempts to conceptualize (Crowther and Lancaster, 2008), whereas epistemology concerns what constitutes acceptable knowledge in the research field (Vogl, Schmidt and Zartler, 2019). In epistemology, each researcher has different perceptions in terms of viewing, justifying and capturing knowledge.

Natural research and social research have different perspectives. Natural researchers believe

that there is a single objective reality, which is independent from the researchers (Montuschi, 2004). However, social research is often related to human phenomena, and researchers are part of the research (Du Toit and Mouton, 2013). Therefore, there may be several interpretations of reality. In social research, social actors play an important role in acquiring knowledge (Hammersley, 2015). However, in natural research, knowledge exists independently from these actors. Researchers usually choose a philosophical approach that matches their research questions or problems (See Figure 4.1).

Figure 4. 1 Research Onion



Source: Saunders, Lewis and Thornhill (2012)

Ontology is one of the philosophical disciplines concerned with the study of being, in which objectivism and subjectivism are seen as essential aspects (Schatzki, 2003). In other words, the ontological concept is linked to the notion that social actors, either objectively or subjectively, recognised within the studied issue (Van Heur, Leydesdorff and Wyatt, 2013). The research approach can be objectively classified when social entities are independent and cannot influence the research outcomes (Sinclair, Cuthbert and Barnacle, 2014). However, in subjective research, the opposite is true; social actors are part of the research and can

influence the results.

Researchers usually define their ontological position according to the nature of their research (Lauer, 2019). This position is either objective or subjective. In objective research, for example, researchers can argue that management is an objective entity, because usually it is subject to laws and regulations, and therefore managers are subject to the job description which controls their actions (Meerwald, 2013). This suggests that social entities exist externally in reality and independent from social actors (Brannen, 2005). However, subjectivists suggest that social phenomena are constructed based on perceptions and as a result of social actors' actions.

There are different ontologies in the world and all researchers have their own view, which is expressed within individual research that somehow guides to choose the epistemology (Vogl, Schmidt and Zartler, 2019). This suggests that researchers should not only understand the meaning of the world outside, but in fact they should have their own points of view, which constitute a platform for their research and interpretation of their research findings (Crowther and Lancaster, 2008). Understanding research philosophy helps researchers to design and formulate an effective research strategy.

Moreover, in research philosophy, the epistemological position is often associated with how knowledge is perceived (Garrow and Hasenfeld, 2017). Whereas ontology is more interested in what is true and the nature of reality. In other words, ontology is concerned with the nature of reality, while epistemology is concerned with how reality can be acquired. The epistemological standpoint in any research is often based on the phenomena and issues that are being studied (Read, 2016). For example, if the researchers are independent of the phenomena or issues they are examining, then the research is classified as positivist, which often adopts a quantitative approach (Onwuegbuzie and Leech, 2005). Thus, the

epistemological position of such research is objectivism.

Positivism assumes that the world is tangible and objective, and that most people would agree with this in the real world (Riley et al., 2000). The tendency towards objectivity rather than subjectivity is one of the most important characteristics of positivism. In other words, positivists often adhere to the quantitative method rather than the qualitative and focus more on gathering facts and collecting objective statistical data, rather than opinions and attitudes (Anderson, 2004). They believe that factual knowledge can be acquired through the senses, such as through observation or measurement.

However, positivism has some limitations at the social research level. This is because there is a difference between social and natural phenomena. Since people's behaviours are not rigid, it is difficult to understand these and associated attitudes, unlike situations with objects in natural research (Holland, 2007). Therefore, it is difficult to understand human behaviour in-depth through the causal factors used in situational methods. In addition, positivist research is often immunised from researchers' beliefs. However, positivists can provide an effective description of the studied phenomena and the relationship between cause and effect, which allows its results to be generalised (Braun and Clarke, 2016).

On the other hand, interpretivism is a philosophical approach that seeks to gain an understanding of people's perceptions or attitudes towards a particular issue or experience (Engel and Schutt, 2014). In the world of sociology and human issues, it is difficult to apply purely the objective methods that are used in natural sciences (Williams, 2000). Therefore, interpretivists often look at reality from different perspectives to positivists, believing that there is no single reality (Pickard, 2013) and that there can be more than one explanation for a particular social issue. This is one of the reasons why interpretivist research takes a subjective direction (Rubin and Babbie, 2010) rather than an objective one.

It can be concluded that if a research problem is related to a human phenomenon, in which the study needs to analyse and interpret human behaviour and attitudes, it would be more appropriate to take a subjective approach (Munro and Hardie, 2018). This approach is classified as interpretivist, often following a qualitative approach. Therefore, the epistemological position of this research is subjectivist. This is because research can accept multiple interpretations from researchers and participants, which take part in formulating the final research results (Fawcett and Hearn, 2004). It is therefore concluded that positivism and interpretivism have different perspectives in terms of epistemology (Al, 2013), which also applies to the ontological position (see Table 4.1).

Table 4.1 Positivist and interpretivist epistemology

|                       | <b>Research approach</b> | <b>Ontology</b> | <b>Axiology</b> | <b>Research strategy</b> |
|-----------------------|--------------------------|-----------------|-----------------|--------------------------|
| <i>Positivism</i>     | Deductive                | Objective       | Value-free      | Quantitative             |
| <i>Interpretivism</i> | Inductive                | Subjective      | Biased          | Qualitative              |

Source: Wilson (2010)

This suggests that social research may take an objective approach that falls into positivism, in which social actors are independent of their outcomes (Gartrell and Gartrell, 2002; Reed, 2008). This often occurs through the adoption of a quantitative method of data collection, which will be discussed in the following sections. On the other hand, research can also take a subjective stance, which means adopting an interpretivist approach, in which the researcher is part of the research and contributes to the interpretation and formulation of the results (Babones, 2016). This is often done by adopting a qualitative data collection method, which will also be discussed in following sections.

However, on the other hand, the interest in achieving the highest degree of validity and reliability of the research results has become one of the main reasons for the widespread

adoption of the mixed methods approach in social research, which allows for the use of qualitative and quantitative methods in the data collection. This approach is conducted by adopting pragmatism as a paradigm (Holmwood, 2011), as pragmatism is the idea of using "what works" by utilising different approaches such as objectivism (for example, the quantitative method) and subjectivism (for example, the qualitative method) and focusing more on the most fitting and appropriate technique to achieve the research objectives (Feilzer, 2009; Morgan, 2014). Pragmatists believe that in order to systematically answer a research question and to provide a broader understanding of a research problem, more than one method should be adopted (Kaushik and Walsh, 2019); this also enhances the reliability and validity of the results.

Another major aspect of research philosophy involves reasoning strategies, or logical thinking. Reasoning can simply be considered as how people reach different conclusions (Sheppard and Ryan, 2003). There are different types of reasoning in research philosophy, with the most common approaches being deductive, inductive and abductive reasoning (Engel and Schutt, 2014). Deductive reasoning is a top-down approach, which typically begins with the general theory or hypothesis, and ends with a conclusion that is based on evidence (Sheppard and Charles, 2014). It usually starts with a general idea of a particular example, which provides support for the conclusion. In such an approach, the conclusion is true if the premises are true, with the conclusion derived logically from the premises (Woiceshyn and Daellenbach, 2018). This suggests that premises should be strongly supported by evidence. If a research strategy is designed based on a certain theory derived from literature which needs to be tested, then in this case the logic used is deductive reasoning (Saunders, Lewis and Thornhill, 2012).

However, deductive reasoning is a highly structured approach, in which the researchers are

often independent from the study (Hyde, 2000). Furthermore, the researchers in such an approach should provide a sufficient sample size in order to generalise the conclusion. This approach is commonly used in natural science research. It is important to note that in deductive reasoning, the premise should be true in order for the conclusion to be true (Engel and Schutt, 2014). Such reasoning often focuses on explaining the causal relation between variables. However, critics of the deductive approach note that it is rigid, as it does not allow for any alternative interpretations (Bitektine, 2008). This can be attributed to the fact that the deductive approach uses more quantitative methods of data collection, which are more concerned with the facts rather than logic. Moreover, focusing on the cause and effect relationship is another characteristic of the deductive approach.

Other important aspects of reasoning include inductive argument, which usually begins with observation, rather than theories or hypotheses. Inductive reasoning is often used in data analysis to generate theory. It is a bottom-up approach, which starts with specific observations that aim to identify certain patterns that can lead to tentative hypotheses, and which in turn help to develop a general theory (de Cristofaro, 2002). “Inductive research essentially reverses the process found in deductive research” (Crowther and Lancaster, 2008, p.30).

The inductive approach tends more towards perceived credibility rather than making an argument (Heit and Rotello, 2012). It is a research process based on inductive logic, through which researchers aim to search for or observe noticeable traits, which may be certain behaviours or attitudes, and then produce tentative conclusions from the patterns (Rubin and Babbie, 2010). The approach focuses on explaining how to deal with specific observations, and how such observations would become general theories. The inductive approach often uses a qualitative method, as the correlation of data and theory is often more associated with

a qualitative approach to data collection (Bryman and Bell, 2015).

The third type of reasoning strategy is abductive reasoning, which depends on producing the best logical assumption, interpretation or conclusion from a research problem (Levin-Rozalis, 2004). This approach seeks to find a convincing explanation of the studied phenomenon, beginning with a clear introduction, in an attempt to reach the best possible conclusion (Asvoll, 2014). This is what makes it different from the deductive and inductive approaches. Moreover, abductive reasoning is a kind of inference that seeks to identify the basic and remarkable patterns observed in the phenomenon being studied in order to gain broader knowledge and an in-depth understanding (Timmermans and Tavory, 2012). Therefore, it was decided that the abduction approach was the most appropriate one for this research, as the thesis not only builds its conclusions from the collected data or theories supporting the PRP system, but also takes into account the context, together with other factors such as economic and technological changes that affect it.

Some arguments suggest that abductive reasoning is not strictly concerned about the accuracy of tests or the certainty of the results (Meyer and Lunnay, 2013). Nevertheless, the results of investigations into social issues are often relative and may vary according to the sample studied (Oliver, 2011). On the other hand, what makes this approach more effective and practical is its ability to include more than one method in exploring the research issue. For example, it permits the adoption of mixed methods data collection, such as qualitative and quantitative approaches, which helps to broaden understanding as well as to enhance the validity and reliability of the results.

The purpose of addressing the aforementioned philosophical concepts was to determine the position of this research within the philosophical framework. Considering the nature of this research, which seeks to explore and examine the behaviours or attitudes of management and

employees, it was found that the pragmatic approach was most appropriate and suitable. This was due to its flexibility and accessibility to the largest possible sample and its ability to facilitate deeper understanding and achieve reliable results. In addition, the pragmatic paradigm fits the objective and subjective nature of this research.

Moreover, with respect to the reasoning strategy, it seems obvious that abductive reasoning is the ideal choice for this research. This is because it permits the adoption of the mixed methods approach (which will be addressed in the following section), which is needed in this research to understand the dimensions of the studied cases. It was believed to be the most effective approach in producing the best logical assumptions and interpretation of the research problem, making it possible to reach the best possible conclusion.

It can be concluded from the above that ontology concerns the nature of reality or what is reality, while epistemology focuses on examining reality and attempts to address it.

Therefore, since the nature of reality in the issue being studied depends on the views and positions of those involved in the PRP system, there is the potential to reach multiple realities/facts. Further, as epistemology revolves around how individuals understand knowledge, and because it addresses the question of how knowledge/reality can be acquired, pragmatism was found to be the best paradigm for the thesis. This is because understanding reality with regard to different groups of individuals might require the use of different methods to reach the required knowledge, so the pragmatic paradigm is considered the most practical, appropriate and suitable approach for this research. In addition, the following section also justifies the reason for choosing the abductive approach as a reasoning strategy, because the thesis, as already mentioned, requires the use of multiple methods to obtain the required knowledge, and this approach is supported by abductive reasoning.

## 4.5 Data Collection & Research Design

### 4.5.1 Data Collection

Data collection techniques are designed to produce information that helps to answer research questions. They also aim to reinvestigate previous studies from different dimensions for further inquiry and to deepen understanding (Brannen, 2005). Researchers always seek to choose the most appropriate data collection method that they believe is the most suitable for their research. Research questions and objectives are often the main drivers in determining the research method (Aspers and Corte, 2019), so depending on the nature of the study, researchers need to determine which method of research to adopt.

In social research, there are three popular methods of data collection that are widely used, namely quantitative, qualitative and mixed methods research (Bryman, Becker and Sempik, 2008). Deciding the data collection technique is very important, as it determines the way the data will be analysed and interpreted (Brown, 1981; Jentoft and Olsen, 2019). Therefore, the research method should be consistent with the nature of the research (question, problem or issue) in order to be addressed properly (Creswell, 2014). The quantitative method was the dominant approach until the mid-twentieth century. Then, the qualitative method was developed, and its popularity and interest increased widely, along with the mixed method approach, and became extensively used in the social sciences.

There are major differences between quantitative and qualitative research methods. The quantitative method usually uses figures and closed-ended questions, while the qualitative uses words and open-ended questions (Hair et al., 2016). Moreover, the qualitative method is an approach that seeks to explore and understand social problems, whereas the quantitative seeks to test or measure the relation between two variables.

Furthermore, the qualitative research process involves conducting data collection from a small number of participants, which are often in the form of text, and then analysing these data based on respondents' details, and finally explaining the meaning of the findings (Walby and Luscombe 2017). On the other hand, the quantitative research process involves data collection using instruments, which are usually presented as questions with optional answers given to a large number of participants (Punch, 2005), in order to facilitate generalisability.

Moreover, in the quantitative approach, the data collected are often analysed statistically (Guo, 2014) and the relationship between the variables in the data then described.

Subsequently, the relationships are interpreted based on the findings. This suggests that the quantitative method is characterised by measuring specific things, which restricts the research view to relevant aspect of the study. However, this helps to avoid bias in the research (Smith, 2014), and therefore enhances the ability to generalise the findings into a larger population.

It is concluded that although quantitative research has proven to be effective in its ability to adopt a larger sample size, as well as its ability to generalise the findings in a larger population with bias control (Payne and Williams, 2005; Holland et al., 2018), it nevertheless has some limitations; for example, in terms of dealing with social issues that involve human activities (Metcalf, 1996), which is due to the limited role of the researcher in the data collection process.

Therefore, considering the differences between the qualitative and quantitative approaches, it can be concluded that the former tends towards subjective interpretation of social issues or phenomena in order to give a clear meaning or picture of related events or issues. The qualitative researcher seeks to dig deep into the phenomenon or social problem through direct interaction with the social actors involved (Bernard, 2013).

However, this technique is often more vulnerable to bias issues, as it is very subjective and thus may involve emotions or misconceptions (Roulston and Shelton, 2015). This indicates that although the qualitative approach provides the opportunity to interact with participants, which in turn provides in-depth and broad understanding (Brown, 2010), it has some limitations, such as the small number of participants, making it difficult to generalise.

Another effective method of data collection is the mixed methods approach. This combines both qualitative (collecting words) and quantitative (collecting numbers) methods to provide better understanding of the research issue (Archibald, 2015). This approach has the potential to overcome challenges and to achieve more effective results than other methods (Timans, Wouters and Heilbron, 2019). It may answer questions which no other approach can answer, as it can provide different views and dimensions of the research problem, which may be difficult to perceive in a single approach. It allows researchers to collect and analyse both qualitative and quantitative data through open- and closed-ended questions.

Furthermore, the mixed methods approach is consistent with abductive reasoning, which helps to consider a research problem from different dimensions, thus expanding and deepening understanding. In addition, it is often used extensively in the pragmatism paradigm, permitting the use of a variety of data collection sources. The results from the literature review have shown that pragmatism is an appropriate paradigm for the use of mixed approaches (Walker and Baxter, 2019), as it offers a combination of qualitative and quantitative techniques, which help to formulate strong evidence and provide a valid conclusion.

However, the use of this approach may be complex in its formulation and application, since it contains qualitative and quantitative questions. It also consumes considerable time in terms of data processing and analysis, which may require additional resources, as well as posing the

risk of ending with conflicting or inconsistent results between the two methods (Reams and Twale, 2008).

The approach has become widely used and its popularity has increased in recent years. This suggests that mixed methods can provide the researcher with a rich and strong range of evidence, which help to add more value to the research (Yin, 2009). Furthermore, the mixed method approach can facilitate the researcher to tackle complex research questions, which cannot be achieved by a single method.

In order to gain a broader perspective of how the performance pay system works, it was found that the qualitative method was the ideal approach for this type of study, as it provides an opportunity for direct interaction with those who run the system, allowing observation of the system from their point of view. Moreover, the qualitative approach helps to collect rich and detailed data, especially when the research subject is more exploratory and related to issues of employee behaviour, and even if the sample size is small it can yield very effective data (Bishop and Kuula-Luumi, 2017). Although analysis may take longer time and challenges may be faced relating to research validity as it is very subjective, and despite its limitations in generalisation, it can be supported with the quantitative method to enhance its validity.

After the reviews, it was found that the best method for this study was the mixed method, including both qualitative and quantitative data collection techniques. The method was chosen as it is the most effective in providing a range of opinions from various parties, including managers and employees, to ensure that the results reflect the actual situation of the way the performance pay system operates and its impact, through a wide range of views and perspectives.

In social research, the purpose might be either exploratory, descriptive, explanatory, or even a combination of these. However, the knowledge that the researcher seeks to obtain often dictates the method that needs to be followed (Blaikie, 2010). The nature of the research may require more than one method; it can begin with the exploratory method, then move to the descriptive method and conclude with the explanatory method.

A research strategy may involve more than one approach; for example, it may combine exploratory and descriptive approaches. The descriptive approach often helps to provide a detailed description of a particular phenomenon or issue, although it may not provide definitive results of the causes of the studied problem. However, if combined with the exploratory approach, it may help to provide further details on the aspects and dimensions of the issue being studied. Descriptive research is about obtaining an accurate description of the research measurements, and characteristics of the population, groups or phenomena. The main purpose of descriptive research is to describe the characteristics of the population or phenomenon, and is usually aimed at answering 'who, what, when, or where' questions (Labaree, 2009).

Furthermore, descriptive study usually does not provide an explanation of causal relationships, but it can provide in-depth insight into the perspectives of the participants or phenomena that may reveal important information about the research problem. In other words, it concentrates on what happens, rather than why it happens. The descriptive approach can be seen as an extension of exploratory research, and in most cases it is considered as a precedent for explanatory research. It thus helps to provide an accurate description of the social issue or research problem that the researcher is seeking to address.

Therefore, it has been found that the exploratory and descriptive methods are the most useful and feasible approaches for this research, as it begins with a literature review and then moves

onto a qualitative approach, which sometimes may not be able to extract final conclusions (Hair et al., 2016). However, it is capable of providing new insights into the studied issue.

This study relies on a case study approach, as it contributes to understanding of the studied situation in a holistic way and within a real-life context, although there has been criticism of the case study approach for its lack of precision and generalisation, as it often adopts data sources based on a qualitative approach such as interviews. However, direct observations and direct interaction with participants through interviews can provide an effective source of evidence and deep understanding of a situation.

To fill the gap related to accuracy and reliability, the research adopts the triangulation method, through which the quantitative data are obtained by distributing questionnaires to employees to understand their attitudes and perceptions of the performance pay system in their organisation. The adoption of mixed methods strategy is to enhance the validity and reliability of the research results. Moreover, this approach is believed to be capable of enriching the research and exploring complex issues from multiple angles within a real-life context.

#### 4.5.2 Methodological Rigour in Qualitative Research

The methodological contribution to this research is part of the permanent controversy that revolves around the rigor of qualitative research. In quantitative studies, there are traditional terms such as internal and external validity, reliability and objectivity. These concepts seek to establish confidence in the tools and methods that are followed and that have implications for research credibility/validity. In this thesis, a case study was adopted to enhance focus and deepen understanding of the objective and subjective factors of the studied issue, which is expected to provide valuable information. A case study enhances the focus of attention on the

situation in the context of the studied case, which provides possibilities for reaching unexpected results that can enrich the research, especially when the investigation involves a qualitative approach that includes interviews (Yin 1981).

However, rigour and accuracy should be taken into account in evaluating qualitative studies by measuring methods and findings with criteria: credibility, dependability, confirmability and transferability (Lincoln and Guba, 1986). It is worth noting that the methodological rigor criteria in qualitative research are somewhat similar to those in quantitative research. For example, the term internal validity in quantitative research is equivalent to the term **credibility** in qualitative research. In interviews, the researcher searches for realities and facts, and realities concluded may not apply to other cases. Thus, the credibility here is about the researcher reporting what the participant sees, and views may differ from one participant to another, and conveying those differing opinions enhances the credibility of the case study. In the case studies of this thesis, the researcher attempts to convey facts from the perspective of the participants in the conducted interviews. The credibility of the results lay within its logic because people measure and appreciate that if they were in that situation their reactions or attitudes would be similar.

Another term is **dependability**, which is equivalent to the term reliability in quantitative studies where it expresses the consistency or repeatability of the same responses in interviews from one case study to another or measures the level of consistency between respondents' responses (Lincoln and Guba, 1985). In in-depth or semi-structured interviews, the methods for asking questions may be different despite the similarity of questions, and here the consistency of the answers is measured. There is also the term **confirmability** that corresponds to the term objectivity in quantitative studies, which may express confidence in the results and the extent to which other research or researchers support that outcomes.

Finally, the term **transferability**, which is equivalent to the term generalisation in qualitative research (Guba, 1981). It is difficult to say that the results of case studies in this thesis can be simply applicable or transferable to other organisational contexts because the characteristics of the sample and the nature of each case study differs from the others in the context of operating the PRP system.

#### 4.5.3 Validity

Research validity is strictly related to the research results and measuring what is intended to be measured. It is often evaluated through the tools and methods used in the research, as well as its findings (Riege, 2003). In other words, the validity of the research can be judged by looking at the research design (Cho and Trent 2006). The selection of research tools and methods should be appropriate and consistent with what the research aims to measure. Therefore, the results should be consistent and reflect the highest possible degree of accuracy in its measurements.

Moreover, reliability is considered a prerequisite for validity, with validity the extent to which the study has measured what it intended to measure (Cooper and Schindler 2014). Figure 4.2 illustrate how validity looks, with shots clustered around the central point. There are some similarities in basic logic in qualitative and quantitative research in terms of reliability and validity.

On the other hand, in terms of the validity of data collection, there is a difference in perspective between quantitative and qualitative approaches (Rubin and Babbie, 2010). In qualitative research, it is important for researchers to consider the accuracy of the research design and measurement tools to reduce bias as much as possible. There are important forms of validity, such as face validity, which refers to the extent to which the research instruments have measured what they were supposed to have measured (Bailey, 2008). There is also

construct validity, which concerns whether the measures show results consistent with the underlying theories.

To enhance the validity of research and its results, researchers often use a triangulation method to provide multi-faceted information and strengthen the validity of the final research results (Howe, 2012). The highest degree of validity is attributed to the extent to which the results are capable of reflecting the facts and reality of the variables or elements being studied (Teusner, 2015). This shows the quality of the data obtained and also the internal validity of the results. Researchers then moves on to measuring external validity by comparing the results obtained with those of other similar studies. External validity also refers to the extent to which research findings can be generalized to other contexts or groups (William et al., 2013).

Overall, the design and selection of the research tools have been carefully considered to ensure their consistency with the research questions and objectives, and also to ensure that the targeted elements are measured.

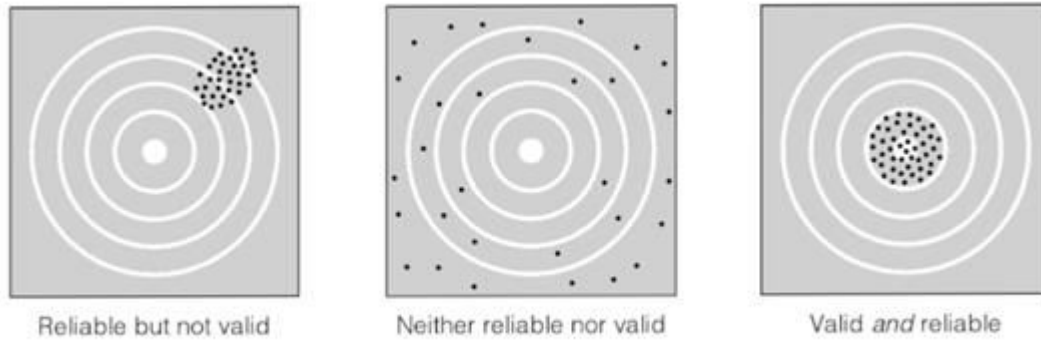
#### 4.5.4 Reliability

Reliability is one of the key elements of the measurement of research findings, reflecting the degree of consistency in the measurement tools used and the responses of the participants in the research (Cho, 2016). It is considered to be the basic method for measuring and evaluating the initial outcomes of the research. Figure 4.2 illustrates how reliability looks, with shots arranged in a tight pattern, despite the position of the hits. Reliability refers to a consistency of measurement and the extent to which findings and measurement can be replicated and repeated by other researchers on different occasions and in different conditions (Golafshani, 2003).

Moreover, reliability is characterised by repeated results each time a particular technique is used on a particular object (Morse et al., 2002). Many issues might be encountered in reliability, such as the language and words that are used in measurement; for example, researchers sometimes use unclear words, terms or questions that respondents might find difficult to understand (Abowitz and Toole, 2009). Therefore, these issues may negatively affect the reliability of the research, as they are an obstacle to common understanding of the questions among participants, which in turn can cause their answers to be disperse and uneven. Reliability might depend heavily on the researcher's skills in terms of designing and selecting an effective measurement that can lead to consistent and coherent results.

In any research, internal and external reliability should be taken into account. Among the indicators of valid internal reliability is the matching, consistency and frequency of participants' responses using the same measurement tools (Jogulu and Pansiri, 2011). On the other hand, external reliability is achieved when the results are consistent, no matter when the test is performed (Golafshani, 2003). Some important factors should be considered when assessing reliability, such as stability (meaning that if the measures are taken several times there is no significant difference in the results, so the measurement is stable over time) and internal reliability (that is, whether the indicators that form the scale are consistent; for instance, if the participants provide false answers, the results will be inconsistent) (Bryman and Bell, 2015). Based on what has been extracted from the idea of research reliability, it can be said that when designing the research tools and methods used, the question of the consistency of the final research results should be taken into account to avoid any outcome inconsistencies.

Figure 4.2 Illustration of Reliability and Validity



Source: Rubin and Babbie (2010, p.88)

#### 4.5.5 Sampling

The sampling method is an important element in research, aiming to produce inferences about the population being studied. It is important to ensure that the selected sample is representative of the population (Robbins, 2017). In the selection of the sample, it is important that the selected group represents the population, because it is difficult to conduct research covering the entire population (Sykes, Verma and Hancock, 2017). This is also due to the difficulty in obtaining access to large numbers of participants, which may cost considerable time and money, meaning it is often impossible to study the whole population.

A simple random sample is often chosen to achieve an unbiased sample of the population, so that everyone in the sample has an equal opportunity to be chosen by chance. However, other types of samples, for example, a stratified sample may have an opportunity to represent all population groups, thus obtaining a more representative sample. However, this may depend on the nature of the study and its objectives. In this thesis, there was a strong reservation by the participating organisations, which prevented the implementation of samples such as the stratified sample, as such samples require good knowledge of the population under study, but, unfortunately, in this thesis, as a result of the reservation of the organisations, there was no opportunity to know the types of population groups, which led to choosing a simple random sample.

One of the challenges that were encountered in the questionnaire was the reluctance of the participants to reveal their identity, such as their gender and age, which made it difficult to sort and classify the participants. However, with the sample obtained, there were attempts to perform some tests across the SPSS (Software Package), such as the t-test, but there were no valuable results worth taking, perhaps because of the lack of variables and categories that can be measured. However, the frequency test was used to ensure the accuracy of the numbers and results. Despite all of this, reaching these organisations and obtaining access to conduct the fieldwork was itself considered a privilege because there is often a great reservation in permitting any survey to be conducted due to the sensitivity of these entities.

Errors in sampling design may occur because the choice of sample method may not reflect the entire population (Sharp et al., 2012). There are several sampling methods; however, the random simple sample was found to be the best method for this research, as it provides an equal chance for all members of the population to participate (Teddlie and Yu, 2007). This is also because of the privacy of the organisations involved in the research, which makes it difficult for the researcher to apply any other systematic sampling methods. Therefore, it was decided to adopt the random sampling method.

The study involves four case studies. The first is of Organisation A, a global company engaged in the marketing of fuel and oils, with 92% percentage of jobs localised (Omanisation). The second case study concerns Organisation B, one of the private sector companies operating in the oil and gas sector, with an Omanisation rate of 88%. The third case study (Organisation C) is wholly owned by the government, but operates as an organisation in the private sector. It is considered as the government arm of investment in oil, gas and other energy projects in partnership with the private sector; its Omanisation rate is

higher than 70%. The fourth organisation (Organisation D) is the government entity that sponsored this study and for whom the researcher works.

It should be mentioned that since this study considers the performance pay system, and the organisation that sponsored the research is a government entity that the researcher works for, some experts in the sponsoring organisation recommended that the research be conducted in other large private sector companies in the country which adopt a performance pay system, in order to establish how effective the system is, and what success and failure factors are.

Therefore, among the objective of the study is to compare the operation of the performance pay system between the public and the private sectors and to identify the best standards and mechanisms for its operation.

Researchers often face constraints and challenges related to time and money, as well as access to the sources required; for example, the categories of people required in the process of exploration and investigation. Obtaining access to or reaching desired categories or objects required for the research may not be very difficult, but understanding different sampling techniques and their procedures are important factors for researchers, as they have a significant influence on the accuracy and validity of the research findings.

The concept of the sample lies in its ability to provide an indication of the population, as well as its ability to generalise the sample results to a wide range of the population from which the sample is derived. A sample is defined as "a smaller (but hopefully representative) collection of units from a population used to determine truths about that population" (Field et al., 2012). It is difficult to obtain definitive results from a representative sample, however, as the representation of the population varies according to the sample size.

Samples are divided into two categories: probability and non-probability samples. The

sampling process often includes certain important steps, such as selecting the sampling type (probability or non-probability sample); identifying the population to be sampled; and identifying the size of the sample (Rahi, 2017). Choosing an appropriate sample helps researchers save time, money and effort, as they often suffer from limited resources.

The probability sampling method often follows random distribution, as this gives all individuals an equal opportunity to be chosen. On the other hand, in non-probability sampling, the sample is selected based on a non-random manner or personal judgment, which may exclude certain population groups (Short, Ketchen and Palmer, 2002). Non-probability sampling may not give all groups of the population an equal opportunity to be chosen for the sample (Adams, Khan and Raeside, 2014). A random sample, although it is difficult to define all the members or categories of the population, has the potential to achieve a higher degree of representation of the studied population.

Non-probability sampling can be used in qualitative research (Rahi, 2017), since generalisation is not a vital issue in such an approach. However, this depends to a large extent on the access requirements granted by the organisation covered in the research (Boddy, 2016). Researchers who rely on a quantitative approach often select the probability sampling method rather than non-probability, as it facilitates the inclusion of all population groups (Teater et al., 2017) and enhances the generalisability of the results.

There are other types of sampling techniques, such as stratified and cluster methods, which fall into the probability sampling category, but they often take more time, are complex and expensive, and need consent (Aguinis and Solarino, 2019). Therefore, it can be concluded that other types of sampling methods, such as stratified and cluster techniques, can be costly and time-consuming. Moreover, they often require an organisation's consent to access sufficient information to divide or categorise the population based on its characteristics,

which was not permitted by the organisations included in this thesis. However, the nature of this research and its objectives did not required such an approach, and thus it was found that random sampling was the most appropriate and effective method for this research, since it has the potential of achieving a good degree of representation of the studied population.

It should be noted that the attempt to obtain consent from the organisations to conduct field research was not easy and many reservations were expressed. After discussions, the organisations agreed to give consent/access, provided the researcher signed a pledge not to publish any information and to maintain their confidentiality and privacy. It should also be noted that the organisations participating in the research did not allow the allocation of samples, so the random technique was the method used in distributing the questionnaires. They suggested submitting the questionnaires to the HR department for them to distribute in closed envelopes and return to the researcher after being completed by staff.

#### 4.5.6 Interviews

Interviews are a major qualitative study design used to describe and understand a particular issue or phenomenon through verbal interaction with social actors, which can occur either by direct meetings or by telephone (Qu and Dumay, 2011). The interview method helps to understand the social actors' perceptions and beliefs in an in-depth manner and provides a comprehensive view of the research issue (Jacobsson and Akerstrom, 2012). Interviews can take different forms; for example, telephone interviews (with questions asked to participants during the call to gather information about the research) and personal interviews.

Personal interviews involve face-to-face interaction with verbal conversation between the researcher and respondents, and aim to gather detailed information about the research issue (Learmonth, 2006). However, some factors may pose challenges to this method, such as cost and geography . However, the interview technique has proven to be very effective, with

researchers able to interact directly with respondents (Osifo, 2015). Furthermore, researchers can verify whether the answers are sufficient and adequate, and thus can ask for further clarification, especially if the interview is semi-structured or unstructured.

Interviews are a useful method for obtaining in-depth information, knowledge and actual experience of the problem or issue being studied through direct contact with participants involved in the event. They are characterised by their ability to provide valid and reliable information. However, some ethical conditions should be met before proceeding (Mukumbang et al., 2019). It is important to ensure that the participants' consent is obtained, as well as informing participants of the nature of the interview, how they will be involved, and the impact of their contribution in the research (Pessoa et al., 2019). Moreover, maintaining confidentiality, privacy and anonymity are important ethical aspects to be considered in any interview, as such aspects will reassure respondents and encourage them to participate effectively.

There are different types of interviews, the most common ones being structured, semi-structured and unstructured interviews. Structured interviews uses a series of predefined questions asked sequentially by the researcher; often these cannot be modified (Qu and Dumay, 2011). In semi-structured interviews, often known as non-standardised interviews, the researcher prepares some predefined questions which are subject to change or modification, with the additional possibility of adding other questions during the interview according to its context; in other words, the questions are adjustable and not necessarily sequential. However, unstructured interviews have no predetermined questions and are often non-directive and informal, aiming to explore the general area of the research (Edwards and Holland, 2013).

In unstructured interviews, researchers should have a clear idea of what aspects need to be

explored so that they can control the course of the interview and allow respondents to speak freely about events related to the subject area. Researchers choose a form of interview based on the research questions or objectives they intend to achieve, since every form of interview has its specific purpose.

Descriptive studies often use structured interviews to understand and identify specific patterns of data, while semi-structured and unstructured interviews are more often employed in exploratory and explanatory studies. This is because participants' responses are often detailed and in-depth due to the flexibility of the interview, and since the questions are open and adjustable according to the direction of the interview (Edwards and Holland, 2013). These factors allow one to obtain more useful and valid information about the research issue. Structured interviews are often restrictive, especially if the research issue is critical, have different dimensions and require further explanation from the respondents.

Semi-structured interviews are characterised by their ability to adjust questions according to the situation and context. They allow for the changing, modifying and deleting of questions according to the interview direction (Schatz, 2012), although they are hard to analyse because of their susceptibility to bias. However, they provide more depth and richer information. Their main advantage is that they provide flexibility; for example, when unexpected responses emerge, researchers can in ways that lead to new discoveries.

The presence of an interviewer prevents participants from misunderstanding or misinterpreting questions (Cargan, 2007). In semi-structured interviews, interviewers should have effective relevant skills, so that the interview can be effectively managed, and as it may require time and effort to organise and analyse the data. Interviewers should be capable of creating a suitable atmosphere to win the trust of the participants, explaining to them the purpose of the study and the importance of their participation and contribution. Interviewers

also should be able to maintain a good balance between subjectivity, engagement and empathy during the interview in order to avoid bias.

There are some limitations to semi-structured and unstructured interviews, such as the difficulty of analysing the data due to the large amount of details, and answers that can be generated from open-ended questions. Moreover, the number of interviews conducted in research is often limited, due to the fact that they take considerable time (Adler and Clark, 2015). Consequently, generalising the results is unthinkable due to the small sample used, in addition to the different perspectives of the participants from one interview to another.

In one way or another, all types of interviews may involve a certain degree of subjectivity, and therefore there is the chance of some kind of intentional or unintended bias. To overcome such limitations and ensure greater reliability and validity, interviewers should have a clear understanding of what they need to know. They should also conduct interviews in a balanced and fairly objective way, in order to avoid directed questions that may influence participants' opinions.

Ensuring the consent of the participants before proceeding with interviews is an important ethical principle. Clarifying the process to the participants and the nature of the interview also helps remove their tensions and concerns, helping to enhance confidence with the interviewee and extract as much information as possible.

Overall, after reviewing the data collection techniques, the semi-structured interview was found to be the most appropriate technique for this study. Accordingly, the four organisations involved in the research were contacted and provided with an official letter from the study sponsor and a letter from the researcher requesting access permission. Positive responses were received from the organisations, with the condition to not to disclose the names of the

organisation or the participants in the interviews. In light of this, five interviews were conducted in each organisation, with each interview lasting approximately an hour.

#### 4.5.7 Survey

Surveys are a form of data collection technique and data analysis method, where questionnaires are the most common technique used in surveys (Sturman and Taggart, 2008). Furthermore, surveys are one of the most common strategies used in management and business research, often answering the questions of what, who, where, how much and how many (Saunders, Lewis and Thornhill, 2012). In the survey strategy, individuals are considered as the unit of analysis, and the survey can be undertaken for the purpose of exploratory, descriptive or explanatory study. The data collected through surveys may help to suggest a model, or reasons for the relationship between the variables studied, and the findings can also possibly be generalised to the entire population.

Designing questionnaires that are capable of producing quality and generalisable data that can be analysed is not an easy job (Beckett and Clegg, 2007). Therefore, when doing this it must be ensured that the selected questions are capable of producing worthy data, as questionnaires often provide limited information about people's perceptions and beliefs because they are limited to a specific framework of responses (Van Mol, 2017). Therefore, the poor design of questions may lead to poor data and findings. In addition, consideration should be given to the fact that the formulation of questions has an impact on the response rates, so it is important to consider elements such as the language used in the questions and the time required to complete the questionnaire.

Moreover, questionnaires can be used or designed in different ways; for instance, they can either designed to be delivered and collected manually, or to be distributed and returned after completion by post or email (De Rada, 2005). Questionnaires can also be sent and collected

electronically using the internet; for example, by placing the questionnaire on a website (web-based questionnaires). One of the important considerations that researchers need to pay attention to when conducting a questionnaire, is that it usually provides only one opportunity to collect data because of the difficulty in identifying respondents, since they are often anonymous (Bernard, 2013). Therefore, it is important to ensure that the questionnaire is carefully designed in a way that is capable of providing the required information to help to achieve the research objectives.

Selecting the type of questionnaire may depend on the nature of the research (Williams et al., 2016), its objectives and the research questions. In addition, there are other factors which influence the choice of questionnaire type, such as gaining access to the required population, sample size, potential response rate, sensitivity of the questions used, and resources available for the research. The questionnaire can be very practical and cost effective (Strange et al., 2003) if it is implemented correctly, as it enables researchers to collect a large quantity of data from a large number of participants in a short time, and also allows them to cover most aspects of the research. However, there are some limitations to questionnaires; for instance, respondents' answers may be insufficient, as they may misinterpret some questions or not understand their context.

It is important for researchers to pay attention to certain variables, for example opinion (which demonstrates participants' feeling towards or belief in something), behaviours (which reflect what participants actually do), and the characteristics of the participants (such as age, gender, ethnicity and education) (Long, 2014). The variables to be measured are often determined by the research questions and their objectives, and also by what researcher needs to know (Dale, 2006). To ensure the required information is obtained from questionnaires, the researcher should determine various important aspects, such as whether the research

conducted is descriptive or explanatory, what variables should be measured, and whether these variables are capable of answering the research questions.

Questionnaires are often divided into two types of question: closed questions (which are common) and open questions (often used in exploratory research, when the researchers are not sure of the participants' answers, or when they want more detailed answers) (Gaskell, Hohl and Gerber, 2017). In questionnaires, open questions may take a long time and effort to analyse, which is why they are not widely used. Closed questions, on the other hand, have several types, such as Likert-scale questions, ranking questions, category questions and list questions.

The Likert scale is a one-dimensional and summative ratings scale. It is one of the most frequently used techniques in questionnaires and was developed by Rensis Likert in 1932 (Bernard, 2013). This approach focuses on measuring participants' attitudes or opinions to reflect the degree of their agreement/approval or disagreement/disapproval of a particular subject through five or seven scale values, such as 'strongly agree, agree, neither agree nor disagree, disagree and strongly disagree' (Maeda, 2015). Based on the statement presented in the questionnaire, participants should choose their positions through the values assigned to it in accordance with their degree of agreement or disagreement.

Furthermore, the Likert scale is characterised by its ability to provide balanced and equal level of attitudes through five or seven different positions ranging between the positive and negative (Abascal and Rada, 2014). What distinguishes the Likert scale is that respondents do not have to provide a detailed answer; rather, it allows them to provide an answer based on their degree of agreement or even neutrality on matters that they are not sure about (Bryman, 2016). This makes it easier for the respondents in the response process, as well as for the researcher in the process of analysing their answers. In addition, the Likert scale is

inexpensive and does not consume much time and effort to analyse the data compared to other types of questionnaires.

On the other hand, there are some limitations to the Likert scale; for example, it focuses just on one dimension, either 'favourable/agree' or 'unfavourable/disagree', to different degrees. Moreover, there is the possibility that participants will respond to questions based on what they *should* feel, rather than on their real feelings towards the subject matter. This could be due to the shortness of the statements used or the absence of real-life scenarios used in the scale. However, despite such limitations, the scale is considered to be the best and most useful one compared to its counterparts, especially in programmes measuring change, improvement, satisfaction or compatibility.

The response rate is an important aspect to be considered by researchers when deciding to use a survey questionnaire. This is the percentage of actual responses to the survey (Wu and Leung, 2017). The ratio is important, because it is a representation of the population. To achieve useful survey results, researchers should be able to achieve a reasonable and acceptable response rate.

The rate may depend on the type of survey used in the research; for instance, email and internet surveys often have low response rates (Bryman, 2016). Acceptable rates are a question of concern for many researchers, particularly in research that examines/studies certain effects, and especially if the research results are to be generalised. Some studies have procedures that specify the minimum response rate and sample size to ensure the achievement of the objectives. For instance, rates over 50% are often sufficient for analysis and reporting, while rates no lower than are 60% are considered good and those 70% or higher considered very good (Rubin and Babbie, 2010). High response rates usually suggest a low chance of bias and good representation of the population.

In conclusion, this thesis has adopted a questionnaire method in order to reach the largest number of employees, as it is considered the most practical way to understand the attitudes of employees towards the performance pay system. In addition, the method is encouraging, because it is anonymous and does not require disclosure of the identity of the participants, and it does not require significant resources or time. The questionnaires were distributed in envelopes through the HRM departments of all the organisations. A two-week timetable was set for completion of the questionnaires and their return to HRM.

The target response rate in the questionnaire method was between 70 and 100 respondents in each organisation, but the highest number actually obtained was 57, and the lowest 49, with a total number of respondents of 211. This was considered a good number compared to the total population in each organisation, which ranged between 150 and 250 employees, apart from the government organisation.

The Statistical Package for the Social Sciences (SPSS) was used in a simple way, with the frequency feature utilised to ensure the accuracy of the data derived from the survey, such as the number of respondents who participated in each case study and the items they chose in the questionnaire. The questionnaire adopted a psychological scale, namely the Likert scale, which determines the level at which respondents agree or disagree with each statement in the questionnaire. SPSS was not used in great depth, given that the interview approach was the main method for data collection, which was then triangulated with the quantitative method in order to increase confidence in the results, in addition to ensuring the consistency of responses between the qualitative and quantitative methods.

#### 4.5.8 Document Analysis

The thesis also adopted document analysis as an approach to deepening understanding of the operation of PRP in the case studies. The focus was on the performance pay system-related

documents, which provided related guidelines, policies and regulations. The documents were viewed in conjunction with the process of collecting qualitative and quantitative data in order to deepen understanding of the performance pay system. It should be noted that significant reservations were expressed by the organisations over the publication or disclosure of the data from the documents accessed.

The purpose of using a document analysis approach was to provide objective evidence that supports and generates credibility and reliability for the final results (Bowen, 2009), in addition to developing understanding and uncovering problems associated with the system, and considering the compatibility of the documents with the contexts and procedures used in operating the system. It can be concluded after accessing and reviewing the documents that there are certain contradictions between those associated with the performance pay system and the way it actually works in some of the case studies.

It was noted that the documents in Organisations A and B provided the necessary details and information for the operation of the performance pay system, which enhanced its transparency and credibility. On the other hand, the documents in Organisations C and D were not sufficiently accurate or consistent with the operation of the system. Consequently, this stresses the importance of document quality in enhancing transparency and the need for the content of documents to be consistent with the operation process. Therefore, it can be claimed that the document analysis approach was complementary and useful in enhancing understanding of the contexts of the case studies. However, the reservations of the participating organisations restricted the disclosure and discussion of the information obtained from the documents.

#### 4.5.9 Time Horizon

The time horizon is one of the important decisions that researchers need to make at the earlier

stages of their research, as it often has a significant impact on research design. "The snapshot time horizon is what we call cross-sectional while the diary perspective we call longitudinal" (Saunders, Lewis and Thornhill, 2012, p.190). The horizon basically depends on or is driven by the research question. There are two forms of the time horizon: cross-sectional (one-shot) and longitudinal (taking place over time) (Sekaran and Bougie, 2016). According to their research question, researchers must determine whether they will conduct their research on an event that occurs at a given time, or whether they will follow certain events over time.

Cross-sectional study is often conducted in research that focuses on a certain phenomenon at a given time. It is "also known as one-shot studies [that] involve gathering data on your topic at a single, specific point in time" (Rose et al., 2015, p.81). The cross-sectional approach is linked with the qualitative method, such as in-depth interviews, in addition to its ability to adopt other methods such as quantitative studies. Moreover, the cross-sectional approach has the ability to handle a wide range of research questions.

This study adopted such an approach because of its nature, and the time and resources available for it, since longitudinal study is often interested in a longer time period. This type of study is most appropriate when research questions and objectives are concerned with how things change over time (Hair et al., 2016). It is usually the opposite of cross-sectional study, being used to study and examine a population repeatedly over a period of time. Longitudinal studies often take a long time, and their main drawback is that they require considerable time and money. On the other hand, in a cross-sectional approach, the study is often conducted within a specific time frame and with a specific budget, which may require the researchers to perform their data collection process on a single occasion.

#### 4.5.10 Bias in Research

In any research, researchers always strive to avoid bias as much as possible by maintaining

transparency and credibility and without deviating from the truth. This is because bias leads to inaccurate and unreliable conclusions, which ultimately lead to deceptive and misleading information. However, bias often exists in research, both quantitative and qualitative; no research is one hundred percent unbiased. Researchers must therefore be aware of potential factors that may lead to bias and take all possible measures to minimise them. Moreover, they should declare the restrictions and constraints that may be outside their control.

Bias can influence the research findings, which can lead to conflict with the actual results of the research. It can be said that bias is an inaccurate representation of the truth, which can lead to incorrect estimates of the studied issue. Bias in research is often described as a systematic deviation of the assessment estimates from the real population value (Gideon, 2012). It may occur intentionally or unintentionally due to a lack of objectivity or a tendency to prefer one thing over another to achieve a certain objective. There are many potential sources of bias in research; for example, by manipulating data, giving preference to a certain hypothesis over another, or fabricating data. This eventually leads to distortion of the findings and misleading outcomes, all of which is the responsibility of the researcher.

Bias may come in many forms. For example, during an interview the respondent may be affected by the tone of the interviewer or even by nonverbal signs. These may therefore affect the responses in terms of credibility or what the respondent believes. It is also possible for an interviewer to be biased intentionally or unintentionally when interpreting participants' responses. In addition, participants may also sometimes decide not to disclose certain information because of fear or because of the sensitivity of the question, and therefore they may give wrong information or even decide not to answer the question. The questions that are directed to participants may also be one of the causes of bias; for example, if they are long and unclear, or if they take long time to answer.

#### 4.5.11 Ethics in Research

Ethics concerns the morality of researchers and how they conduct their research. It usually relates to researchers' responsibility and accountability in terms of their relationship with participants and the methods they use to collect data (Mauthner et al., 2002). Most of the research in social science involves ethical considerations. There are important aspects of these that researchers must be aware of and take into account during the early stages of research. In social science research, researchers should be aware of the common ethical principles about what is appropriate and inappropriate.

Moreover, research ethics emphasise the importance of ensuring credibility and integrity during the research design and implementation. Participants in research should be fully aware and informed by the researcher about the purpose of the research and the nature of their participation, as well as the potential risks involved (Durand and Chantler, 2014).

Researchers should ensure that confidentiality is maintained and respected, and that the identity of the participants is not revealed.

Moreover, researchers should not force participants to answer any question they do not want to answer. Participants' right to make decisions that suit them should be ensured. In other words, it must be guaranteed that all participants' inputs are given voluntarily and freely, without any restrictions or pressures. In addition, participants must be aware of their right to withdraw their consent to participate at any time, without any conditions.

Furthermore, researchers should also pay attention to and be cautious about incorrect reporting or misuse of statements made by participants, and take into account the criteria of moral quality and scientific integrity. Moreover, researchers must be very careful about plagiarism and the use of others' ideas without attribution or permission.

For this research, all the necessary ethical measures that are consistent with the policies of the University of Wolverhampton were reviewed and taken into account. All the research tools and questionnaires were submitted to the Ethics Committee for review and ethical scrutiny. Subsequently, ethical approval was obtained to develop the fieldwork, which was then conducted and all the measures followed in terms of maintaining the anonymity, privacy and confidentiality of the participating organisations and participants themselves.

#### **4.6 Conclusion**

In general, the research questions were formulated by exploiting the gaps found in the pay literature. The ontological stance of the thesis lies in the nature of the reality of the performance pay system, which is examined through the settings and positions of the elements that are part of the system, such as middle managers and employees, in addition to the system processes, related documents and theories based on it. On the other hand, the epistemological position lies in how the social actors understand and perceive the performance pay system. Therefore, pragmatism was found to be the best paradigm for the thesis, because understanding reality from the viewpoints of different groups of individuals requires the use of different methods to answer the research questions and reach the required knowledge.

Social science research usually adopts widely different methods to explore different dimensions of the research issue, achieve in-depth analysis, reduce bias and obtain useful data. Therefore, this research adopts the mixed-methods approach, which combines both qualitative and quantitative research. Qualitative research is very practical, and is usually inductive, as it enables researchers to interact with social actors in the context in which they live, as well as considering their points of view to obtain more understanding of the phenomenon or issue studied. The quantitative approach is widely used in business and

management research, as it is characterised by its ability to provide numerical data that facilitate generalisation of its results, and thus can provide a comprehensive perception of a particular phenomenon or problem.

The mixed-methods approach allows examination of sophisticated problems in a more comprehensive manner and provides opportunities for data triangulation, which allows researchers to use multiple data sources. Mixed method research also allows researchers to use both deductive and inductive reasoning, which provides more understanding of the research problem and supports the research findings. This approach also provides broad understanding of the research problem, increases the richness of the research, and improves credibility of the research findings. The thesis has been also strengthened by the document analysis approach, alongside the qualitative and quantitative methods, in order to deepen understanding and provide objective evidence supporting the reliability of the final results.

The research also adopts a case study strategy, as it is the most appropriate for the research subject and is the most widely used approach in empirical study, having proven its usefulness in investigating contemporary phenomena in an in-depth manner and through the context of real life (Yin, 2009). Moreover, case studies often concentrate on particularisation rather than generalisation (Stake, 1995), which is obviously consistent with the context of this research. A large number of case studies use a combination of qualitative and quantitative research methods (the mixed methods approach), which is consistent with the methods used in this research.

Moreover, this thesis adopted the semi-structured interview method to broaden the dialogue in the interviews and deepen understanding of the research issues in a partly structured manner. Therefore, to avoid deviating from the research path, seventeen questions were designed to provide guidance during the interviews; these are presented in the appendices.

Twenty valid interviews were conducted, with five interviews in each case study organisation. It should be noted that there were strong reservations expressed by the participating organisations about not revealing their names, as well as those of the participants in the fieldwork.

Determining the time horizon of research is one of the important aspects for researchers to consider, which may often relate to research questions and objectives, as well as the costs or budget available. The time available and setting a goal for the end date of the research may also be time horizon determinants. The time horizon is often either longitudinal or cross-sectional; this thesis adopted a cross-sectional study design, which involves collecting data or taking snapshots of the situation studied in a single time frame, due to challenges such as access restrictions, and because of the limited amount of time available.

## CHAPTER FIVE: FINDINGS AND ANALYSIS

### 5.1 Introduction

The prevailing view is that competition in labour markets has become more intense and fiercer than ever because of economic, social and technological changes. These changes have imposed a new reality, as competition to attract talented and experienced staff has become one of the most important features of global markets. What is even more challenging is to design policies to retain outstanding staff. It has been concluded from the literature reviews that the system constitutes a competitive advantage in this dilemma, but only if applied systematically. However, the magic formula remains a mystery.

This chapter aims to analyse and present the results found in the research case studies. It is divided into sections based on different themes. The results of each theme are discussed separately based on each case study and according to the findings from the questionnaire and interviews. Before proceeding to the thematic analysis, the section begins with a critical introduction to its associated theme, which deals with the most important axes and theories relating to PRP that were drawn from the literature reviews. It then moves on to the thematic analysis. The first theme is 'employees' attitude towards the payment system', the second discusses 'the fairness of the system', and the final theme covers 'favouritism'. The results are also examined and analysed in light of relevant ideas and perspectives of the literature reviews.

The three identified themes are believed to be an umbrella for many sub-themes and issues that fall under each of them, since they were inspired by the participants' responses, especially as they dominated most of the interviews. This is because the interview questions posed were very loose in order to avoid leading questions, which suggest predetermined

answers. The focus was on open-ended questions, which allowed participants to give free-form answer; for instance, "What do you think of the PRP system?"; "What are its drawbacks in your opinion?" and "What are the solutions do you think?". Therefore, each theme has several axes or sub-themes underlying it, which are believed to be relevant.

Before delving into the themes, the following section gives a brief overview of each case study, and then moves on to the thematic analysis.

## **5.2 The Case Studies**

The idea of selecting the four organisations was to exploit the research gap in the literature, as it was noted that there is no empirical work on the PRP system conducted on a range of different organisations, such as public, semi-private, private and global ones. In addition, the organisations were selected for the purpose of comparison and to reach the best standards in system operation. These different contexts were expected to result in an in-depth understanding of the operation of the system, thus helping to answer questions that seek to ascertain the impact of the system in the public and private sectors and the success factors.

It should be mentioned that all four organisations refused to disclose their information and they expressed considerable reservations over access to this information. Confidentiality and privacy agreements were signed with some of the organisations to ensure that their data and participants' information were not disclosed. Therefore, each organisation was given a code, A, B, C and D. The following is a brief overview of each organisation.

### **Organisation A**

Organisation A is one of the world's leading companies in the field of oil and gas and is also among the leading companies in the Omani oil market. It started its activities in Oman in the 1950s, when it began to provide services and products related to the oil sector, with hundreds

of stations in strategic locations throughout the country. The company is one of the largest energy companies in the world. It operates in more than 70 countries and has more than 93,000 employees worldwide. In Oman, the localisation (Omanisation) rate of the company has reached 92%.

With regards to the performance pay culture and the mechanism of its operation, it works in line with the following steps:

- At the beginning of each year individual goals are set for each employee, with clarification of the criteria and pay outcomes. Goals assigned to employees must comply with SMART objectives.
- By mid-year, the employees' progress is reviewed and they are given the necessary feedback.
- At the end of the year employees are then evaluated against their peers.
- Subsequently, a panel consisting of line managers and some senior management staff, as well as HR staff, is appointed to evaluate and assess employees' performance.
- After the panel discussions, each employee receives his/her approved rate, known as an Individual Performance Factor (IPF).
- This IPF is then translated into performance pay outcomes.
- If employee feel that there has been some injustice, they have the right to file a grievance.
- Any grievance will then be reviewed by the panel under the supervision of the Human Resources Department.

## **Organisation B**

Organisation B is a company operating in the oil and gas sector, which was established by Royal Decree and operates under the laws of Oman. It is considered to be the largest

investment in the private sector and contributes to achieving Oman's objective to diversify sources of income. The percentage of Omanisation in the company has reached 88%. Furthermore, it is one of the fastest-growing projects in Oman and makes significant contributions to the social aspect as well as to infrastructure, such as the construction of road networks and social housing units. It should be noted that Organisation A is a technical and commercial advisor to Organisation B and has a large share in it.

With regard to the performance pay culture in Organisation B, its procedures and mechanisms are very close to those of Organisation A. The system operation mechanisms and its outcomes are subject to quality checks by Organisation A in order to ensure transparency and objectivity. This demonstrates that Organisation A has a significant influence on the way Organisation B works, which can be attributed to the fact that the former has a stake in the latter.

### **Organisation C**

Organisation C is a wholly-owned government company and is the government arm of energy investment. The company has made significant investments in the oil and gas sector inside and outside Oman. It plays a key role in the efforts to diversify the economy and encourage national and international investments in Oman. The percentage of Omanisation in the company is higher than 70%.

The company recently introduced an automated performance management program called Halogen in order to make the performance pay operation more transparent and objective. The program allows the setting of goals, provides feedback and generates staff performance reports. This promotes interaction and communication between the line managers and their employees at any time, even over the phone (through the Halogen app). In addition, the

Halogen program makes it easier for line and senior management to track employees' progress and to recognise the extent to which staff are committed to their goals.

## **Organisation D**

Organisation D is a government entity which sponsored this study and for whom the researcher works. Due to the sensitivity of the organisation, reservations were expressed about disclosing the mechanisms and policies related to the operation of the performance pay system. Overall, performance review processes in the public sector lack a systematic method and it needs to improve its policies and update its laws and regulations in order to support the performance pay system.

Staff performance measurement in public organisations is often qualitative and subjective, which makes it difficult to identify tangible results achieved by the staff. This means pay increases and promotions are based on seniority and shows that public organisations need to combine qualitative and quantitative measurements to achieve the highest level of objectivity in the process of measuring staff performance, so that it reflects the pay increases they receive.

### **5.3 Employees' Attitudes Towards the Performance Pay System**

Employees' attitudes toward the PRP system are believed to be one of the most important axes that can be used to ascertain various indicators and opinions about how the system works and whether it is a success or failure. The objectives are to identify participants' views and perceptions to find how the system motivates them and effects their performance, and to establish the differences in PRP system operation between the four organisations. This is done by integrating three perspectives in the analysis, namely theoretical, management and staff perspectives, to gain a clear insight and broader understanding.

The study employs the most important theories that support the idea of performance pay, such as agency theory (which represents the relationship between the employer (the principal) and the employee (the agent) in the organisational context); expectancy theory (which assumes that employees are motivated to perform according to the value of the outcome that they are perceived to be worth); and goal setting theory (which is seen as a contributing factor in employees' motivation and commitment, based on the assumption that whenever their tasks and performance are clear, the more they will be motivated and committed).

Based on what was found in the literature review, it can be argued that there is a link between goal setting theory and expectancy theory, since the setting of goals can be seen in some of the processes of expectancy theory, such as instrumentality and valence, which work in parallel in terms of measuring the value of the reward against the task and setting a certain level of expectation. This therefore enhances motivation and makes the process clearer and more transparent.

Many organisations seek to adopt a form of performance-based management by linking pay to performance. Basically, the idea of the performance pay system is underpinned by expectancy theory, which assumes that employees will put more effort into their work if they expect valuable results. This suggests that the use of financial rewards can have positive consequences in influencing the staff behaviours that the organisation wants to encourage and in improving performance, provided that employees appreciate the rewards provided.

However, there is a counterproductive possibility if performance pay is not well managed.

It can be concluded that the theory helps establish a clear positive relationship between what employees achieve and what they expect to receive as a return. This is because individual choice decisions are driven by the value of the results they realise and suggests that employees should have the belief that their performance will lead to desirable and valuable

results, otherwise they will not have the motivation to achieve what management expect of them. Furthermore, it is important for management to ensure that staff have a clear understanding of the mechanisms through which the performance pay system works, otherwise uncertainty will undermine the way the system operates, preventing staff from predicting the outcome of their performance.

On the other hand, a gap remains between what staff consider to be valuable and motivational and what management believes to be motivational factors. This is because expectancy theory does not make specific suggestions about what motivates staff. Nevertheless, the theory has significant implications for staff motivation through the variables posed by its model or process (Lunenburg, 2011). The model of the theory focuses on influencing employees' behaviour and directing their efforts towards the desired performance. However, its processes remain vague, because the motivations vary from individual to individual, depending on the employee's nature, abilities and preferences.

Expectancy theory integrates three important elements or phases into its basic model, through which the desired motivation and performance can be achieved. The first element is "expectancy", which concerns how to convert a person's efforts into expected performance. The second element is "instrumentality", which relates to an individual's perception of the level of performance that will lead to certain outcomes, while the final element is the reward "valence", which suggests that the outcome must be attractive to employees in order to be a driving force in achieving high performance.

Theoretically, it seems logical, but balancing the three elements is not an easy task, as the processes are very subjective and related to employees' perceptions, which are hard to measure or predict. The literature indicated that there are several factors that influence employees' expectations about their performance, among the most important of these factors

are the transparency of the appraisal system and the clarity of its measures; the value of the reward; the quality of manager; top management support; and the organizational culture.

However, if the key element is based on an employee's perception, what if some employees do not see that their efforts will lead to the desired performance or if the reward is not valuable to them? In other words, there may be an imbalance in the three elements or processes. The question that arises, for example, if employees realise that their efforts can lead to the required performance, but at the same time, they perceive that the value of the reward is not valuable to them, then will they put the required effort into work? Since, the first element of expectancy theory depends on the employee's abilities, while the second element depends on their satisfaction with the value of the reward. This is thought to cause kind of confusion, which may undermine performance rather than improve it.

Employee motivation and performance depend on the availability of certain factors, which vary from organisation to organisation. Key factors affecting employee motivation and performance include fairness, transparency, clarity of performance pay measures. clear goal setting, the will of the leadership, and clarification of work standards and expectations. Of course, there are other influential factors, which may not be within the scope of this study; for example, recruiting the right people and training them properly, the clarity of role and the ability of staff to perform the job.

However, the lack of the involvement of and consultation with specialists, professionals and staff during the design and implementation of the PRP system, and the failure to create the right environment, are among the reasons for the failure of the system to achieve its objectives. System designers often overlook certain important factors, which is why the system cannot achieve its objectives. Even in the system operation process, fairness and goal setting are often overlooked, which are the two main pillars and without which the system

cannot succeed. Fairness is believed to be the essence of intrinsic motivation, which enhances employees' positive perception of promising opportunities that they will enjoy as an outcome of their performance.

On the other hand, setting clear goals for employees provides a well-defined, structured framework and clear guidance on what is required in order to be rewarded. This also allows management to ultimately assess the contribution of the employees and their eligibility for a reward. However, the absence of predetermined goals would certainly contribute to the inability of management to make an objective evaluation, which would therefore lead to unfairness. It should not be overlooked that the definition of the system is essentially based on linking performance to pay, so performance should be measured against predetermined goals (CIPD, 2019).

Goal setting theory provides employees with clear understanding of their current position, where they are headed and what management expects from them, which ultimately helps them to direct their efforts towards achieving the desired performance. In addition, it supports the organisation in identifying the best ways to guide staff efforts in order to meet organisational objectives and also provides objective measures of performance evaluation. However, the lack of understanding of line managers and employees of the ultimate goals of the organisation may divert their focus on translating objectives. This neither serves the objectives of the PRP system, as it prevents an objective assessment of staff performance.

On the other hand, the nature of the job or task may raise some challenges in terms of goal setting, particularly for some complex staff tasks. Among the common challenges that management overlook is alignment of employees' capabilities and skills with their assigned objectives, as well as the importance of understanding employees' characteristics, as some employees are motivated by challenging objectives, but lose their enthusiasm with easy

objectives. On the other hand, some staff prefer easy objectives; this depends on the culture that the organisation is trying to establish.

It can be concluded that expectancy theory and goal-setting theory provide an effective framework for the operation of the PRP system, as well as an understanding of how employees respond to motivation. The results of the literature reviews also show that the PRP system positively promotes staff attitudes, behaviour, abilities and performance if applied systematically (Ren, Fang and Yang, 2017), although conditional factors remain unclear, possibly due to the differences in culture from one organisation to another. However, there must be common fundamentals, which must be available in any PRP system to ensure its systematic application.

The statement shown in Table 5.1 seeks to analyse and understand the employees' points of view and what they think of the PRP system in terms of it being a good principle. The relevant management interviews are analysed and discussed in light of the literature reviews.

### 5.3.1 PRP as a principle

Table 5. 1: The principle of performance pay

#### **The principle of performance pay is a good one**

| %                     | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|-----------------------|-------------------|----------|---------|-------|----------------|
| Organisation A (N=52) | 0                 | 2        | 4       | 65    | 29             |
| Organisation B (N=53) | 0                 | 4        | 8       | 64    | 25             |
| Organisation C (N=49) | 2                 | 0        | 8       | 63    | 27             |
| Organisation D (N=57) | 0                 | 4        | 18      | 44    | 35             |

#### **Organisation A**

The objective of the statement in Table 5.1 was to measure the extent to which participants agreed on the idea that the principle of performance pay was good. Surprisingly, the results show that the majority (94%) of the participants in Organisation A expressed their agreement with the statement, while 4% expressed neutrality and 2% disagreed with it. It can be concluded from these results that the participants had a positive perception of the performance pay system. This strongly supports the company's approach in implementing it, which can be seen as a positive indicator of its success.

However, the limitations of the questionnaire are exposed here, as it is difficult to convey the participant's position clearly, due to the restricted answers provided within limited options, which makes it difficult to clarify, interpret and analyse the data due to the limited information provided. Nonetheless, a high consensus rate may be a good indicator of general inference. Furthermore, what distinguishes the questionnaire is that it offers less chance of the bias or error that may occur in interviews, as well as providing wider coverage of participation.

In general, a positive view is drawn from the overwhelming majority, which predicts the likelihood of achieving PRP objectives in Organisation A.

Data was also extracted from the management interviewees, with one of the interviewees suggesting:

*“I think tying pay to performance gives more control over things. Employees often want to be treated fairly and paid based on their input. This reduces a lot of stress and pressure, helps to keep our best staff, and also attracts talented ones”.*

The respondent seems to believe that performance pay increases management control over staff, which suggests that some employees may accept control over their jobs and tasks if their performance outcomes are satisfactory. This applies perfectly to what expectancy theory advocates, suggesting that if the performance outcomes (rewards) are desired by staff, they will be motivated to achieve what is expected of them.

Furthermore, it suggests that desirable rewards may convince staff to accept the given tasks, even if they do not have control of them. In general, this is consistent with the results of the literature reviews, which indicate a positive relationship between pay and performance control (Mylona and Mihail, 2019). It can be concluded that organisations that systematically link pay to performance can control critical factors in the business and guide staff performance to the desired outcomes (Malik, Butt and Choi, 2015).

On the other hand, some study results show that there are certain negative effects when staff realise that the performance pay system has been introduced to impose control on them (Vogel and Hattke, 2018). Therefore, the question that arises is whether employees perceive that the essence of introducing the system is to control their tasks, thus undermining their motivation. Assuming that this may leave them without a sense of self-determination over their tasks, this may affect their efficiency, innovation, and creativity.

Focusing on answering these questions may lead to this study being derailed from its course and objectives. However, the reactions of the following participants may answer the questions, and may raise other dimensions that would enrich this study.

Another respondent commented:

*“The reward system has provided an opportunity for constructive communication between managers and their staff; this helps to direct the focus toward the objectives that contribute to the ultimate goals of the organisation”.*

The respondent seems to point to the effectiveness of the performance pay system in creating a positive communication environment and in directing staff focus towards goals that create value to the organisation. This suggests that the system exists as a motivation tool to guide employees' performance and behaviour towards acts or tasks that it may be difficult to do in the absence of such stimulation. However, it must be kept in mind that it is not only money that helps boost performance; in fact, there are also other key factors, such as constructive communication and clear objectives.

It has been noted that the pay literature lacks adequate attention to the concept of communication and its impact on performance pay, which causes confusion and overlapping between concepts (Welch, 2011; Neves and Eisenberger, 2012). Organisations need to recognise the importance of communication, especially between line management and staff, in order to facilitate and enhance understanding of organisational objectives and expected contributions. It can be inferred from the above employee comment that management in Organisation A has a good awareness and a good understanding of the importance of communication, which serves the goal of performance pay.

An important feature of the PRP system is that it can strengthen communication between line managers and staff, which perhaps draws attention to the important issue of the extent to which the system influences the communication element. The response is a good indicator of the effectiveness of the PRP system, although there is little evidence in the literature of the impact of the system on communication within organisations.

Meanwhile, another respondent commented that:

*“We believe that pay has a strong impact on performance and the achievement of goals, and that is why as a global company we strive to ensure that we have the best competencies, and we are always keen to adopt the latest and highest standards of the pay system. So we always compare ourselves to competitors in the market to ensure we are in the lead”.*

The respondent points out that Organisation A always strives to remain at the forefront in terms of pay, as it is a global company seeking distinct competencies as a result of the competitive pressures of the market. Organisations compete for survival especially in dynamic environments, which require continuous improvement in productivity. Moreover, organisations must realize that this is the age of human capital, which is the main determinant of its capacity and the power of the economy.

Increasing competition drives management to pay more serious attention to improving the performance and efficiency of its company. Its system is one of the powerful determinants that has a significant impact on improving organisational performance in the market in addition to retaining the best employees. It can be concluded that in view of the fierce competition in the market for outstanding staff and products provided by organisations, the performance pay system could be an effective tool in maintaining competent staff, as well as

enhancing the organisation's competitiveness (Schmidt, 1997; Ybema, Van Vuuren and van Dam, 2017).

## Organisation B

Table 5.1 shows that the majority of the participants (89%) in Organisation B believe that the principle of performance pay is a good one. On the other hand, 8% expressed their neutrality, and a large minority of 4% disagreed with the statement. It is clear that the vast majority of staff agree with the principle of performance pay and with the idea that it is fundamentally fair. This appears to be in line with the responses of the previous case study. These results again seem to underscore the importance of performance pay as a motivator and as a source of creating fairness, although they do not reflect the reality of the actual situation.

However, the nature of the quantitative approach does not permit further detailed interpretation or justification of the case being studied. Further, despite the positive impression that can be drawn from the results, it is hard to judge conclusively through the source of the quantitative data only. This is why triangulation was necessary to complement the findings. Consequently, interviews were conducted in an attempt to complement and verify the results.

For this reason, information was collected from management interviews, as one of the participants commented:

*“The financial reward cannot be excluded from the motivational process, otherwise it will have no effect on performance. However, money rewards should not be emphasised as the only driver of desirable performance; in fact, they should be presented as one of the tools that need to be integrated and*

*complemented with other elements. such as transparency, honesty, effective policies and clear objectives”.*

The respondent appears to emphasise the importance of not promoting money rewards as the basis for performance improvement, despite his emphasis on their importance. However, he stresses the importance of the integration of elements to form a performance pay culture, including a set of values that complement each other, such as transparency, honesty, the establishment of clear objectives, commitment, and fairness. There is no doubt that the performance pay system has proved its usefulness, but in many cases, however, the success of the system may depend largely on organisational culture and how the system is implemented.

The results of a study conducted in 1998 by the Institute of Personnel Development (IPD) show that 74% of the participants surveyed felt that performance pay had enhanced their performance, as well as that of their organisation (Suff, Reilly and Cox, 2007). However, there is little evidence to prove the efficiency of financial rewards (Pfeffer, 1998). Even management in some organisations are still unsure about the potential consequences of the pay-performance system (Gerhart and Rynes, 2003). However, any failure of the system seems to be due to the fact that decision-makers in organisations do not have clear objectives when introducing it so that they can measure the success or failure factors to correct the situation.

Another respondent highlighted that:

*“We have searched the markets and adopted the best standards of reward and appraisal systems that are consistent with our organisational culture, and we also adapted other criteria which we felt would serve the goals. Many*

*successful experiences are out there; there is no justification for failure. You only need qualified cadres and the will of the top leadership and, of course, effective policies”.*

The respondent appears to indicate that many successful experiences can be drawn on and effective standards that can be either adopted or adapted. He points out that the question lies in the will of the leadership, the eligibility of the cadres that run the system, and the existence of effective policies. It seems that performance pay system will only work if it is supported by organisational values and behavioural standards.

This response seems to reveal another gap in the pay literature, with regard to the relevant elements, criteria or standards, and how important they are to the success of the PRP system. This raises an important question. When the system is introduced, do organisations consider these factors? Or is the introduction of the system only to keep up with the market, without the existence of clear objectives and culture that the organisation seeks to consolidate.

However, culture and values are not concrete; in fact, they involve the sense, intuition and responses arising from a person's traditional thinking. Nevertheless, organisations with staff from different countries, backgrounds and languages need an organisational culture and values that unite the staff and form an identity that brings them all together. Therefore, if they are not integrated into the PRP system, it is unlikely to succeed (Zhao and Pan, 2017; Dextras-Gauthier and Marchand, 2018).

This is supported by the results of the literature review, which showed that the system can be a powerful way to shape the culture of the organisation and its values, and serve as an essential tool to control the attitudes and behaviours of employees, harmonising them with

the culture that the organisation wants to form (Kerr and Slocum, 1987; Shiu, and Yu, 2010; Kontoghiorghes, 2016).

Another respondent suggested that:

*“I believe that evaluation is the fundamental pillar of the idea of performance reward; whenever the appraisal data are frank and credible, and the operations and processes are straightforward and clear, there will be no problem. We have a clear reference guide for this process and this is what the manager needs”.*

The respondent seems to believe that reliable and valid assessment is the basic foundation of the performance pay system, as it is an effective instrument to communicate expectations between managers and employees to deliver the desired outcomes. He points out that the operations' system reference guide had positively impacted management practices. The comment expresses how positive the respondent is towards the performance pay system, which suggests that it is moving in the right direction.

On the other hand, some managers do not appreciate the importance of evaluation, unfortunately perceiving it as additional work and pressure. However, the basic principle of performance evaluation is to know the strengths and weaknesses of employees, and thus reward them accordingly. As the respondent points out, maximisation of the accuracy of evaluation leads to more accurate decision-making regarding staff rewards, and potentially improves performance, which is the ultimate goal of the performance pay system. It can be concluded that evaluation is the key element in driving performance and motivation, since staff attitudes and perceptions of fairness are often based on evaluation results.

The results of the literature review indicate that some line managers consider the appraisal process as just additional pressure on their responsibilities, so they do not pay attention to it. This is a gap that hinders the achievement of PRP goals. Therefore, the participant's statement reflects his belief in the importance of the evaluation process to ensure the success of the system (Rubin and Edwards, 2018).

### Organisation C

It is clear from the results from Organisation C in Table 5.1 that the overwhelming majority of participants (90%) feel that the principle of performance pay is a good one, while 8% are neutral. Only 2% disagreed with the statement. It can be inferred that the general perception of participants is positive, regardless of the real situation of whether or not the system is achieving what it is intended to do. This concludes that the initial perception of employees refers to their belief in the effectiveness and fairness of the performance pay system. A positive perception often leads to positive effects, while a negative perception leads to negative effects. This suggests that employees' positive perception of the performance pay system can be a supporting factor in achieving organisational objectives if the system is implemented correctly.

Comments were also drawn from management interviews, with one interviewee stating:

*“One of the employees asked me what to do to get an excellent performance and better rate, and he did exactly what was told; however, his co-workers were better than him, and therefore they got a better rate than him. You are forced to comply with the distribution even if it is unfair, because sometimes you may have a number of outstanding employees in your team, but you cannot reward them all in the same way.”*

It seems to some employees that performance pay may contradict the values that it calls for. However, this can happen as a result of misunderstanding between employees and their managers, or in the absence of transparency between them. This suggests that managers should understand employee expectations, and that they should also explain to employees what is expected of them. This was confirmed by a participant from Organisation A, who suggested that ignoring the effective communication element would result in the failure of the performance-driven system.

Employees may exert maximum effort without reaching the level of evaluation they seek, as the system is based on staff merit and contributions. However, this should not make employees feel that their performance is not up to the expected level, because staff capabilities vary depending on the nature of their work and the tasks assigned to them.

Staff often seek to accomplish their tasks within a specific timeframe and in line with the specific objectives assigned to them, in an attempt to achieve a good evaluation. Performance evaluation is one of the key management practices that is intended to provide fair justifications for staff performance decisions, as staff motivation and their future performance are affected by the results of their annual performance review (Chattopadhyay and Ghosh, 2012).

If staff perform well, they typically expect a high rate of return in the form of a satisfactory reward. This is what expectancy theory suggests. However, the respondent's comment above seems to suggest that misconceptions that can arise in communication between managers and their employees, which may undermine the effectiveness of performance pay. This confirms that clear and transparent communication should be considered as one of the key elements in the process.

Another respondent also suggested that:

*“Sometimes a high-performance employee is transferred to another department to participate in a particular project. The performance of the transferred employee in this first period/year will often not be as high as expected, because of the new work environment or maybe due to a lack of certain skills. Unfortunately, such situations are not considered in the current system, which may often frustrate the employees because of the low rating they receive.”.*

The respondent appears to indicate that high-performing staff often receive high evaluation ratings due to their expertise in their job. However, when these staff are transferred to another department, their evaluation ratings decrease, especially in the first year of their work because the job is new to them, which makes them feel demotivated and may undermine their view of performance pay. It is believed that in such cases, objective criteria for performance evaluation may be feasible, at least in the first year. Here the importance of goal setting theory lies in creating employee trust in the PRP system, as subjective appraisal will certainly undermine the trust (Grund and Przemek, 2012).

However, this suggests that if some employees are distinguished in their field, it is better to promote or motivate them, rather than transfer or move them to another department, which may adversely affect their performance. The main objective of performance pay system is to enhance work performance by increasing employee motivation (Lapointe and Vandenberghe, 2018), whereby employees seek to be incentivised according to their inputs, while management seeks to maximise employee performance (Gungor, 2011).

Another respondent commented that:

*“There is no doubt that the power of reward lies in going to those who deserve it. This can only happen through objective procedures and measurable goals associated with staff performance appraisal. Without these factors, reward is useless”.*

The respondent appears to refer to importance of the performance pay system, indicating that it will not serve its purpose in the absence of clear measurable goals assigned to staff and objective evaluation measures. PRP is often introduced as an incentive for high performing employees to ensure fair treatment according to their contribution; consequently, staff assessment is based on predetermined objectives (CIPD, 2019).

Further, PRP should be able to eliminate the conflicts between management and employees and address any issues of dissatisfaction, which is impossible to achieve unless there are appropriate performance measures and standards (Hamukwaya and Yazdanifard, 2014). There seems to be consensus with previous cases that the objectivity of the appraisal and goals are essential to ensure the success of PRP.

A further comment included:

*“One of the greatest challenges we face is the issue of distribution; sometimes you have two or more distinguished employees who you believe all deserve an outstanding rating, but the system forces you to stick to the bell curve, which often leads to unfair distribution rewards”.*

This respondent seems to question the effectiveness of the bell curve, which is intended to provide a fair distribution of staff according to their performance. This again raises the issue of fairness, as the respondent seems to indicate that the bell curve limits the number of people

who can be selected for reward, which puts managers under pressure to choose from among them, which may entail sacrificing a distinguished employee at the expense of another.

However, some literature review results suggest that the bell curve creates a type of competitive environment (Oppenauer and Van De Voorde, 2018), while other studies believed that the bell curve is only valid in the presence of large numbers of staff; otherwise, it will lead to unreliable performance appraisal results (Stewart, Gruys and Storm, 2010). The bell curve is one of the most popular tools for appraisals, arranging or dividing employees according to their performance at the end of the year; for example, 10% outstanding employees, 80% employees with average performance, and 10% low-performing employees.

Furthermore, the bell curve system may help deal with large numbers of staff so that it can identify high, medium and low performance. The difficulty, however, is to ensure that the results reflect the actual performance of staff. The drawback of the bell curve is that it may lead managers to make wrong choices or even to manipulate the placing staff of into the lowest or highest groups. This therefore affects the placement and does not reflect the normal distribution, which may sometimes be difficult to explain or justify (Kaufman, 2010).

However, it is believed that this method helps the organisation to build a culture of high performance, given that the approach helps identify staff who add real value to the organisation. The basic proposition of the bell curve is often based on motivating and rewarding a few outstanding employees who have made effective contributions to their organisations, and at the same time to warn or punish those who have performed more poorly than expected.

On the other hand, it seeks to motivate a large number of employees with average performance by encouraging them to enhance and improve their performance and

contributions. The literature reviews have shown that the way employees perceive appraisal and reward processes reflects their behaviour and future performance, as well as their attitude toward the system (Poon, 2004).

## Organisation D

Table 5.1 shows that majority of the participants in Organisation D (79%) supported the idea that performance pay is a good principle, while 18% expressed neutrality, and very few disagreed with the statement. Overall, the responses appear to have been broadly consistent in all the case studies, although the system was not working well in all the organisations. This reflects the agreement of the participants on the effectiveness of the idea, at least as a principle. However, this positive perception indicates that employees are willing to deal with the system positively if it is implemented correctly. Therefore, it can be concluded that overall the participants seem to support the basic premise that performance pay is a good and fundamentally fair.

The underlying reasons for the participants' feeling that the concept of PRP is good as a principle and fundamentally fair are not clearly understood, as the statement in Table 5.1 measures the extent of the perception, not that of reality, making it difficult to draw a conclusion. It is therefore hard to make predictions or hypotheses at this stage. The picture may become clearer later with the presentation of the data and responses. However, the results conclude that the PRP system is welcome and that the environment is containable.

Information was also gathered from management interviews, with one of the respondents commenting that:

*“As a line manager, I supposed that management should have involved the line managers in the design phase and before implementing the system*

*[performance pay], but they didn't even consult us. At least they should have asked us what the needs are to make it more effective, as we are on the ground and closer to the staff. They just imposed it on us, so what do they expect from us? There is no doubt that this is one of the main causes of failure”.*

The respondent appears to point out that line managers were marginalised when the system was implemented, which is perceived to be a management mistake. He notes that line managers should have been involved, since they are closer to their employees and more familiar with the internal working environment. There is no doubt that line managers play a key role in the performance pay system, translating system policies and influencing staff perceptions as they are in direct contact with them. It can be inferred from the respondent's comment that the failure to involve managers in the implementation and development of the pay system policies and practices was tantamount to overlooking and undermining the values and beliefs advocated by the system, which line managers are supposed to convey to employees (Harris, 2001).

One of the goals of introducing the performance pay system is to change organisational culture, with the system seen as an influential factor in changing the values and behaviour of staff. Line managers are considered as one of the most important elements in the process, based on the role they play in the appraisal process. The system depends heavily on how to conduct staff assessment, so this is where the role of line managers lies. However, isolating managers from the design or implementation of the system may lead to many shortcomings and imbalances in standards and criteria.

From the participant's comment above, considerable frustration has been created over the PRP system due to the apparent marginalisation of line managers in the implementation

process. This is completely consistent with the literature review findings, which stress the importance of engaging and consulting with line managers during the implementation of the system (Harris, 2001; Lee, Iijima and Reade, 2011; Crawshaw and Game, 2015) as they are closer to and have more influence on employees, being the link between staff and management. Hence, their negative attitude towards the system will obviously be passed on to staff.

Another respondent complained that:

*“Things are out of control, the reward process is very traditional. Failure to align rewards systematically and transparently with performance reviews is the reason for the disruption. Frankly speaking, there is no real will from the top management to adjust things as they should.”*

The current situation does not seem to be comfortable for this respondent. He seems to blame top management, claiming that there is no real will to change. This can be inferred from his comment that the PRP system lacks the key elements of success. The findings from the literature reviews indicate that there are pivotal factors that must be available to ensure the success of the system, such as management capability and willingness; a clear goal setting process; communication and feedback; and transparency and fairness (Marsden and French, 1998; Isaac, 2001; Zhang et al, 2015). However, the absence of any one of these factors could pose a major challenge to PRP success.

Lack of transparency is one of the main barriers to the success of the performance pay system, and this often happens when managers do not have enough motivation, which makes them neglect effective communication with their staff, and thus fail to provide accurate feedback (Schaerer et al., 2018). The public sector has sought to find real reform through the

introduction of the performance pay system over the last period (Wenzel, Krause and Vogel, 2019). However, the design and implementation method remain the most challenging factor.

A further comment was that:

*“Management think that rewarding good performance can be expensive, and its benefit is much lower than its cost. I think this misconception should be corrected, because the fact is the other way around. Encouraging and rewarding diligent staff the same as low performers is more costly and worse”.*

This respondent seems to point out that some senior managers have a negative perception of the performance pay system, as they think its cost outweighs its benefits. It is suggested that this misconception needs to be corrected by the top management, with the hint that the current situation is even more costly, with money wasted on rewarding and promoting non-eligible staff and equating them with high-performing staff.

Some top managers seem to believe that the system can be useless and costly, and this negative perception may be shaped by a lack of belief in the importance and effectiveness of the PRP system. This negative perception can also attribute to the lack of awareness, resistance to change and the lack of culture that fosters such a system. With these perceptions, it is clear why an organisation fails to develop effective practices and fails to create a supportive environment for the operation of the system. This therefore justifies the above participant's dissatisfaction, as well as the frustration of high-performing employees.

The participant's comment above points to a strategic dimension of the PRP system's role in rationalising spending, as he indicates that rewarding and promoting low-performing employees in the same way as high-performing employees could be a waste of money,

besides the risk of losing talented employees, which can be even more costly for an organisation. Therefore, the system can be seen as a tool to rationalise spending and improve organisational performance.

Another respondent stated that:

*“Some managers do not believe in the appraisal process, they delegate their deputies to perform the evaluation, and this reflects their view of the process, considering it a waste of time. They believe it is useless. They just focus their attention on the attendance and public appearance.”*

It can be concluded from the respondent's comment that managers view annual staff reviews as a useless and inconvenient process and do not take it seriously, although it is the main component of the system. The reasons seem to be that the process is too traditional and makes no contribution to improving performance and productivity. This is what makes line managers consider it a waste of time. Performance appraisal is a tool for communicating expectations and determining staff performance, and subsequently rewarding them according to their contribution (Rubin and Edwards, 2018). The full participation of line managers in staff evaluation is critical in ensuring the success of PRP.

Overlooking the importance of the performance review process will trigger problems of fairness, which is a cornerstone in the success of the PRP system. To ensure fairness, the performance review process should be designed objectively so that it reflects true levels of employee performance; without this, it is impossible to make any positive changes (Hartmann and Slapnicar, 2012). Furthermore, the appraisal process should be seen as a corrective measure that helps improve staff performance, attitudes and motivation.

The statement shown in Table 5.2 seeks to determine the extent to which participants believed that good work would be ultimately rewarded.

### 5.3.2 PRP and Employees' Expectations

Table 5.2: Performance pay means good work is rewarded

#### **Performance pay in my organisation means good work is eventually rewarded**

| %                     | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|-----------------------|-------------------|----------|---------|-------|----------------|
| Organisation A (N=52) | 0                 | 6        | 14      | 71    | 10             |
| Organisation B (N=53) | 2                 | 4        | 21      | 60    | 13             |
| Organisation C (N=49) | 14                | 16       | 31      | 29    | 10             |
| Organisation D (N=57) | 39                | 11       | 21      | 16    | 14             |

#### **Organisation A**

The statement in Table 5.2 aims to measure employees' perceptions and expectations of performance pay. The statement is linked to an essential element of expectancy theory which suggests that individuals are motivated to perform better if they believe that the results of their efforts will be valuable to them (Fudge and Schlacter, 1999). Interestingly, in Organisation A the overwhelming majority of participants showed positive expectations, with the majority agreeing that good performance would be rewarded. As shown in Table 5.2, more than 80% of the participants agreed with the statement, while almost 14% showed neutrality, with 6% expressing their disagreement.

The results seem to support the ideas behind introducing the performance pay system, suggesting that the introduction of the system helps to align the interests of the organisation and those of employees, improves performance, enhances job satisfaction, and creates a sense of belonging and commitment among staff (Heywood and Wei, 2006). According to expectancy theory, employees will strive to make a great effort because they believe that this will eventually lead to the desired outcome (Isaac, Zerbe and Pitt, 2001). It can be concluded that employees' positive expectations will lead to the successful accomplishment of tasks and good performance, while the absence of positive expectations may have negative consequences on performance.

The information on employees' expectations was also extracted from interviews, with one participant making a clear statement in this regard:

*“It’s important when introducing a performance pay system to ensure that the system is sufficient to meet employees' expectations, and it is important for the employees to understand the system. I think the line manager has a role to play in this...”*

The respondent seems to point to the importance of ensuring that the performance pay system is capable of meeting employees' expectations (Kessler and Purcell, 1992), and emphasises the role of line managers as a key to maintaining employees' expectations, and making the system visible to them. Line managers are considered to be the greatest assets of any organisation, and delegation of authority allows them to perform their role more efficiently (Anwaar, Nadeem and Hassan, 2016). However, not all managers are alike; in fact, their effectiveness depends largely on their awareness, skills and qualification (Van Waeyenberg and Decramer, 2018).

This indicates the importance of the line manager role, in the sense of being closer to their employees and knowing what motivates them. However, some studies indicate that line managers are the weakest link in the application of the system (Hendry, Bradley and Perkins, 1997), which may be due to many factors, most notably non-delegation of authority, lack of skills, and poor policies and measures.

Another respondent made a critical comment in this context:

*“Sometimes it is difficult to know your employees' preferences, so to avoid disappointments, the reward process, evaluation measures, and the outcomes*

*should be as clear as possible to employees. Otherwise, disappointment can make staff sceptical about the system and not trust it”.*

This comment highlights an important aspect in this context. The respondent seems to point out the importance of avoiding staff disappointment, as this may lead to distrust of the system, and suggest that making the process as clear as possible will avoid disappointment. Expectancy theory has been addressed in different contexts, but has not been able to escape criticism (Snead and Harrell, 1994). The theory assumes that the behaviour and performance of employees is the result of their expectations. This respondent indicates that staff expectations may depend either on their understanding of the system or the messages they receive from their managers. However, staff expectations based on a clear understanding of how the system works are more effective and help avoid staff disappointment.

Another respondent commented that:

*“I don't know what employees expect, it's just an abstract thing, but I'm sure that if you have an appropriated performance system, where each process is identified, and your staff clearly understand how it works, then there is nothing to worry about, because staff will build their expectations according to how the system works. Here is where the system will show its strength and effectiveness”.*

The respondent appears to confirm the importance of making the performance pay process visible and clear to employees, as this helps to eliminate misunderstanding (Heery, 1996). Moreover, he seems to suggest that if the system is designed systematically and objectively and is clear to employees, then their expectations will not go beyond what the system can

provide. This seems to be very logical, because it keeps employees' expectations within reasonable limits and free from exaggeration.

## **Organisation B**

Table 5.2 also presents employees' expectations in Organisation B, and how they perceive the outcome if they perform well. A significant convergence of results can be observed between Organisation A and Organisation B. This may be due to the fact that Organisation A has a 30% share in Organisation B, and the fact that performance pay system used in the Organisation B is derived from that of Organisation A. The total number of respondents in Organisation B was 53, with 73% of them agreeing that performance pay in their organisation meant that good work was eventually rewarded. 21% of the respondents expressed neutrality, with 6% expressing their disagreement with the statement, which represents just three employees. It should be noted that the results are very close to the results of Organisation A.

It can be concluded from the results that there is a positive perception among the staff towards the performance pay system. This indicates that the system has succeeded in changing the work culture, which is one of the important objectives of introducing performance pay (Kessler and Purcell, 1992). Interestingly, the system used in Organisation B was adapted from that of Organisation A, which could be one of the reasons for its success. However, this may contradict some of the literature, which suggests that the performance pay system should be designed internally according to the environment, culture and privacy of the organisation. What is successful in a particular organisation may not necessarily be successful in another. In fact, success often depends on the environment type of organisation (Jirjahn, 2016). The findings of this study seem to break the rule, because although Organisation A is considered as a global Western organisation with a different culture, yet its

system has had a positive impact on the culture of Organisation B. This indicates the possibility of adapting a system that has proven to be successful.

One of the respondents indicated that:

*“If employees don’t value the reward given to them, what is the point of the reward system? I think employees’ expectations can be invested as a guide to formulate or design a more effective reward system. Of course, the expectations must be realistic and feasible. Our top management welcomes positive changes and constructive suggestions from all functional levels because they don’t believe in a rigid system and that is why our appraisal system was adapted from a global company”.*

An interesting point is made by the respondent above about the importance of staff expectations, questioning the purpose of the system if employees do not value the reward they receive. This emphasises the importance of understanding employee expectations (Kessler and Purcell, 1992), as expectancy theory suggests that if employees believe that certain behaviour will certainly lead to a certain outcome, but the outcome is worthless to them, they will not have the motivation to follow that behaviour (SUCIU et al., 2013).

Another respondent confirmed this by stating that:

*“I think the international touch in our reward program is what makes it a successful one. As you know, the current system was adapted from (Organisation A)”.*

The respondent indicates that the performance pay system that they use was designed by a global organisation that holds almost 30% of the company’s shares. He seems to attribute the

success of the performance pay system in his organisation to the fact that it has the character of a Western global company. This suggests that the performance pay system can be imported and adapted according to the organisational culture.

Another respondent made an interesting remark:

*“The company offers valuable rewards that ensure employees are always kept motivated”.*

He appears to be referring to the company's keenness to provide rewards that ensure employees stay motivated all the time, which is in line with what is proposed by expectancy theory, that employees will make their greatest effort if they believe that their performance will produce desirable outcomes (Isaac, 2001). This seems to help cultivate the right culture and align staff attitudes and organisational goals.

### **Organisation C**

The results in Table 5.2 indicate that 39% of employees in Organisation C felt that good work would be rewarded, while 30% expressed their neutrality. On the other hand, about 31% of the participants expressed their disagreement or strong disagreement with the statement. It is notable that there is a significant split between the views in Organisation C. It seems that staff are not always the best judges of their own behaviour or even motivation (Marsden and Richardson, 1994). Overall, the results from Organisation C show that the majority of the staff either did not agree or refrained from determining their position and chose neutrality. These results are unlike those found in organisations A and B, with similar views among the staff. It can be concluded from the results that there is a problem with the mechanism of how the system works, which adversely affects employees' expectations, thus creating a negative perception. As suggested by expectancy theory, if employees feel that there is no valuable

outcome as a result of their performance, they will have no motivation to put the required effort into the task. This suggests that employees will make their decision in a rational way, based on the available factors that are likely to maximise their benefits.

One of the respondents commented with indignation:

*“The company expects the highest level of productivity and commitment from the employees for what it pays them, and employees also expect a fair return for their efforts. It is an equation that should be balanced. The management should understand this; otherwise, they are going to lose their critical employees. There are attractive opportunities out there and we have already lost good staff”.*

The respondent appears to be pointing to a controversial point, indicating the importance of balancing the expectations of the organisation and staff. Many studies suggest that the organisation often seeks to maximise employee productivity and contributions, while employees expect increased pay when they do increase their contribution (Belcher, 1979).

The comment above also draws attention to the importance of building trust between employer and employee. To ensure mutually beneficial maximisation, the organisation must strive to create a culture of performance pay, so that it develops the perception among staff that the reward depends on the extent of contribution and performance, provided that the system is based on objectivity, transparency, and fairness (Harris, 2001).

Another respondent briefly commented on staff expectations:

*“It is important to maintain employees’ expectation because it keeps them motivated and focused on accomplishing the objectives”.*

This respondent discusses an important issue, which is one of the reasons for the failure of performance pay. He suggests that if employees are rewarded according to their expectations, they will stay motivated and focused on their goals. Often, hard-working staff expect to be paid according to their contribution during the year, and paying them less can lead to their demotivation (Kessler and Purcell, 1992).

Another respondent added:

*“To be frank, there is discontent among many of our staff. I think some managers have failed to convince their staff that good performers will be rewarded according to their contribution. And there are many reasons for that, for example, as managers, we feel that we are not empowered and have no incentive tools. That is why some managers don't care whether their staff are motivated or not; they just want to get the job done. Other managers see it as a process of overwork and a waste of paper”.*

The respondent clearly points to a sense of demotivation among the staff in Organisation C, noting that a lack of empowerment makes managers uninterested in motivating employees and makes them just want to get the job done. The respondent also notes that many managers perceive performance pay system as simply an evaluation process, which is why many problems remain within the system, despite the efforts of those who believe in it and aim to manage it as a systematic process (Armstrong, 1994, in Hendry et al., 2000). Some managers dislike the system and find it imposes extra paper work which wastes their time, which could be spent on more productive tasks (Hendry et al., 2000). These perceptions damage the relationship between line managers and their employees, resulting in disappointments. To overcome these problems, managers must be qualified and well trained (Kessler and Purcell,

1992), because if they do not believe in the system, employees will also not believe in it, as managers are the most influential force and are closest to the staff.

## Organisation D

From Table 5.2, it can be seen that the majority of respondents Organisation D (50%) disagreed with the idea that performance pay in their organisation meant that good work would eventually be rewarded, which reflects the negative perception towards the system. 21% expressed neutrality, while 30% agreed with the statement. The results clearly show that performance pay in Organisation D has failed to achieve what it set out to do, as most of the staff did not agree with the statement. It seems from the results that the majority of employees are not satisfied. The results also correspond to the assumption of expectancy theory, which suggests that if employees do not expect valuable outcomes for their performance, they will not put sufficient effort into performing their tasks. This indicates that effort and goal achievement must be matched with the desired reward (Lawler and Suttle, 1973), so that staff are motivated to produce their best.

One of the respondents noted that:

*“I have good staff in my team with tremendous energy, but as a manager I feel weak, because I have no means that enables me to motivate them, I have to make it clear to them, I know it disappointing, but it's better to be honest. What I can do is just recommend them to the top management and the decision is up to them. I think we need some sort of empowerment and training as well in performance appraisal”.*

This respondent appears to attribute the reasons for the failure of the system to the lack of delegation of authority and provision of training for line management. This indicates the

importance of reviewing line managers' status and providing necessary development in the area of performance pay (Kessler and Purcell, 1992; Armstrong, 2010). It is clear that delegating authority to managers and performance management in the public service remain major challenges (Goodhew, Cammock and Hamilton, 2008). This respondent seems to be trying to communicate with top management, who need to listen to provide the appropriate environment for the culture of performance pay. It can be concluded that managers' sense of not having effective tools to enhance their employees' performance has negative implications on their self-confidence and staff trust in them.

Another respondent commented:

*“I think the real issue lies in the rules and regulations, they are very old, and they need to be reviewed. They should be updatable so that they are in line with the latest changes and challenges. These regulations haven't come from the holy book - they must be flexible so that they serve the work and staff more efficiently”.*

This respondent has raised a very important point, arguing that the system should be flexible and amendable to suit employees' expectations and increase productivity. It should be designed so that it corresponds with the environment and changes in it in order to achieve its objectives. Regulations are important indicators of best practices. It can be concluded that strict and rigid regulations are a stumbling block to effective practice and to achieving the objectives of the system (Armstrong, 2010).

One of the respondents put it as follows:

*“Negative behaviours of employees do not necessarily mean that they have weak or incompetent skills, but disappointment, lack of recognition and*

*appreciation, which makes them feel frustrated and underperform. This leads to negative consequences. Positive behaviour should follow positive results, and vice versa. Unfortunately, management misses this point”.*

Again, this respondent seems to be referring to the issue of balancing performance and reward, which is the core of expectancy theory (Isaac, 2001). He notes that employees' weakness is due to a lack of motivation, suggesting that poor staff performance is not necessarily due to a lack of skills or abilities. In fact, it is due to employees' feelings of demotivation and the failure of the organisation to incentivise them. This confirms what has been argued previously, that good performance must be preceded by employees' expectations of positive results. It can be concluded that the problem in the organisation lies in the absence of positive expectations amongst employees that effective performance will be followed by effective results.

The following two statements in Table 5.3 aim to analyse and understand the employees' views on communication and the goal setting approach in the performance pay system. The relevant management interviews will be analysed and discussed in the light of the literature reviews.

### 5.3.3 PRP and its Impact on Communication

Table 5.3: Performance pay communication and goals

#### Performance pay has improved communication

| %                     | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|-----------------------|-------------------|----------|---------|-------|----------------|
| Organisation A (N=52) | 2                 | 2        | 15      | 73    | 8              |
| Organisation B (N=53) | 6                 | 13       | 19      | 53    | 9              |
| Organisation C (N=49) | 8                 | 18       | 55      | 14    | 4              |
| Organisation D (N=57) | 32                | 16       | 30      | 19    | 4              |

#### Performance pay has made managers set work goals more clearly

| %                     | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|-----------------------|-------------------|----------|---------|-------|----------------|
| Organisation A (N=52) | 2                 | 0        | 14      | 65    | 19             |
| Organisation B (N=53) | 2                 | 11       | 9       | 64    | 13             |
| Organisation C (N=49) | 4                 | 4        | 51      | 38    | 2              |
| Organisation D (N=57) | 33                | 12       | 21      | 26    | 7              |

### Organisation A

Table 5.3 presents the participants' views of communication and the goals set by their managers under performance pay. It is clear that there is a significant convergence between the responses to the two statements, suggesting a positive relationship between communication and goal setting. From the results, it can be concluded that setting clear goals improves communication. The results show that more than 80% of the respondents agreed to both statements. This indicates that the vast majority of employees believed that performance pay had improved communication with their superiors and made their managers set goals more clearly. However, the table also shows that about 15% of the participants expressed neutrality.

On the other hand, less than 4% expressed disagreement with both statements. Studies have previously confirmed that communication has always been a concern for staff, and successful communication maintained by line managers has been found to have a positive impact on performance (De Matteo et al., 1997; Harris, 2001). However, other complementary factors should not be overlooked, such as the clarity of objectives set by the line manager,

continuous constructive feedback, and clarity of evaluation measures (Gomez-Mejia, 1990).

It can be concluded that the performance pay system consists of factors that should be provided to ensure its success.

Information was also extracted from management interviews, with one of the respondents commenting that:

*“Clear and predefined objectives with continuous feedback make your life and your staff’s life easy”.*

The respondent seems to emphasise the importance and benefit of setting clear and previously defined objectives, followed by continuous feedback. This suggests that when employees know exactly what is expected from them, they will be more motivated and focused on achieving what is expected of them. It seems that the ways managers use to communicate with their employees and the way in which the goals are set are the factors that determine the final outcomes (Sagie, 1996). This corresponds to goal setting theory, which is considered to be one of the most important theories in HR literature (Rynes, 2007). Studies have shown that goal setting has a significant impact on staff behaviour, and failure to set clear goals will adversely affect their performance (Locke and Latham, 2004). It can be concluded from the results in Table 5.3 that there is a positive relation between setting clear objectives and quality communication. This suggests that communication style and the way goals are set have an impact on employees’ performance and behaviour (Sagie, 1996).

Another respondent added that:

*“It’s important to discuss goals with your employees before assigning them, considering their abilities to achieve them, because challenging objectives can be stressful and frustrating sometimes, but for some employees, it*

*motivates them, and this shows the quality and capabilities of the employees you have”.*

The respondent seems to suggest that employees have different capabilities and skills and react differently to challenges, stressing the importance of discussing objectives with employees before allocating them in order to ensure their ability to achieve them. Moreover, employees’ involvement in the goal-setting process makes them more determined and motivated to achieve them (Shields, 2007). Furthermore, the respondent indicates that challenging goals were found to be more motivating for some employees rather than easy one (Locke & Latham, 1990; Mento, Locke, & Klein, 1992; Mento, Steel, & Karren, 1987). This helps to demonstrate employees' capabilities and reward them accordingly. It can be concluded that goal setting plays a key role in the performance pay process (Marsden, 2004).

Another respondent commented:

*“I am always keen to communicate with my employees and inform them of the importance of the goals set for them, by explaining to them how their objectives are linked to the ultimate goals of the company, so they can look at the bigger picture and sense the importance of their contribution. And this actually motivates them”.*

The respondent appears to emphasise the importance of maintaining good communication with staff to ensure that they understand their objectives and how these are linked to the organisation's ultimate goals. Furthermore, the respondent suggests that an understanding of the relationship between staff objectives and ultimate organisational goals stimulates staff and gives them a sense of the importance of their contribution, which in turn motivates them.

From the above comment, it can be concluded that communication and goal clarification are factors that positively affect employee performance (De Matteo et al., 1997).

## **Organisation B**

Table 5.3 again reflects the positive view of participants from Organisation B, indicating general satisfaction with communication and the objectives set. The table shows that 60-70% of participants agreed with both statements, which suggests that the system has effectively contributed to promoting effective communication between staff and their managers, as well as in setting clear objectives. Less than 20% of participants expressed neutrality, while 18% or less expressed disagreement with both statements. The results are positive and reflect participants' satisfaction, and they are close to the results from the previous case.

These results are in line with what was found in the literature review, which suggested that any goal ambiguity distorted the relations between managers and their employees, which negatively affect the communication between them. However, clarity of objectives and continuous feedback have positive effects on the relationship (Harris, 2001). Feedback is part of communication, and it is an important element as it provides guidance and allows the sharing of knowledge and experience among both managers and their employees or among employees themselves.

Information was also sought from management interviews, with one of the respondents stating that:

*“At the beginning of the year, I sit with my staff and agree on certain goals, trying to engage my staff in setting their goals, and keeping in mind SMART objectives. Some changes may occur during the appraisal period, which is*

*why constant feedback is important to keep staff on track. I can say that this approach has proved to be effective”.*

It is very important that objectives are addressed clearly with employees to reduce ambiguity, and that employees are continuously monitored (Armstrong, 2010). The term ‘goal’ is often associated with a specific time frame in which a particular task should be performed efficiently (Locke and Latham, 1990). The respondent indicates the importance of linking goals to so-called ‘SMART’ objectives, which is an acronym for Specific, Measurable, Attainable, Relevant and Time-related. The respondent appears to indicate that SMART criteria can help achieve goals more efficiently, since they allow for monitoring of staff progress and help staff to focus on the outcomes. The respondent also notes the importance of engaging employees in setting their goals, as studies have shown that involving employees in the process increases their commitment and enhances their performance (Erez, 1986).

Another respondent suggested that:

*“Establishing clear objectives is a roadmap for the employee, and even for me as a manager; it helps track employees and provides useful feedback, even in terms of annual appraisal it helps to evaluate staff more objectively”.*

It seems that this respondent also emphasises the same idea, pointing out that setting clear goals is a road map for employees. He has also adds that setting clear goals makes it easier for line managers to direct their employees and evaluate their performance more objectively. This again seems to emphasise the need to set clear goals for employees because of their importance and benefits (Mueller-Hanson and Pulakos, 2015) in terms of focusing on organisational objectives and in evaluating staff more objectively.

Another respondent felt that:

*“Setting objectives helps link employees' tasks to the ultimate goals of the company. Plus, it helps to link employees' achievements to the payment plan and bonuses, and thus helps in taking appropriate decisions. And even with respect to training and development, setting objectives helps me as a manager to figure out what training employees need”.*

The respondent explains how clear goals help in making fair decisions by linking employees' achievements to the organisation's goals. He seems to indicate that setting goals helps in evaluating performance through assessing the extent to which individuals succeed in achieving the goals assigned to them. He suggests that it also helps to make decisions about rewarding, training and development needs. The respondent appears to be referring to the effectiveness of goal setting, regardless of whether the assessment is negative or positive (Locke and Latham, 1990), as it ultimately reflects the employee's strengths and weaknesses. These assists management in making appropriate decisions related to employees' rewards or development and training.

### **Organisation C**

Organisation C seems to have different perspectives from Organisations A and B.

Participants from the organisation seem to be uncertain about or unhappy with the two statements made in Table 5.3, which suggests that the communication and goal setting in the current performance pay system is not working as well as it should. About 55% of the participants expressed their neutrality to both statements. At the same time, 26% disagreed with the first statement, that performance pay had improved communication, while only 8 % disagreed with the second statement, that managers set clear goals under the system.

However, a large minority of 18% agreed with the first statement, whereas 40 % agreed with the second. These results indicate that there is a problem with communication and setting of

objectives in this organisation. This goes against the literature review findings, which confirm that setting clear goals and communication are powerful tools for delivering organisational values and sending messages of expected behaviour to employees (Harris, 2001).

Some comments were extracted from the management interviews in this regard, with one of the respondents commenting that:

*“There is an issue when assigning objectives to employees; it seems to me it's a question of trust. When assigning objectives, some employees will confirm their ability to do them, then suddenly halfway through the appraisal period or before the delivery you will be surprised that some of them have been unable to accomplish their objectives. One employee revealed that he was concerned about his annual assessment, which is why he was fearful to reveal his weaknesses and inability to accomplish his tasks. It appears that some employees are afraid to admit their inability or weaknesses because they fear that it will affect their appraisal and rewards”.*

The respondent seems to illustrate a real-life scenario that he has experienced, suggesting that there is some kind of mistrust between certain employees and their managers. This draws attention to a very important point that goal setting does not necessarily motivate staff, and in fact it can demotivate them, especially if there is mistrust between staff and their manager, or even when staff are sceptical about the system, which will make them hesitant and reluctant to reveal whether they are able to achieve the goals assigned to them. Staff who do not accept their assigned goals or do not feel confident in them will never adhere to them (Sue-Chan and Ong, 2002, in Shields, 2007).

Another respondent commented that:

*“Assigning employees clear objectives is not enough; in fact, elements of communication and feedback are absolutely necessary. Sometimes management loses insight into linking desirable objectives with something equivalent or valuable in exchange for employees’ performance and achievements in order to motivate them and push them, especially if the objective assigned is a challenging one”.*

The respondent appears to be pointing to the failure of management to link certain goals to desirable rewards. The theory of goal setting has proved to be one of the most influential theories in motivation (Locke and Latham, 2004); however, if employees are not rewarded for achieving their goals, they may be tempted to ignore the performance necessary to achieve them. In addition, the literature review showed that rewarding employees for achieving goals increases their commitment to future goals. This indicates the need to integrate and link objectives and rewards to ensure desirable and sustainable employee performance (Locke and Latham, 1990; Locke, 2009; Bipp and Kleingeld, 2011).

## **Organisation D**

Table 5.3 shows that 45% of the participants from Organisation D disagreed with both statements, which indicates that there might be a serious issue with the performance pay system adopted in the organisation. Around 30% were neutral towards the first statement and 21% were neutral towards the second. Less than a third of employees agreed with both statements. This is the same issue faced by Organisation C. There seems to be a certain discontent among employees over the process of goal setting and communication, despite the emphasis on the importance of setting goals and maintaining communication as key elements in improving performance.

One of the respondents commented:

*“To be frank with you, we need to restructure the entire system. We need to systematically link the reward system and the appraisal system. Everything that employees do is difficult to measure, that's why we struggle when we do the appraisal. The process is highly subjective. Even the employees don't believe in it. They know it's just a routine to please the top management”.*

The respondent seems to express his deep disappointment in the current performance system, stating that it is very subjective, which makes it very difficult to measure an individual's performance. This again brings up issues of staff fairness and demotivation. It seems that in the current situation it is difficult to achieve the objectives of the system, especially in the absence of the essential elements of system success, such as clarity of staff tasks and duties, so that goals can be set (Hollensbe and Guthrie, 2000). As the respondent points out, the whole system needs to be restructured. It seems that the success of performance pay cannot be achieved, especially in the absence of a systematic goal-setting approach (Locke, Latham and Erez, 1988) linking it to rewards.

Another respondent commented:

*“There is no clear and systematic mechanism of assigning goals, as employees' job descriptions are very generic in identifying clear tasks and goals. And this confuses the staff because tasks are assigned to them randomly”.*

The respondent again points out the importance of clear and specific goals. He seems to suggest that there is a problem in defining clear tasks and objectives, which makes the work unorganised and random. This contradicts what was found in the literature review, that the

desired performance is derived from clear objectives set for employees (Locke, 1968). It was also found that goals influence performance by directing employees' attention to developing effective strategies to achieve the goals (Locke et al., 1981, in Hollensbe and Guthrie, 2000).

The following statement seeks to determine the extent to which performance pay makes employees willing to cooperate with management. The relevant management interviews will be analysed and discussed in the light of the literature reviews.

### 5.3.4 PRP and its effect on enhancing cooperation

Table 5.4: Performance pay improves cooperate with management

| <b>Performance pay has made me more willing to cooperate with management</b> |                          |                 |                |              |                       |
|--|--------------------------|-----------------|----------------|--------------|-----------------------|
| <b>%</b>   | <b>Strongly Disagree</b> | <b>Disagree</b> | <b>Neutral</b> | <b>Agree</b> | <b>Strongly Agree</b> |
| Organisation A (N=52)  | 2                        | 2               | 15             | 69           | 12                    |
| Organisation B (N=53)  | 8                        | 13              | 15             | 55           | 9                     |
| Organisation C (N=49)  | 4                        | 16              | 53             | 16           | 10                    |
| Organisation D (N=57)  | 26                       | 9               | 19             | 37           | 9                     |

#### **Organisation A**

In Table 5.4, it can be noted that Organisation A reflects a positive attitude towards the pay system. The results show that more than 80% of the participants agreed that the system made them more willing to cooperate with the administration, while 15% showed neutrality, and only 4% disagreed with the statement. This reflects the effectiveness of the performance pay system applied. The results from Organisation A support the findings from the literature, suggesting that human resource practices alone are not sufficient to achieve desired staff performance, and that in fact effective incentives are needed (Perez Lopez, Montes Peon and Vazquez Ordas, 2005).

In the interviews with management, one of the respondents commented that:

*“If staff feel they are fairly rewarded, they will automatically be cooperative, and vice versa”.*

This respondent appears to be linking fairness and cooperation as complementary elements, which seems very logical. Studies have also revealed a positive and significant relationship between incentives and employee commitment (Saleem, 2011).

### **Organisation B**

The results in Table 5.4 again show that the majority of participants from Organisation B agreed that performance pay had made them more willing to cooperate with management. 64% have expressed their agreement with the statement, while 15% preferred neutrality. However, 21% disagreed with the statement. These results appear to be consistent with what was found in Organisation A, indicating that the current system in Organisation B is effective and satisfactory.

One of the respondents stated that:

*“One of the reasons for having a reward system is to influence employee behaviour and performance in a positive way”.*

This confirms the notion that if incentives do not recognise employees' cooperation, their outcomes are often undesirable, while incentives that do value such cooperation produce better results (Wageman and Baker, 1997).

### **Organisation C**

As shown in Table 5.4, a clear majority of respondents from Organisation C expressed neutrality, at 53%, while only 26% agreed with the statement. On the other hand, 20% of the

respondents did not agree with the statement. These results are inconsistent with what was found in the previous cases, suggesting that there may be an imbalance in the application of the performance pay system in Organisation C. This also suggests that organisational productivity and performance can be adversely affected if staff are not cooperating. However, incentives were found to have the ability to promote cooperation and commitment (Pendleton and Robinson, 2017).

One of the respondents commented:

*“The culture of cooperation should be part of the appraisal system, so that employees have a motive to adopt this culture”.*

It can be concluded from this comment that the appraisal system can serve as a tool to promote a culture of cooperation among staff, by recognising and motivating those who comply with the organisation's culture.

## **Organisation D**

Table 5.4 also shows a clear division among the respondents' views in Organisation D, as the results show that less than half, 46%, did not agree with the statement that performance pay had made them more willing to cooperate with management. The views of the other respondents were divided between neutrality at 19%, and disagreement at 35%. These results contradict the findings from the literature, as studies suggest that there is a correlation between performance pay and staff cooperation (Burks, Carpenter and Goette, 2009). However, the failure may be due to how the system works and is applied. The nature of the quantitative approach makes it more difficult to justify the results in a more in-depth manner.

One of the interviewees commented:

*“If you want to influence a certain behaviour in any organisation, there must be a clear principle of reward and punishment. Unfortunately, that's what we lack...”*

This respondent seems to hint at the same point previously mentioned by one of the respondents in Organisation C, suggesting the importance of having a tool such as an appraisal/performance pay system to enhance staff collaboration.

The following statements in Table 5.5 seek to measure the impact of the performance pay system on employees' initiatives and productivity and the extent to which the system inspires the best in them. The relevant management interviews will be analysed and discussed in light of the literature reviews.

### 5.3.5 PRP and its effect on enhancing motivation

Table 5.5: Performance pay and initiative, productivity and inspiration

#### **Performance pay has made me want to show more initiative in my job**

| %                     | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|-----------------------|-------------------|----------|---------|-------|----------------|
| Organisation A (N=52) | 2                 | 2        | 10      | 81    | 6              |
| Organisation B (N=53) | 2                 | 4        | 9       | 66    | 19             |
| Organisation C (N=49) | 4                 | 10       | 27      | 55    | 4              |
| Organisation D (N=57) | 28                | 12       | 19      | 26    | 14             |

#### **Performance pay has helped to increase my productivity**

| %                     | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|-----------------------|-------------------|----------|---------|-------|----------------|
| Organisation A (N=52) | 2                 | 2        | 6       | 87    | 4              |
| Organisation B (N=53) | 2                 | 2        | 13      | 62    | 21             |
| Organisation C (N=49) | 4                 | 6        | 27      | 57    | 6              |
| Organisation D (N=57) | 35                | 9        | 16      | 25    | 16             |

#### **Performance pay inspires the very best in me**

| %                     | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|-----------------------|-------------------|----------|---------|-------|----------------|
| Organisation A (N=52) | 2                 | 0        | 23      | 67    | 8              |
| Organisation B (N=53) | 0                 | 6        | 13      | 62    | 19             |
| Organisation C (N=49) | 4                 | 6        | 45      | 41    | 4              |
| Organisation D (N=57) | 28                | 12       | 16      | 32    | 12             |

## Organisation A

Table 5.5 provides participants' perspective on the impact of performance pay on their initiative, productivity and inspiration. In Organisation A, it is clearly shown that the vast majority of participants agreed that performance pay had a significant impact on their work, with between 75% and 90% agreeing with the statements. The remainder were divided between rejecters and neutralists. These results seem to comply with objectives of introducing pay-related performance systems, which mostly result in high performance.

One of the respondents commented:

*“Not linking performance to pay makes no sense and it's unmeaningful. I think the idea of performance pay was introduced to consolidate the idea that hard workers will be rewarded based on their delivery and performance. Therefore, we can notice that our employees are happy with the current situation, and they are satisfied with the pay they receive for their performance. Of course, we cannot reward everyone, but we focus on good performers, and this is what is supposed to happen. Employees can see the carrot, and this is what drives them to seek it”.*

The respondent added:

*“In my view, performance pay is like a sword with two edges. If it's properly implemented, it will help the organisation improve its performance, but if it's not properly applied, it will result in demotivating the staff, which will adversely affect the performance of the organisation”.*

The respondent suggested that the system can have positive or negative effects, depending on how well it is designed and implemented to benefit both employers and employees. In 44 studies on the adoption of incentives examined by Locke et al. (1980), it was found that incentive systems had a significant impact on staff performance. Marsden (2004) found that performance pay systems are a very influential tool in improving performance, and that line managers play a crucial role in the success of these systems. This suggests that managers should be well trained; otherwise, there will be flaws in staff assessment and appraisal (Kessler and Purcell, 1992), and therefore the outcome of performance pay will not be as desired. This is in line with the literature, as empirical studies have found that effective pay policies increase worker performance and enhance the productivity of low-skilled employees (Lazear, 2000; Franceschelli, Galiani and Gulmez, 2010).

Another respondent commented:

*“It [performance pay] is a good governance system, plus it creates a perception amongst staff that hard workers and good performers will be recognised, and that everyone is appreciated according to his/her efforts and contributions”.*

The respondent states that the system is important for recognising and rewarding hard workers in order to motivate them and increase their performance. He points out that the performance pay system creates a culture in which employees are recognised based on their contribution. This idea seems to correspond with the literature, which suggested that promoting culture is one of the main reasons for introducing performance pay systems, as it believed that linking performance with compensation enhances performance and increases productivity (Lemieux, MacLeod and Parent, 2009).

Another interviewee pointed out that:

*“Performance pay in the organisation helps identify people with the best performance, average performance and low performance, which in the end shapes a nice bell curve. The objective is that top performers are rewarded as per their performance, that middle performers are pushed to become top performers, and those with lower performance are assisted in many ways such as training and education so that they rise to the level of middle performance and then they can grow as they go on”.*

The respondent seems to point to the importance of performance pay in helping line managers determine the different levels of staff performance, so that those who perform better will be rewarded according to their achievements. Moreover, those with average performance will be pushed to the higher levels of performance, while on the other hand the respondent indicated that low-performing staff should be supported through training and education. The company seems to be seeking to boost its staff performance and motivate them in various ways. This reflects the point of view in the literature as suggested by human capital theory, that investment in human resources increases productivity and the ability of workers to deal with complex tasks (Spence, 1978).

Another respondent commented:

*“Unless pay is linked to performance employees will not value the importance of the objectives assigned to them, and they will not feel motivated. It makes no sense that high-productive employees who work hard are treated the same as low-performing employees”.*

If employees are making an effort and performing well, but the pay they receive in return is low and so does not make any difference, the employee will certainly feel disappointed and demotivated (Kessler and Purcell, 1992). This respondent also seems to warn of the consequences of treating good performers and underperformers equally, as this will demotivate those with high performance.

Another respondent added:

*“If you compare the company before and now, you can see the difference in the pay and the appraisal process. There is always a change for the better, to update ourselves on whatever is new in the market, to make sure we have the right competencies and the right talents, and that we are rewarding them accordingly, and according to what they deliver”.*

This comment appears to be consistent with the questionnaire results in Table 5.5. It explains how Organisation A is flexible in the process of continuous improvement and development to ensure that its qualified and talented staff are retained. Performance pay was found to have great ability to attract outstanding workers willing to make a great effort at work (Booth and Frank, 1999). However, the success of the system depends on its application approach. Continuous improvement of the system is required so that it is more in line with individual preferences. However, this is contrary to many companies that use performance pay in a very traditional way, which may be one of the reasons for failure.

## **Organisation B**

Table 5.5 also shows that a clear majority of participants from Organisation B agreed that performance pay had a positive impact on their productivity and initiative. Less than 13% were neutral, while a very small percentage (less than 6%) of participants disagreed with the

statements in the table. There appears to be a significant convergence of results with Organisation A, despite the different nature and culture of the two organisations.

One of the respondents commented:

*“The reward system has helped steer staff efforts in the right direction and create the perception that highly productive staff will be recognised by the company”.*

The respondent states that performance pay has positively benefited employees and has also succeeded in creating the perception among them that their efforts will be recognised by the company. This confirms what is suggested by expectation theory, that employees should perceive that their favourable performance will result in desirable outcomes (Vroom, 1964). Studies have shown that performance pay systems can stimulate performance and attract outstanding employees (Frey, Homberg and Osterloh, 2013). There is also evidence that PRP can influence employee behaviour; however, there are no clear standards or criteria on how this can happen.

Another respondent commented:

*“I think the rewards associated with staff tasks and objectives are the most influential; they make the employee more willing to show initiative and be cooperative”.*

The respondent indicates that the workers' cooperation and initiative are determined by the rewards associated with the tasks or objectives assigned to them. Some studies have confirmed that the cooperation, initiative and productivity of highly skilled workers increase with performance pay status. Despite that, some other studies have suggested that

productivity and cooperation may decline in low-skilled staff in a performance pay regime. However, psychologists and sociologists unanimously agree that pay is the determining factor in workers' cooperation, initiative, and productivity (Kennedy, 1995).

*“As management, we believe that it is our responsibility to ensure that good performers are recognised and appreciated according to their contribution”*

This respondent seems to emphasise the role of management in motivating staff who deserve it. This reflects management's sense of responsibility towards staff. However, in certain circumstances, performance pay can lead to negative results (Frey, Homberg and Osterloh, 2013). Kennedy's (1995) study concluded that performance pay may undermine the morale of less-skilled workers and thus reduce their productivity. However, it was found that performance pay increases the productivity of highly skilled staff. Therefore, incentives should not only be directed towards highly skilled staff, but should also include low-skilled staff, with a focus on providing the necessary support to improve their skills.

*“Not all employees are the same; good performers have to be given what they deserve to maintain their morale and make them sense the privilege of being distinct. Yes, because at the end of the day, the tasks that the employees are performing directly contribute to the performance of the company”.*

There seems to be an agreement that can be drawn from the interviewees' responses in Organisation B, that good performers must be rewarded according to their productivity. This reflects management's belief in the importance of performance pay as a tool to motivate employees and increase their productivity.

## Organisation C

Table 5.5 shows that the majority of employees in Organisation C agreed that the performance pay system had increased their initiative and productivity. Whereas, the rest of the participants' opinions ranged between neutrality and disagreement. This reflects a kind of uncertainty about the effectiveness of the system.

Information was also gathered from interviews, with one of the respondents in Organisation C commenting:

*“So far, the system is doing a good job, but we need to clarify some points to achieve more productivity; there should be clear indications of what is expected from employees to avoid ambiguity...”*

This comment suggests that there is a degree of satisfaction with the current situation. However, the respondent hints at the existence of some sort of ambiguity among employees, which could be over what is expected from them. The respondent seems to emphasise the importance of establishing clear indications of work expectation, which is assumed will increase employees' productivity and avoid a lack of clarity. Studies have found that ambiguity and unclearly defined work expectations lead to a reduction in employees' performance, and thus negatively affects their productivity (Gomez-Mejia, 1990). For example, if line managers do not share their perceptions of goals with their employees, the employees might not be very enthusiastic and optimistic about the outcomes. Therefore, if the goals are not achieved due to inadequate assessment of work expectations, employees might feel very demotivated. This will be even worse if employees are not assessed according to expectations. This can also adversely affect employees' future performance, which suggests

that performance pay has a positive impact on staff performance when job responsibilities are less ambiguous (Perry, Engbers and Jun, 2009).

Another respondent added:

*“A clear evaluation mechanism has to be established to evaluate employees, and employees have to know the criteria on which they are being evaluated and how their performance pay is determined”.*

This comment appears to be consistent with the previous one, in which the respondent refers to the issue of clarity and its importance, as it has some negative consequences which may sometimes lead to the loss of talented employees.

The performance pay system will succeed if correct messages are sent out and well understood by staff, but if a wrong message is sent, this can lead to risks (Kessler and Purcell, 1992). The organisation could lose talented employees or they could be demotivated.

Another respondent commented:

*“Sometimes there are employees who are entitled to get, for example, 90% of their salary as a bonus for their productivity, but when it goes to the board for approval, they reduce it to 20%; this fires back to the employees and they start to argue, this is what makes it not very objective”.*

The respondent seems to be referring to a very sensitive issue, which could adversely affect the trust of managers and staff in the performance pay system. He points to the contradiction between top management and line management decisions, which may complicate the relationship between line managers and their staff. This suggests that if staff reactions are not considered, it is unlikely that the main goal of the system will be achieved, namely

performance improvement. Moreover, this can undermine employees' trust in their managers, as well as in the performance pay system.

## Organisation D

Table 5.5 shows equal results among those in Organisation D who agreed and disagreed with the statement that suggests performance pay had made them want to show more initiative. 19% expressed their neutrality, whereas the majority of staff (44%) did not agree with the statement that suggested performance pay has improved their productivity. 16% expressed their neutrality on this statement, while 41% agreed with it. There seems to be a clear division between the staff. The main objective of performance pay is to raise productivity and improve performance. It can be concluded from the results of the productivity statement that the performance pay system in Organisation D has not met its main objective, which indicates that there is a problem in the implementation of policies or measures, or other problems preventing the system from succeeding.

Comments were gathered from management interviews, with one of the respondents commenting:

*“Simply, the problem is that there are no clear goals assigned to employees so that they can be evaluated accordingly. That is why the current system is very subjective”.*

The respondent appears to be pointing to the ineffectiveness of the measures used in Organisation D, drawing attention to an important factor that seems to be neglected by management, which is setting clear objectives for employees. The respondent wonders how employees' performance and productivity can be measured and evaluated objectively in the

absence of clear objectives and criteria, which are supposed to be assigned to employees and considered as a benchmark for their appraisal.

The literature shows that managing employees' performance requires measurable goals so that the appraisal procedures are valid and objective. Studies have concluded that setting goals for employees leads to improving their performance, since goal setting helps to draw attention to what should be achieved. The element of goal setting plays a key role in increasing employees' productivity and also in the performance pay process (Marsden, 2004).

However, if the goal setting tool is not used systematically and correctly, it can lead to undesirable consequences. Some believe that there is integration between performance pay and goal setting, as performance pay helps employees focus on their goals. However, some suggest that goals that focus on the quantity of outputs can lead to low-quality outputs. Moreover, there is an excessive risk exposure if the goals are very ambitious. Situational factors were found to act as a moderator in their effect on performance goals (Latham, Borgogni and Petitta, 2008), which may suggest that setting goals in the public service situation can be a powerful instrument in improving performance.

One of the respondents also suggested:

*“Employees know that even if they put a lot of effort into their work, they will eventually be treated on an equal footing with poor employees”.*

These results indicate that the performance pay system has no significant impact on employees. The respondent appears to point to the negative perception employees have, which suggests that they are not motivated enough to do their work effectively. This shows that the use of performance pay in the government sector is more problematic and faces many challenges compared to the private sector. However, there is little evidence to believe that the

system is ineffective in the public sector (Burgess and Ratto, 2003). One of the key objectives when introducing the system is to increase productivity and improve the overall performance of the organisation (O'Halloran, 2012). Organisation D seems to have missed this point, which could be one of the reasons why the system has not succeeded.

Another respondent suggested:

*“I believe that under the current situation, we cannot make any progress. If we want to improve and increase productivity, we should begin reviewing employees' job description cards so that we can evaluate them based on clear duties and tasks, and then we can reward them accordingly”.*

The respondent appears to indicate that the current job description does not clearly clarify employees' functions and responsibilities, making it difficult for management to assess them. The literature has also revealed that unclear goals and multiple tasks make it difficult to define and measure output (Burgess and Ratto, 2003).

#### **5.4 Fairness**

Fairness is one of the topics discussed extensively in the literature, which suggests that it is one of the key elements in the performance pay system in terms of evaluation processes, procedures and measures, decision-making and distribution of rewards. It is believed that a performance pay system that lacks fairness is very unlikely to achieve what it is supposed to achieve. Fairness can be said to depend on what employees consider to be fair. Standards, procedures, and distribution of the reward system may seem fair, but that does not mean they are in fact fair in reality, simply because employees do not perceive them to be fair. It is essential to keep in mind that employees' perception of fairness is key to the success of performance pay systems.

Therefore, fairness may seem to be very subjective if it is considered to be dependent on staff perceptions. These perceptions may vary from one employee to another, meaning that what is fair for some employees may be seen by others to be unfair, which is where the real challenges lie. By reviewing the concepts of fairness and expectancy theory, it can be argued that there is a relationship between the two concepts in terms of operating performance pay systems. Looking at the principles of expectancy theory, which indicates that employees will show a high degree of motivation if they expect that their final performance will lead to the desired result (the reward), so the point here is that the fairness for them is the value of the reward for the performance that they put.

However, if staff expectations are negative due to uncertainty or hesitation about the fairness of the system, it is obvious that this will lead to a lowering of their level of motivation. It is therefore possible to conclude that there is a relationship between fairness and expectancy theory. It can be inferred from the above that staff expectations about the outcomes of their performance are influenced by their perceptions of fairness in their organisation. Therefore, it is important for employees to feel that they are treated fairly in every aspect of expectancy theory in order to achieve positive performance pay system results.

Employees' perceptions of fairness are often influenced by the nature of their relationships with their direct managers. When staff perceive their line managers to be fair, they will be eager to make positive efforts and strive to achieve the desired performance, and they will also be more enthusiastic for rewards. It can be argued that the staff evaluation mechanism in the performance pay system is one of the most important determinants that can define staff attitudes towards fairness.

There are many other interrelated factors that affect employees' perception of fairness, such as line managers' eligibility; communication between staff and their line managers; the ability

of employees to negotiate and challenge the outcome of their evaluations; and the extent to which line managers understand the nature of their employees' work. These factors seem to influence employees' perception of fairness, given that some findings from the literature reviews indicate that staff will be more motivated, and more willing to work hard and put more effort into work, if they consider the evaluation and reward process to be fair.

It can be concluded that most of the fairness concerns are related to interpersonal aspects, such as relationships, communication and line managers' effectiveness. Moreover, another important concern is procedural matters, or the way in which the system is operationalised, such as evaluation processes, which reflect how outcomes are decided and the fairness of the rewards. This refers to two important issues regarding the fairness of the performance pay system, namely interpersonal and procedural issues.

With regard to interpersonal issues, or the relationship between management and staff, there are many factors that fall into this aspect. It can be claimed that management influence, which is often represented by managers' ability and eligibility to manage their employees, is one of the determining factors in shaping employees' perceptions of fairness. In other words, line managers understand the roles and capabilities of their employees, and have the ability to assess their achievements and contributions, which are also important factors in influencing employees' perceptions. Therefore, it can be derived from what has been discussed that there is a correlation between management style and staff perceptions of fairness. It can also be stated that staff views of management or of their line managers have a significant impact on their perception of fairness.

On the other hand, with regard to procedural fairness, it is believed that the clarity of the procedures and processes followed are the most influential factor in employees' perception of fairness. Fairness in this aspect can be linked to goal setting theory, given that when goals are

clear, specific and measurable, they provide employees with a clear picture of what is expected from them in terms of effort and time. It is therefore clear goals, alongside the clarity of procedures, which give employees a clear understanding of the input required and expected outputs, which also corresponds to what expectancy theory suggests.

This section discusses the topic of fairness by considering the findings from the questionnaires and interviews in the four organisations (A, B, C and D) involved in the research. Each organisation will be discussed separately, starting with Organisation A.

The statement in Table 5.6 seeks to measure participants' views of the performance pay system as a fundamental idea of fairness. The relevant management interviews will be analysed and discussed in light of the literature reviews.

#### 5.4.1 The principle of fairness in PRP

Table 5.6: The idea of performance pay is fundamentally fair

| <b>The idea of performance pay is fundamentally fair</b> |                          |                 |                |              |                       |
|--|--------------------------|-----------------|----------------|--------------|-----------------------|
| <b>%</b>   | <b>Strongly Disagree</b> | <b>Disagree</b> | <b>Neutral</b> | <b>Agree</b> | <b>Strongly Agree</b> |
| Organisation A (N=52)                                    | 0                        | 0               | 8              | 67           | 25                    |
| Organisation B (N=53)                                    | 0                        | 8               | 8              | 68           | 17                    |
| Organisation C (N=49)                                    | 0                        | 0               | 14             | 45           | 41                    |
| Organisation D (N=57)                                    | 0                        | 5               | 14             | 42           | 39                    |

#### **Organisation A**

Table 5.6 shows that the large majority of respondents in Organisation A (92%) agreed or strongly agreed with the idea that performance pay is fundamentally fair, while only 8% chose to be neutral. However, it is interesting that there were no 'disagree' or 'strongly disagree' responses, indicating a general consensus and a positive perception among staff on this matter. Fairness is derived from a normative basis (Greenberg, 2001). Thus, in order to

conclude employees' perception of it, it is necessary to understand the prevailing cultural norms in an organisation. However, it has been suggested that if the traditional view of fairness is retained in a performance pay system, the results will be undesirable (Isaac, 2001).

Comments were also drawn from management interviews, with one interviewee commenting:

*“With regard to fairness, at the beginning of each year, the objectives are set, and based on those objectives, the evaluation and rating are decided. I may be biased as a manager, but there is a panel composed of a group of other managers at the same level of me, and among the panel there must be more than one manager who knows the employees who work under my supervision. So, if I try to be biased, I will be in a very difficult position to justify this. And therefore, to avoid this situation, transparency and trust are very important factors for achieving fairness. I think it’s a very structured process, as it also involves a group of HR members”.*

The respondent appears to indicate that there are strict measures to ensure fairness, pointing out that a panel is appointed to oversee employees' evaluation so that decisions are not limited to one individual. The respondent also stressed the importance of building trust and transparency to avoid bias. This comment appears to be in line with participants' views in the questionnaire. The respondent seems to believe that the process is very well structured, which is why the performance pay system is successful. Some studies have confirmed that the way management exercises influence on an employee's behaviour, and any feeling of unfairness, has a negative impact on staff and the performance pay system (see, for example Isaac, 2001). However, the concept of fairness is not quantifiable, and therefore varies (Marsden and Richardson, 1992) from one country to another and from one organisation to another. Nevertheless, it can be concluded from the above findings that well-organised structures,

controls and processes can have a significant impact on avoiding bias and achieving the highest levels of fairness.

One of the senior HR staff commented:

*“As HR representatives, and as members of the panel who decide staff performance, it is our responsibility to do our utmost to ensure a fair and appropriate system is in place. We don't expect only the line managers to give the outcome of their staff performance, we also expect the outcome from all the stakeholders who work with the employee”.*

The role of HR seems to be a very active one. This can be surmised from the respondent's comment, noting that it is their responsibility to ensure that a fair system in place, as they are part of the committee that determines staff performance. This is in line with what was found in the literature, that HR managers can have a positive impact on a company's performance by supporting and establishing policies and regulatory procedures that motivate workers positively, such as reasonable incentive compensation, rewards and fair grievance procedures (Ferguson and Reio Jr., 2010). This indicates a significant relationship between HR practices and processes and employee performance. However, this depends on the organisational culture and how top management perceives the importance of HR's role.

The respondent points out that to ensure fairness in the performance process, the organisation does not rely on one individual feedback, but is keen to receive responses from several parties, including co-workers. It is important that employees recognise the system to be fair if they are expected to be more committed and improve their performance (Rowland and Hall, 2012).

Another respondent added:

*“When we appraise staff at the end of the year, there will be a panel, not just one person, and the appraisal is based on the staff tasks and targets assigned to them, so it's black and white. Also, we have a system in the company that allows for grievances if an employee feels there has been unfair treatment, so the processes are highly objective”.*

Once again, this respondent confirms the objectivity and fairness of the system, saying that the assessment is based on the goals achieved by the employee, noting also that the company has a grievance system, which allows employees to file a grievance if they believe they have been subject to unfair treatment. Performance appraisal systems sometimes do not lead to accurate evaluations, which may result in conflict, so employees may resort into a grievance process (Stratton, 1988). Some people feel that grievance procedures in companies are often ineffective; however, others believe that they motivate managers to be more aware and accurate in their assessments.

It can be concluded from the findings of the interviews and the questionnaire that there is general satisfaction with the level of fairness achieved by the organisation, which can be attributed to the policies and procedures followed by it.

## **Organisation B**

Table 5.6 shows that a large majority of respondents (86%) perceive the idea of performance pay to be fair. Only 8% are neutral, while interestingly, another 8% disagree. These results appear to be very close to those of Organisation A. There seems to be widespread agreement among the clear majority of participants from Organisations A and B. This suggests that the idea that performance pay is fundamentally fair is very popular. However, the statement does

not reflect the real situation in the organisation, since it is merely a general statement that measures perception rather than reality.

Comments were also gathered from management interviews in this regard. One respondent commented:

*“As a manager, it is not good for me to rate my people lower than they deserve, because that weakens my relationship with them, and it reflects my supervision. So I always try to motivate my staff and convince them objectively, leaving emotions aside, because the appraisal decision is not just in my hands, it is a collective decision taken by the committee in the presence of the HR Officer”.*

The respondent appears to be referring to the importance of evaluating employees according to what they deserve and in an objective manner, away from emotions. He points out that evaluation decisions are not solely in the manager's hands, but that they are a collective decision. These factors cited by the respondent seem to create a fair and motivated environment. Moreover, they appear to be among the basic objectives of performance pay, to ensure the highest levels of objectivity and fairness. It can be concluded from the respondent's comment and the questionnaire results that there is general positive awareness and that the system is moving in the right direction, which justifies its introduction.

Another respondent suggested:

*“The appraisal period is one year; it's a stressful process, because staff performance may fluctuate over time. And it's even more stressful if there are no clear objectives associated with a given timeframe for staff. So to ensure*

*fairness, we always strive to make the whole process as objective as possible and visible to the staff”.*

The respondent seems to raise a question regarding the performance period, noting that staff performance may fluctuate during the year (Wiese and Buckley, 1998), which may cause inaccuracies in their evaluation. The respondent seems to want to say that ensuring fairness is guaranteed as long as there are clear evaluation measures that are visible to employees, and clear objectives associated with the timeframe. However, there is no easy way to define and measure performance (Lazear, 2000), although goals setting and SMART objective criteria seem to be the best and most powerful instruments for fair appraisal procedures. This is reflected in the findings of the previous case studies of Organisations A and B.

Another respondent added:

*“The most crucial element is the employee's belief in the system. We used to clarify and involve our staff at every step in the evaluation and reward process, otherwise, we open up doors for grievances, and lead employees to perceive the system as a source of damage”.*

The respondent seems to emphasise that managers and their subordinates should work together to clearly define challenges, goals and success factors. Otherwise, the system risks losing its credibility, which opens up the door for employees to file grievances and make claims against the system.

## **Organisation C**

As shown in Table 5.6, the clear majority of participants in Organisation C (86%) agreed that the idea of performance pay is fundamentally fair, while only 14% showed neutrality. No-one

disagreed with the statement. These findings are consistent with previous case studies, reflecting the positive perception of performance pay as fair.

Some studies have shown that employees' perceptions of fairness depend on supervisory views of their performance (Harrington and Lee, 2014), while other studies suggest that fairness and transparency can help overcome any negative effects and concerns that staff may have (Hartmann and Slapničar, 2012). However, this may also depend largely on leadership and top management support. The success of any organisation requires effective management tools (Scott and Einstein, 2001), such as fair performance appraisal and reward systems.

One of the interviewees commented:

*“Performance pay depends on how the appraisal works; if it lacks credibility, it will never succeed”.*

This suggests that in order to achieve fairness, the policies and procedures developed should be followed and applied fairly so that all employees are given fair and equal opportunities (Odeku, 2014). Another respondent commented:

*“If employees are rated according to what they deserve, they will perceive fairness; otherwise, they will never trust either the manager or the system”.*

It seems that understanding the role and impact of fairness can make it easier for managers to positively influence their employees. However, the complementary role of structural and organisational regulations should not be overlooked.

A further comment was that:

*“Performance appraisal can either positively improve or discourage staff performance; its flaws lie in particular when it is ambiguous”.*

This confirms what was found in the literature, suggesting that performance appraisal has a significant impact on productivity (Brown and Heywood, 2005). Many studies have focused on awareness of the negative consequences of hidden structures that create uncertainty and prevent fairness (Otake-Ebede, Sparrow and Wong 2016). This suggests that if employees do not perceive fairness in procedures, treatment or outcomes, they are unlikely to have the motivation to perform better.

### **Organisation D**

Table 5.6 reveals that the majority of participants in Organisation D (81%) agreed that the idea of performance pay is based on the principle of fairness, while 14% expressed neutrality, and only 5% rejected the statement. It is interesting to note that there is a consensus on this statement in the four cases.

Comments were also gathered from management interviews; one respondent commented:

*“The principle of justice is absent; this is not just a talk, it is evident from staff behaviour and performance. If the goal of the system is to improve performance and just ignore justice, I assure you that rewarding has failed at all levels”.*

Enhancing staff perception of fairness appears to be an effective way of achieving performance pay objectives and to gain staff support. Regardless of the accuracy of organisational standards and performance standards in the organisation, if staff do not perceive fairness, this will adversely affect their performance (Kim and Holzer, 2016).

Fairness is sometimes difficult to understand because it is a perception that differs from one employee to another; however, its effects can be seen through staff behaviour, reactions and performance.

However, another respondent asserted that:

*“Appraisal will never work without clear staff objectives and a clear reward process, and the absence of these two elements is what creates a sense of injustice”.*

The respondent appears to indicate that there is no link between appraisal and performance, which makes the system ineffective, pointing out that the failure to link objectives with performance measures and rewards creates a sense of unfairness among employees. This is consistent with the literature, which suggests that the lack of clear objectives makes it difficult to define performance measures (Huber, 1983). Moreover, it seems clear that management cannot set clear goals and criteria for their employees because their tasks are vague and difficult to define.

Another respondent stated:

*“We have no authority to reward our staff, nor are there systematic measures for evaluating and rewarding, which is why staff keep complaining all the time, because they feel unjustly treated”.*

The respondent seems to be hinting at the issue of delegation of authority, stating that managers cannot make influential decisions to reward their staff. The evaluation approach seems to be very traditional and depends on top management decisions, rather than those of line managers. This is why there is a sense of injustice among the staff, according to the

respondent. Nevertheless, this approach is common in public sector organisations, where evaluation measures are based on superficial elements such as attendance, absenteeism and staff obedience to their managers (Cintrón and Flaniken, 2011). However, objective measures have proved to be more effective, as they are based on achieving goals, the timeframe, and the efficiency and contributions of the employee (Schachter, 2010).

One of the respondents suggested:

*“I can say that the regulations do not support the fairness of the system, because they are all outdated and need to be reviewed and drastically modified”.*

This respondent points out that the regulations do not support performance pay system, indicating that they are old and need to be reviewed. He appears to indicate the importance of harmonising regulations with the system.

Another respondent commented:

*“The absence of fairness worsens the relationship between staff and their bosses, and sometimes because decisions are not in the hands of the boss, this indicates that they are not delegated as required”.*

The quality of the relationship between supervisors and their staff is one of the reasons staff accept performance appraisal (Kim and Holzer, 2016). This undoubtedly enhances employees' sense of fairness, which therefore improves their performance. However, it depends to a large extent on the delegation of supervisors and their ability to make decisions and fulfil their commitments towards their employees.

The following statements in Table 5.7 aim to measure the extent to which participants believe that they are rewarded for the level of responsibility involved in their jobs, as well as for the extent to which they are fairly rewarded for the level of skills required in their job. The relevant management interviews will be analysed and discussed in the light of the literature reviews.

#### 5.4.2 PRP and the perception of fairness

Table 5.7: Performance pay and fairness

##### **I am fairly rewarded for the level of responsibility involved in my job**

| %                     | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|-----------------------|-------------------|----------|---------|-------|----------------|
| Organisation A (N=52) | 2                 | 4        | 15      | 71    | 8              |
| Organisation B (N=53) | 0                 | 8        | 25      | 58    | 9              |
| Organisation C (N=49) | 4                 | 20       | 41      | 31    | 4              |
| Organisation D (N=57) | 33                | 16       | 16      | 26    | 9              |

##### **I am fairly rewarded for the level of skill required in my job**

| %                     | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|-----------------------|-------------------|----------|---------|-------|----------------|
| Organisation A (N=52) | 2                 | 8        | 12      | 73    | 6              |
| Organisation B (N=53) | 2                 | 11       | 15      | 60    | 11             |
| Organisation C (N=49) | 4                 | 22       | 41      | 31    | 2              |
| Organisation D (N=57) | 33                | 16       | 18      | 18    | 16             |

#### **Organisation A**

Table 5.7 shows that more than 75% of the participants from Organisation A agreed that they were fairly rewarded for the level of their responsibility and skills at work. Less than 15% expressed neutrality, and less than 10% disagreed with the statements. This reflects the level of fairness felt by the staff in Organisation A, indicating that the system has achieved its main objectives.

Information was also gathered from management interviews; one of the respondents commented:

*“I can claim that we have high levels of fairness, as is evidenced by the number of the grievances, which you can see are very few and sometimes non-existent”.*

The respondent seems to be very confident, saying that fairness is strong in the organisation, basing his claim on the fact that there were very few or no grievances from staff. The results from the questionnaire also support his claim, suggesting general satisfaction with the system among staff. This also indicates that a good relationship is maintained between managers and their employees. This is also what the literature review suggests, that the quality of the relationship between managers and their employees is an important source of motivation, and improves performance and fairness (Selvarajan, Singh and Solansky, 2018).

In addition, another respondent confirms that:

*“Procedures and regulations are clear and explicit; all employees can access them. We seek to make the process as objective as possible. I think we have succeeded, and I can give it at least 9 out of 10”.*

This respondent again seems to confirm what the previous one stated, which suggests a high level of satisfaction with the current situation, as the respondent gave a 9 out of 10 rating for the success that had been achieved. All the indicators appear to be positive and to indicate high correlation between management's views in the interviews and participants' perceptions in the questionnaire. This is consistent with some studies which have concluded that staff performance and motivation depend on their perception of fairness (Rowland and Hall, 2012). It seems that Organisation A is committed to creating a culture of fairness by striving to make all procedures as objective and explicit as possible, as well as being available to all

employees. It can be concluded that these could be factors of performance pay success in Organisation A.

## **Organisation B**

As shown in Table 5.7, there is a convergence of views between the two statements, revealing that staff in Organisation B are rewarded according to their responsibility and skills. The 'agree' rates range between 67% and 71%, which represent a majority opinion, while those who chose neutral were s between 15% and 25%. However, only a few respondents rejected the statements, ranging between 8% and 13%.

There appears to be strong consistency between the results of Organisations A and B. This may be due to the similarities in the performance pay systems used in the two organisations; as mentioned earlier, the system used by Organisation B was adopted from that of Organisation A (an international organisation operating in Oman). One of the interviewees from Organisation B stated that:

*"The international touch has had a positive impact on the success of our system".*

Interestingly, the system has managed to succeed in an organisation employing nearly 90% local staff. This is consistent with the results found in the literature, which suggested that the Western PRP system can be adapted by organisations operating in communities in other parts of the world, and it was found that PRP was preferred by staff to the traditional seniority-based pay (Lee, Iijima and Reade, 2011). It can be concluded that fairness is a common value and principle shared by all employees, regardless of whether the organisation they work for is operating in the West or the East.

## Organisation C

Table 5.7 shows a general division in participants' views in Organisation C, reflecting a significant convergence of responses to the two statements. The results show that 41% of the participants were neutral towards both statements, which indicates their uncertainty about the existence of fairness, or perhaps a reluctance to give the correct answer. In any case, it is a negative outcome that may indicate that the system has failed to achieve the objectives for which it was introduced.

On the other hand, 33% - 35% agreed with the two statements, while 24% - 26% disagreed with them. It appears from the results that the majority of employees feel a kind of uncertainty about the fairness of the system. However, from the results from the cases of the previous organisations (A & B), it can be concluded that fairness enhances the positive perception of staff and helps to overcome uncertainty. Moreover, this also indicates that fairness has a significant impact on the formation of staff perception of the performance pay system in general.

Information was also obtained from the management interviews. One of the respondents suggested that:

*“As a manager, the system puts you under stress and pressure when it comes to staff evaluation, often because of unclear performance measures and standards. As is said, "if you can't measure it, you can't improve it"”.*

The respondent seems to perceive the evaluation process as a source of pressure for managers because of the unclear measures used for assessing performance. Managers often expect the best performance outcome from their employees, after agreeing on certain objectives to be achieved. However, losing sight of the setting clear standards and measures, which are the

keys to achieving the goal of performance evaluation, may lead to undesirable consequences. There must be prior agreement between managers and their staff on objectives and the measures to be followed for assessing performance. Unclear measures of performance appear to be one of the challenges faced by Organisation C, as the respondent states that what cannot be measured cannot be improved. It can be concluded that unclear measures can adversely affect staff assessment and therefore their rewards, which will ultimately result in unfair treatment and undesirable results (Kim and Holzer, 2016).

Another respondent confirms this that by stating:

*“There is no clear mechanism for evaluation, especially when some staff performance varies during the year. This process makes you confused and reluctant, and it is stressful because you feel like the fate of others is in your hands. And it makes you afraid of making a decision that might be unfair to others”.*

It seems that this respondent confirms what the former respondent stated, indicating a lack of clear mechanisms and explicit measures, which makes the process stressful to managers as they are afraid of making a decision may be unfair to their staff. This indicates the importance of the performance appraisal being clear in terms of its measures and procedures, and also requires management to promote the idea that performance evaluation is a constructive process and not merely an administrative one (Selden and Sowa, 2011).

## **Organisation D**

Table 5.7 also shows a division in the participants' views in Organisation D, suggesting that there is some dissatisfaction with the level of justice, with the results showing that the majority of participants (almost 50%) do not agree that they are rewarded according to the

responsibilities and skills required for the work. This reflects the failure of the system to create a positive perception of fairness among the participants, and also suggests a serious flaw in the application of the system and its operations. On the other hand, nearly 18% of the participants expressed neutrality, while around 35% agreed with the two statements.

Some comments were also gathered from management interviews in this regard, with one respondent claiming that:

*“Unless staff roles and responsibilities are clear, you cannot measure their performance. Even the evaluation measures and criteria should be defined and determined before performance takes place”.*

This respondent mentions issues that appear to be real challenges in the organisation, stating that staff have no clear roles or responsibilities. This confirms what another respondent in the same organisation claimed earlier, that the job description of employees is not accurate enough for it to be measured. From the results of previous cases, it can be concluded that the success of the performance pay system depends on the availability of certain factors, such as the clarity of employees' tasks and responsibilities, the establishment of clear objectives for staff, the development of clear measures to assess staff performance, and assurance of a sense of fairness among employees. Moreover, this also leads to the conclusion that failure to provide a clear job description for employees makes them perceive performance evaluations to be unfair, leading them not to believe in the system (De Clercq, Haq and Azeem, 2018).

Another respondent concluded that:

*“The entire process needs to be reviewed and restructured, and this requires real willingness and support from the top management, so that staff can trust and believe in the system”.*

The respondent seems to be hinting at the absence of genuine support and willingness to improve the system from the top management, which probably what makes staff look at the system with scepticism and uncertainty (Sang and Sang, 2016). Such problems often occur when there is ambiguity in the processes and objectives of a system. Furthermore, in light of the respondent's comments and the results from Organisation D's questionnaire, it can be concluded that the ambiguity and lack of clarity of the performance pay process and practices lead to unfair performance appraisal practices (De Clercq, Haq and Azeem, 2018). It can also be concluded from the findings that although there is no empirical evidence, or perhaps very little, there is a negative correlation between ambiguous performance pay practices and employees' perception of fairness in the public sector.

## **5.5 Favouritism**

There are many forms of favouritism in organisations, as no organisation is free from communication and social relations, so they can all be regarded as social institutions. Among the common issues of favouritism in performance pay systems are issues related to employee assessment and the allocation of rewards. Organisations often lack precise measures to evaluate employees' performance, and often depend on subjective appraisal performed by line managers, which ultimately leads to the arbitrary distribution of rewards. This happens when some line managers take advantage of their evaluation and rewarding authority to trade off with employees who they prefer, regardless of their performance, and at the expense of diligent employees or high performers.

There are several factors which lead to favouritism in performance pay systems, such as the absence of strict mechanisms and procedures and of effective organisational culture, and a lack of transparency. It can be argued that transparency is the most important of these factors, as it constitutes the culture of the organisation. Mechanisms and procedures can refer to the

set of principles, policies and regulations that govern the processes and operation of the system.

Organisations must ensure that controls do not allow any tendency towards tribal, religious or any other emotional factors, so that they are as objective as possible. The results show that the absence of clear standards and criteria allows line managers to exercise favouritism, which consequently allows them to produce biased staff assessments and reward decisions. However, clear standards and criteria avoid favouritism and force line managers to make fair decisions on employees' evaluation and reward.

Every organisation has its own privacy in terms of the nature of its business, regulations, and policies, which creates a certain work culture in the organisation known as an organisational culture. This culture defines the values and beliefs that the organisation seeks to instil into the minds of its employees, which ultimately forms their attitudes, behaviours, and expectations. It can be assumed that effective organisational culture, with values and principles that have been influenced and adopted through its environment, regulations and policies, can enhance the commitment of management and line managers and prevent them from exercising favouritism. In general, it can be concluded that strict mechanisms and procedures can positively affect the organisational culture, which in turn can prevent management from practising favouritism.

There is no doubt that transparency is one of the most important factors that affects the perceptions of parties in any organisational relationships, as it is the key element in building trust between employees and their manager. It can be assumed that transparency and trust maintain transparency between management and employees and keep employees motivated, ready to make positive efforts and have positive expectations. It can be said that transparency has a positive impact on organisational culture, and therefore it is unlikely that an

organisation with a sensible degree of transparency in its organisational culture will exercise favouritism.

This section deals with issues of favouritism, with the results of the questionnaires presented and analysed. Two statements relating to favouritism are analysed in this section. The first measures the perception of favouritism by employees with regard to their managers within the performance pay system, while the second measures employees' perception of whether the system has damaged their relationships with their managers. The responses from the management interviews on favouritism will also be presented and the results examined and analysed in light of relevant theories and perspectives discussed in the literature review.

The following statements in Table 5.8 seek to measure the extent to which participants believe that managers practise favouritism in performance pay system, as well as the extent to which the system damages the relationship between them and their managers. The relevant management interviews will be analysed and discussed in the light of the literature reviews.

### 5.5.1 The effects of favouritism on PRP

Table 5. 8: Performance pay and favouritism

#### **Managers use performance pay to reward their favourites**

| %                     | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|-----------------------|-------------------|----------|---------|-------|----------------|
| Organisation A (N=52) | 19                | 38       | 27      | 8     | 8              |
| Organisation B (N=53) | 13                | 40       | 23      | 21    | 4              |
| Organisation C (N=49) | 2                 | 8        | 14      | 57    | 18             |
| Organisation D (N=57) | 2                 | 18       | 14      | 21    | 46             |

#### **Performance pay has damaged the relation between the employee and his manager**

| %                     | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|-----------------------|-------------------|----------|---------|-------|----------------|
| Organisation A (N=52) | 48                | 44       | 6       | 0     | 2              |
| Organisation B (N=53) | 25                | 49       | 21      | 2     | 4              |
| Organisation C (N=49) | 12                | 18       | 57      | 12    | 0              |
| Organisation D (N=57) | 11                | 28       | 26      | 7     | 28             |

## Organisation A

The results of the first statement show that 57% of the participants in Organisation A believed that managers did not practise favouritism, while 27% expressed neutrality and 16% thought that managers did exercise favouritism. Some companies rely on subjectivity in managers' decisions on staff evaluations and rewards, which often opens up the door to favouritism. This leads managers to recommend rewards for non-eligible staff at the expense of diligent ones, which results in the deterioration of the performance pay system (Prendergast and Topel, 1996). However, the above results exclude the existence of favouritism, which suggests that the performance pay system is on the right track towards achieving its desired objectives.

On the other hand, regarding the second statement in the table, it was found that the vast majority (92%) of the participants felt that the system had not damaged their relationship with their managers, whereas 6% showed neutrality, and only 2% felt that the system had damaged the relationship. These results indicate a positive perception by employees of how the performance pay system is performing.

Information was also collected from management interviews, with one of the respondents commenting:

*“We believe that favouritism is one of the worst things that can happen in any organisation and can only be eliminated by setting strict regulations and controls. Under the process followed and the panel's review, which involves some HR members and other senior staff, I'm not sure of the existence of such behaviours, because I haven't come across such cases. If a manager tried to*

*impose his preferences, he would find himself in a very embarrassing situation”.*

The respondent seems to be hinting at the implications of favouritism, pointing out that it is one of the worst practices that can occur in any company and suggesting that it can only be overcome with strict controls. This confirms that it is difficult for such behaviour to occur in view of the objective procedures and operations in Organisation A. It can be concluded that Organisation A has sufficient awareness of and recognises the implications of favouritism, and they have the necessary tools and mechanisms to avoid it.

Furthermore, this suggests that improper application of performance pay allows managers to exploit the situation to take advantage of their power to exercise favouritism, which therefore consequently distorts staff evaluations and reward decisions. This completely contradicts the framework of agency theory (Prendergast and Topel, 1996), which assumes that staff are motivated by being fairly appraised and rewarded according to their contribution, meaning the relationship between the principal (manager) and the agent (employee) is based on trust and proper conduct (Evans and Tourish, 2016).

Another respondent commented:

*“HR has played a key role in avoiding such behaviours [favouritism]. For instance, our system allows an employee to file an anonymous complaint against his boss if he is subjected to any preferential treatment, and this is a strong deterrent to such conduct”.*

This respondent appears to be counting on the role of the HR in avoiding favouritism. He points to the presence of deterrent measures to prevent the occurrence of favouritism, through which employees are allowed to file an anonymous complaint if they have been subjected to

any kind of favouritism by their managers. However, this respondent seems raise a controversial question as to whether HR's failure to conduct its activities is the reason for the spread of favouritism. This probably confirms that the role of human resources should be a strategic rather than traditional one, limited to superficial tasks, as is the case in many organisations in developing countries. In other words, this highlights the need to expand the role of human resources beyond its traditional one and to adopt more strategic perspectives and practices (Oppong, 2017).

Meanwhile, another respondent suggested that:

*“Favouritism creates a sense of dissatisfaction and injustice, and even creates jealousy among colleagues, all of which leads to an unstable working environment and poor productivity, which is why we have strict measures to avoid it”.*

The respondent appears to indicate the negative effects of favouritism on job satisfaction and the stability of the work environment. This is consistent with what was found in the literature reviews. The results show that employees' satisfaction depends on how well the outcomes (rewards) match their expectations. This is what expectancy theory suggests; if managers' treatment is unfair and biased, the results could be devastating for employees. Therefore, it can be concluded that favouritism leads to unfair treatment and causes an imbalance in staff evaluations and allocation of incentives, which ultimately leads to staff dissatisfaction and a deterioration in performance (Prendergast and Topel, 1996).

## **Organisation B**

There seem to be significant similarities between Organisations A and B. The results in Table 5.8 show that most respondents (53%) believed that there was no favouritism, while 23%

were neutral. However, 23% also felt that managers used the system to reward their favourites. To prevent favouritism, managers should be accountable for employees' evaluation results in terms of their credibility and transparency, which is an important factor in determining favouritism. However, from the results related to the first statement, it can be concluded that Organisation B is taking the necessary measures to prevent favouritism, as is evident from the positive responses.

On the other hand, with regard to the second statement, most participants felt that the performance pay system did not harm the relationship between them and their managers, while 21% were neutral. However, a significant minority of 6% disagreed with the statement, implying strong awareness among staff that the system was effective and had achieved the desired objectives. This seems to be an obvious result in the absence of widespread favouritism in the organisation.

Information was also sought from the management interviews; one respondent commented that:

*“Favouritism gives false indications of staff performance and thus misleads management; our management recognizes its implications and is always keen to send out awareness messages to all job levels in the organisation”.*

The respondent appears to be referring to the consequences of favouritism, noting that it misleads management and provides inaccurate results of staff performance, which lead to inconsistencies in the allocation of bonuses. It seems that the harmful influence of favouritism is widely recognised. Some even describe favouritism as cancer within the organisation. Employees' acceptance of the evaluation/reward results is to some extent critical and often depends on several factors. Among the most important of these is staff

perceptions of whether their managers are practising favouritism and to what extent they adhere to fair valuation rules. These are important predictive elements of employee motivation (Latham et al., 2005). It can be concluded from the results that the general view of favouritism among the respondents is that it is harmful, leading to inequality and undermining the effectiveness of the evaluation and reward systems in the organisation.

Meanwhile, another respondent commented:

*“To be realistic, favouritism is a phenomenon that exists in many organisations and it needs clear control measures to overcome it. HR always seeks to educate employees and encourage them to report any cases of favouritism”.*

The respondent refers to the prevalence of favouritism in many organisations, stressing the need for strict measures to control it. The respondent also seemed to praise HR's role in encouraging staff to report such practices. From these comments and the findings from the questionnaire, it can be concluded that Organisation B pays great attention to counteracting favouritism issues and have deterrent measures to avoid such practices.

Another respondent confirms that:

*“If we want to retain our good staff, we need to get rid of favouritism because it is a serious issue. We know that in some companies, especially in the public service, good employees are leaving because of favouritism, but we don't want this to happen here”.*

The respondent points out that it is likely that an employee's dissatisfaction with favouritism could reach the point of resignation. This exposes the organisation to loss of its good staff

due to such practices, so it can be concluded that favouritism has several devastating effects. It is not surprising that it leads to staff resignations, as it distorts fairness and equality and hides the principle of rewarding employees according to their performance and contribution (Marsden and French, 1998).

### Organisation C

Unlike the two previous cases, the results in Table 5.8 show that there are negative perceptions among participants in Organisation C. It is shown that the vast majority of participants (75%) believed that favouritism was exercised by managers, while 14% were neutral, and a large minority of 10% felt that managers did not exercise favouritism, which is a small percentage that does not reflect public opinion. The unfavourable findings are not surprising, as the negative influence of favouritism often distorts fairness and the allocation of rewards, which in turn leads to a deterioration in employees' trust in the system.

With regard to the second statement, most participants (57%) were found to be neutral. However, 12% of participants thought that the system had damaged their relationship with their superiors. On the other hand, 30% disagreed with the statement. There seems to be a certain ambiguity over the system or the way it is operated, as the large majority chose neutrality, indicating that they may have hesitated in responding to the statement, or may not be sure of the system, which signals that the system may have failed to meet their expectations.

One of the respondents commented in the interview that:

*“I asked one of the outstanding staff why he resigned. He told me that his manager deliberately marginalised him and evaluated him less than what he deserved, so less efficient employees were rewarded more than he was. This*

*was because he was more qualified and more familiar with technical matters at work than his manager and he was also recognised by top management. But his manager didn't like that, because he wanted the whole credit for himself. That's why he decided to leave the organisation”.*

Favouritism seems to have many forms and causes. It can be concluded from the respondent's comment that managers may sometimes resort to marginalising good performers and prefer those with under-par performance for fear of losing their position or because they do not want to share the credit for achievement credit with anyone else. It seems that such managers threaten the productivity and the success of the business because they hinder the progress by exercising favouritism and ignoring talented and outstanding performers. Perhaps this is one of the reasons why some employees feel stressed and exposed to pressure and tension, making them decide to give up and leave the organisation, especially in the absence of deterrent measures, which put staff in a desperate position, and therefore they have no choice but to withdraw.

Another respondent commented:

*“Favouritism has a profound negative impact, especially on competent staff, because it means their abilities and contributions are neglected; on the other hand, it benefits those who do not deserve it, and that is not fair”.*

The respondent seems to reiterate what others have confirmed, that favouritism causes profound damage at the organisational and individual levels. This suggests that preferential treatment is not based on factors related to employees' abilities and that the impact of performance is unlikely to be taken into account during employee evaluation and rewarding. Furthermore, it does not serve organisational goals; in fact, it serves personal purposes, which

harms the organisation by neglecting good performers and giving misleading information about their evaluations. The gap appears to lie in the absence of restrictions and measures that combat such practices. Hostility occurs when staff perceive favouritism. Their attitude will be negative toward the reward system unless their perception of the evaluation/reward process is that it is objective and has no bias (Latham et al., 2005). It can be concluded that staff's perception of the system as objective and unbiased is a key factor in achieving the goals of performance pay.

Another respondent confirmed that:

*“Favouritising an employee at the expense of another undoubtedly deteriorates the relationship and the trust between managers and their employees, but some managers ignore that, which affects the overall performance of the organisation”.*

This comment suggests that perceptions of favouritism may exist among staff, with the respondent commenting that the practice of favouritism is one of the reasons for the deterioration of the relationship between the managers and their staff, as it gives preference to staff without fairness or objectivity. He points out that managers do not care about the efficiency of employees and their achievement as much as they care about their own interests.

The results from Organisation C do not seem to suggest the effectiveness of the performance pay system. It seems that the organisation needs to develop effective mechanisms for oversight and supervision, as well as standards based on accountability and transparency, to prevent favouritism and to make the working environment more efficient and productive.

## Organisation D

Table 5.8 shows that there are great similarities in the responses to the first statement between Organisations C and D. The results indicate that the majority of the participants (67%) believed that managers in Organisation D exercised favouritism under the performance pay system. 14% chose neutrality, whereas 20% thought there was no favouritism. The second statement shows that there was a fairly equal division in the participants' opinions. This reflects some confusion or uncertainty about the effectiveness of the performance pay system. 35% of the participants felt that the system contributed to a deterioration in their relationship with their managers, while 26% were neutral on this matter.

Favouritism is a widespread issue in many organisations. It occurs when staff assessment decisions are based on personal feelings or relationships rather than achievements and performance. Favouritism only serves the interests of the manager and harms diligent staff, weakening their performance. According to expectancy theory, it is obvious that when employees trust their managers, they will have the motivation to provide the best possible performance, as they expect a fair outcome for it (Perry, Engbers and Jun, 2009). On the other hand, if there is any kind of favouritism, there will be no trust, and therefore the results will be undesirable. This probably explains the negative findings above.

However, 39% of the participants believed that the system did not harm their relations with their managers. Overall, it can be concluded from the results of the questionnaire that staff perceived that there was some favouritism in the way the performance pay system operated, and that this led to damage to their relationship with their managers, which improved neither performance nor job satisfaction. The results are not surprising, because an imbalance in evaluations inevitably leads to the absence of fairness and damages the relationship between superiors and their subordinates.

Information was also collected from management interviews. One of the respondents commented:

*“Management should pay attention to issues of favouritism, because it costs the organisation a heavy price and it risks losing good employees”.*

The respondent appears to confirm what was found in the previous cases, indicating that the practice of favouritism leads to undesirable results, and pointing out that management should pay attention to the issue of favouritism, as it imposes a heavy price on the organisation leads to the loss of its best employees. When managers focus on certain employees they prefer even if they have no objective character that distinguishes them from their peers, this will ultimately create demotivation, which could lead to the loss of those overlooked employees or even create enmity and hatred between colleagues.

It is no secret that favouritism has negative consequences on equality, trust and fairness, and it completely contradicts the objectives of the performance pay system (Bilgin, 2007). One of the most important objectives of the system is to reward high-performing employees in order to motivate and retain them. However, the practice of favouritism contradicts this, as it threatens the loss of competent staff, in addition to harming the culture of the organisation by undermining trust between the staff and management. However, transparent policies and measures of evaluations and rewards that are clear to staff and committed to by managers should help avoid such practices.

Another respondent commented:

*“Unfortunately, favouritism is rooted in our society; due to the tribal nature of our societies, we have different types of favouritism, relatives, friendship, interest and neighbourhood favouritism. It's a shame really because our*

*religion and even the Quran [the holy book] call for justice and fairness. It says in the Quran: (Indeed, Allah orders justice and good conduct) [An-Nahl: 16:90], this confirms the rejection of such behaviours. I'm not generalizing, but unfortunately, this issue widely exists”.*

It seems that the respondent is trying to link work values and Islamic principles, pointing out that favouritism is not permissible and contradicts Islamic values, citing a verse from the Quran that urges good conduct based on fairness and justice. Moreover, the respondent seems to describe the issue of favouritism as a moral crisis, hinting that Islamic values such as fairness and non-favouritism must be applied in all aspects of life and that it is shameful not to abide by these at the workplace.

This respondent also raises an important question about whether there is a correlation between cultural factors and the practice of favouritism, as there seem to be few studies in this regard. Understanding culture is a critical point when applying reward systems, as there is no uniform reward culture or measures that are universally adopted or recognised (Chiang, 2005). Therefore, culture must be developed to be consistent with the policies and standards of the reward system that is likely to be adopted. The system can also be adapted in a manner consistent with organisational culture. The organisation should review, modify or even, if necessary, replace the performance pay system if it fails to achieve the goals for which it was intended (Kessler, 2000).

One of the respondents also commented that:

*“I feel sorry to say this: the results of the appraisal and rewards are often subjected to favouritism. Personal preference is the actual determinant of staff performance reviews, as there are no clear policies that force managers*

*to follow the evaluation process. The problem is also that there is no serious grievance system, and worse than that, the role of HR is completely absent. This frustrates our good staff and makes them think about leaving the organisation”.*

The results suggest that there is a consensus among the participants that the absence of key elements such as the role of HR, an effective grievance system, objective policies and measures, and common working values are the reasons for the prevalence of favouritism. The absence of these factors is capable of harming employees and distorting the entire system and the allocation of staff incentives, leading to staff who deserve motivation being ignored. Overall, it can be concluded that the whole system needs to be reviewed.

Another respondent added:

*“Some managers prefer to reward based on length of service rather than performance; if your boss is happy with you, he will recommend you to be rewarded. It is totally subjective, the issue lies in some poorly educated managers who lack the simplest management principles”.*

Despite the popularity of the system and its success in many organisations, the respondent notes that some managers still have a traditional view, believing that seniority should have more priority for motivation. He seems to feel that the process is entirely subjective, pointing out that the problem lies in managers with a poor educational level who lack the most basic principles of management. This discourages good performers and does not help in retaining them, and also discourages low-performers from improving their performance. Moreover, it reduces employees’ desire to cooperate with management (Marsden and French, 1998).

## 5.6 Summary of the Findings from Organisation A

It can be inferred from the results from Organisation A that the participants in the questionnaire and interviews have consistent views. These reflect management's and employees' positive perception of the PRP system, which strongly supports the company's approach to system implementation. Further, this largely indicates the success of PRP.

Among the important findings from the field investigation in Organisation A, are that the performance pay system was introduced to achieve fairness, to motivate and retain its competent staff, as well as to attract talented people. One of the line managers noted that the system helped to control staff performance and direct their behaviour. These findings are consistent with those from the literature review, indicating a positive relationship between pay and performance control (Mylona and Mihail, 2019).

On the other hand, the results also contradict the findings from the literature, which suggest that if the PRP system is introduced in order to control staff, the consequences will be negative, which can undermine the system (Vogel and Hattke, 2018). However, it can be assumed that these results may depend on contextual factors and staff satisfaction with the incentives provided.

The results of the questionnaire and interviews also show that the system significantly enhances communication between staff and management, which has helped to direct staff focus on their goals and also helped achieve the ultimate organisational goals. It should be noted here that previous studies appear to lack sufficient attention to the element of communication and its impact on the performance pay system (Welch, 2011; Neves and Eisenberger, 2012). It is concluded that the communication component has played a key role in the successful operation of the PRP system in Organisation A.

One of the interviewees commented that Organisation A, as a global company, considers the performance pay system as a competitive advantage and that it is always keen to adopt the highest standards, continually comparing itself with competitors to ensure that it is at the forefront. It can be assumed that Organisation A, being a global company adopts the culture and environment that fosters such a performance pay system, as it operates in many countries around the world, including the United Kingdom, which is among the leading countries from which the PRP system emerged. In addition, the company employs a variety of employees from all over the world, so takes into account elements such as motivation, inclusion, communication and fairness.

Moreover, the results of the questionnaire show that more than 80% of the participants believed that good performance would lead to the desired outcomes. One of the management members stated in an interview that the system workflow and clarity of operation were sufficient to enhance employees' expectations. Another commented that it was difficult to understand the expectations of staff, but clarity and transparency would avoid staff disappointments. This reflects what expectancy theory advocates. Management seems to have the conviction that the clarity of PRP operations and processes is sufficient to build trust between them and the staff and thus enhance confidence in the system.

The results of the questionnaires also show consensus among the respondents that the performance pay system has made managers set clearer objectives for staff. Furthermore, the findings of the interviews also show that the employees are aware of their objectives and how these relate to the organisation's ultimate goals, creating motivation to boost their performance. Another interviewee noted that some employees were motivated by difficult goals, which corresponds to the literature review findings.

All of this seem to be consistent with the goal-setting theory, which is among the strongest theories underlying PRP. Furthermore, it complies with the definition of PRP, which indicates that it is a way of linking pay to performance, and that performance is usually measured against predetermined objectives, as goal-setting theory assumes that when setting clear objectives for staff, essential tools for achievement and evaluation are provided. These objectives make employees feel comfortable about their performance and rewards and also make them want to strive for even more difficult objectives.

With regard to fairness, the results of the questionnaires showed considerable agreement among the participants on the fairness of the performance pay system. The findings from the management interviews also showed that the procedures, processes and mechanisms of PRP operation are objective and clear. The decisions on employees' annual performance reviews are also clear and objective, as the review includes a panel of senior staff and a team from human resources management. Decisions are therefore made unanimously and based on objective evidence.

The premise is that the extent to which employees perceive their pay is fair significantly affects their perception of work and performance. In other words, staff's perception of fairness affects the outcomes of their work. Negative perceptions of fairness can lead to unfavourable consequences, such as lower staff motivation or higher turnover, in turn leading to poor organisational performance. Furthermore, employees often compare their level of effort to reward. They compare themselves with their colleagues and even their counterparts outside the organisation, so their perception of fairness is reflected in the level of their contribution to the organisation.

It seems that Organisation A is aware of the importance of this aspect, as one of the participants in the interviews stated that being a global organisation, they always keen to

comparing themselves with competitors in the market to ensure they have a competitive pay system.

### **5.7 Summary of the Findings from Organisation B**

In general, a high level of PRP satisfaction can be noted from the Organisation B respondents, but not as high as the level of satisfaction in Organisation A. However, there is a slight disparity between the two organisations. The most likely reason for this convergence of results between the two organisations is the Organisation A's acquisition of shares in Organisation B. This suggests that Organisation B is influenced by the operations and the way PRP operates in Organisation A. Regarding performance pay as a principle, the majority of participants agreed on its effectiveness, which reflects the overall positive attitude of staff towards the performance pay system in Organisation B.

One participant commented that financial reward cannot be excluded from the stimulus, but that its success depends on how transparent it is and how clear its objectives are. The respondent seems to emphasise the importance of organisational culture. The results of the literature reviews emphasise the importance of transparency as a key element in organisational culture to ensure the success of the PRP system (Hartmann and Slapnicar, 2012). There is no doubt that such culture is shaped by management and instilled into the staff. It is therefore important that the organisation does not overlook the element transparently, as it is also the key element of fairness, without which the system will not succeed (Ulfsdotter, Larsson and Adolfsson, 2019).

One of the managers commented that the international influence on the performance pay system design has had a great impact on its success, pointing out that it was adapted from Organisation A. Another member of management commented that the appraisal system

borrowed from Organisation A was very effective. This explicitly suggests that the success of the system is due to the global standards and criteria adopted by the company and raises the question about management, organisational values and practices between the West and the East. Although this topic may go beyond the scope of this research, it is a significant observation worth investigating.

Furthermore, organisations in the Arab world should not be prevented from importing western practices that have proven effective and adapting them according to their own culture and regulations, especially since such a system (performance pay) originated in the western cultural context, specifically in English-speaking countries such as the United Kingdom and the United States, which makes the experience richer and more evolved. In addition, PRP has been widely addressed in the literature. Therefore, it may be useful to look at the working methods of global companies and benefit from their experiences, as is the case of Organisation B.

It is worth noting an interesting point made by one of the managers about the expectations of employees, suggesting that if they do not appreciate the reward granted, then what is the purpose of the performance pay system? The interviewee went further by arguing that employees' expectations can be used as a guide in formulating an effective system, stressing that the top management of the company always supports positive change and constructive proposals.

This is exactly what expectancy theory proposes, that the more positive the expectations of employees about their outcomes, the greater their motivation for better performance (McConville, Arnold and Smith, 2018). With regard to expectancy theory, it is always the most influential theory in the performance pay literature (Yang and Hung, 2017). In

conclusion, this reflects the sound planning and operation of the performance pay system in Organisation B.

In addition, the overwhelming majority of respondents agreed that PRP had contributed significantly to making managers set clear goals for them and that the system had also enhanced communication. One of the managers commented that he was always keen to set clear goals for his employees at the beginning of each year, ensuring that these corresponded to SMART (Specific, Measurable, Achievable, Realistic and, Timely) objectives. Another manager commented that the goal-setting approach helped greatly in linking performance to pay and rewards, and also made decision-making more objective.

These were the most prominent comments; in general, there seems to be consensus on the effectiveness of the goal-setting approach, which is confirmed by the literature review. The findings suggest that performance is difficult to measure without clear objectives and expected results. Otherwise, the results will be subjective and unmeasurable. The real challenge seems to be how to set real objective measurable goals

The assumption is that the goal-setting theory provides motivation for employees. However, for Locke and Latham, not all goals provide high motivation for staff, unless they are characterised by clarity, challenge, some level of complexity and feedback (Locke and Latham, 2004). Moreover, goals should comply with SMART objectives. The findings from the literature also reveal that the goal setting approach enhances employee commitment and reveals their skills, abilities, strengths and weaknesses (Meijerink, Bos-Nehles and de Leede, 2018). This appears to be a win-win situation, as the approach helps to achieve the ultimate organisational goals, as well as helping to evaluate staff performance more objectively. This concludes that tangible benefits can be derived from the goal setting approach if the criteria mentioned above are met.

Concerning fairness, the results of the questionnaires and interviews from Organisation B show considerable awareness of its importance. All appear to be satisfied with the level of fairness, and the principle of fairness seems to be a logical justification for introducing the PRP system. Studies have shown that fairness is one of the main reasons for introducing performance pay schemes (Bos-Nehles and Veenendaal, 2019).

A member of management commented that the final decision on the staff performance reviews and rewards is not in the hands of managers, but rather is a collective decision made by a panel in the presence of a Human Resources facilitator. This may reflect the organisation's perception that the fairness factor is a sensitive and influential one in the relationship between employee and manager. This is perhaps the reason why the decisions on staff evaluation and rewards in Organisation B are designed to be a collective decision made by a panel of senior managers and supervisors in the presence of the HR staff, hence maintaining a healthy relationship between employee and manager. Furthermore, it ensures that decisions made are scrutinised and are fair.

### **5.8 Summary of the Findings from Organisation C**

In terms of the performance pay system as a principle, the results of the questionnaires from Organisation C show that the participants' initial responses were positive. However, the statement (the principle of performance pay is a good one) does not reflect the actual situation, as it measures the perception of the principle of the system. This is based on the assumption derived from the previous two cases, which suggests that the success of the system can be determined by the effectiveness of its implementation, operation and the level of fairness, in addition to the extent to which the theoretical framework (on which the PRP system is based) is incorporated into its operation.

This was confirmed by one of the management members, who expressed his dissatisfaction with the way the performance pay system was operated, indicating the flaws of the bell curve system, and pointing out that it forces line managers to be unfair, which draws them into conflicts and disputes with their employees. It also undermines employees' confidence and trust in the performance review system. The respondent states that sometimes they have more than one outstanding employee with clear contributions, but the curve system forces them to exclude some of them and only choose one or two. This is what brings them into a circle of unfairness, making them look unfair in the eyes of staff.

Most of the respondents expressed a negative attitude towards the bell curve system. There seems to be a flaw in its distribution process, which may be the cause of the undermining of the effectiveness of performance pay operations. One of the interviewees commented that the power of reward lies in it going to those who deserve it; otherwise the reward system will simply be frustrating and demotivate staff.

The findings of the literature review suggest that the bell curve system creates a culture of competition and high performance and also reflects the normal distribution of the organisation's overall performance (Oppenauer and Van De Voorde, 2018). However, other studies believed that the system is only valid when there is a large number of employees, and that it often seeks to motivate employees with average performance, identifying their performance level and pushing them to do better (Stewart, Gruys and Storm, 2010).

With regard to staff expectations, the questionnaires results show that there is a problematic issue with these in Organisation C, concluding that there is a problem with the operation of the performance pay system. The literature review findings suggest that staff will not put sufficient effort into work if they feel that their performance will not lead to valuable

outcomes (Kessler and Purcell, 1992). However, they will make a great effort if they have positive expectations about the outcomes of their performance.

In the same context, the interviewees seemed to have reservations about explicitly expressing their dissatisfaction. However, their voice, facial expressions and body language clearly suggested that management had failed in managing staff expectations. One of the respondents stressed the importance of maintaining employee expectations, as it is the driver that keeps them motivated and focused on achieving goals, while another respondent clearly pointed out that some managers failed to convince their employees that good performance would be rewarded according to their level of contribution. This respondent went further, adding that managers had begun to feel that the performance pay system was just a stressful process and a waste of paper. These results seem to contradict what expectancy theory calls for.

With regard to goal-setting, the questionnaires showed that most participants preferred the position of neutrality, as they did not express an explicit opinion. This was perhaps because they were not sure about the clarity of the objectives assigned to them. Their reservations may imply that they are dissatisfied with the situation. In general, these responses do not suggest that there is satisfaction with the goal-setting process in Organisation C.

On the other hand, one of the management interviewees stated that some employees only agreed with the goals assigned to them because of fear of disclosing their weaknesses. In the middle of the year they may then unexpectedly be unable to achieve their goals. This probably reflects the weak trust between employee and manager and may even reflect employees' scepticism about the operation of the performance pay system, making them hesitant to disclose their abilities.

Furthermore, one of the most prominent comments on goals was that management seemed to have lost insight into linking staff objectives to actual evaluation and reward. This may indicate a flaw in the process of setting goals and linking them to performance evaluation and reward. It contradicts the principle of performance pay, which is based on linking pay progression to performance review, so that performance is measured against clear, predetermined goals. In addition, the results of the interviews seem to contradict goal-setting theory, which emphasises that the pay should be linked to achieving goals, which should be clear, achievable and accepted by the employees.

Moreover, the survey results indicate that more than 60% of the respondents in Organisation C were not sure of the existence of fairness. These findings seem to indicate a problem of fairness, possibly as a result of staff feeling underpaid in relation to their performance, or perhaps because of a flaw in the operation of the payment system. However, herein lies the limitations of the quantitative approach, as the nature of the issue examined here means it is difficult to restrict it to limited response options. Deep understanding of the employees' perspective is needed, which is difficult to achieve using only a quantitative approach.

One of the management member commented that the unclear criteria put them under pressure of confrontations with employees. Another line manager commented that one employee was entitled to 90% of his salary as a bonus for his performance, and when the subject went to the board for approval, this was reduced to 20%.

In general, the responses received from the interviews did not suggest satisfaction with fairness in Organisation C. This leads to the final conclusion, that there is a failure to deliver fairness in the organisation, based on the questionnaire results and interviews. According to the findings from the literature review, the PRP system cannot succeed in the presence of unfairness (Rubin and Edwards, 2018), as fairness is considered to be among the main pillars

of the system, as well as one of the reasons for its introduction (Selvarajan, Singh and Solansky, 2018).

The findings from the questionnaire reflect employees' negative perceptions of favouritism in Organisation C, with the results showing that 75% of respondents believed that management practised favouritism. The findings from the literature prove that favouritism adversely affects the operation of the performance pay system and undermines justice, which leads to a deterioration in employees' trust in the system (Kampkotter, 2017).

The problem of favouritism leads to the loss of competent staff, as commented on by a management member. Another interviewee commented that favouritism leads to neglect of competent staff, as it rewards employees who do not deserve it, without any justifications or objective reasons. It seems from the results that favouritism is a problem plaguing the organisation. This suggests that either there is a loophole that allows managers to manipulate and exercise favouritism, or that managers do not have sufficient authority to make decisions on determining employees' valuation and paying the increases they deserve. Generally, in all cases, the existence of favouritism is the result of a flaw in the design and operation of the performance pay system.

The findings from the literature review show that favouritism undermines the operation of the performance pay system, impairs fairness and overall leads to poor organisational performance (Ekrot et al., 2018). This is because the success of the system depends mainly on fairness and transparency. It can be concluded from the line managers' responses that the problem lies in the system design and operation processes, and possibly also top management. This assumption is derived from the above comment made by one of the line managers about the reduction in an employee's expected bonus following board review.

This raises questions about whether there is bureaucracy involved in the process, considering that the organisation is fully owned by the government. In other words, is this full ownership by the government the basis of the problem? This premise stems from the two previous cases, which suggest that Organisation B has been significantly influenced by Organisation A, given the fact that Organisation A holds stakes in Organisation B, in addition to the adoption of by Organisation B of the mechanisms in place in Organisation A. This premise cannot be confirmed. However, the results from the analysis of Organisation D in the following section may confirm its validity of this premise.

### **5.9 Summary of the Findings from Organisation D**

The preliminary results from the questionnaires show that the participants support the PRP system as a principle and as an idea to motivate performance. This indicates that the employees in Organisation D are ready to deal with PRP. However, this result does not reflect reality, but rather the ability of staff to accept and embrace such a system. Although the PRP system is still not very popular in the public sector, the Government in the UK, for instance, remains committed to introducing it in a number of civil service institutions (OME, 2014).

The findings of the questionnaires seem to suggest that the reasons why participants felt that the performance pay system as a principle was good were not clearly understood, as the statement (the principle of performance pay is a good one) measures their perception of the system, rather than the actual reality of its effectiveness.

On the other hand, the findings from the management interviews demonstrate considerable frustration among the line managers. Based on middle management views, the most prominent reasons for performance pay system failure were the marginalisation of line

management when the performance pay system was designed and implemented; failure to align staff performance reviews with transparency and rewards; and the lack of real willingness for change from the top management.

The findings of the literature review suggest that to ensure the effectiveness and success of the performance pay system, it is important to involve middle management in the design and implementation process, since they are on the ground and closer to staff (Liu and Lin, 2019). In addition, studies have also emphasised the importance of ensuring the objectivity and clarity of performance review measures to establish transparency and fairness (Spano and Monfardini, 2018).

In relation to staff expectations, the performance pay system appears to have been failed to achieve its objectives, as more than 70% of the questionnaire respondents seemed to believe that good performance would not yield desirable outcomes. This contrasts with expectancy theory, which is one of the strongest theories supporting the PRP system. The theory proposes that to ensure employees' motivation and productivity, staff should believe their efforts and performance will lead to the desired outcomes (Hambly et al., 2017).

One of the managers interviewed stated that he had no power to incentivise his staff, so the most he could do was make recommendations for eligible employees, and that it was up to top management to make decisions. Another interviewee attributed the performance pay system failure to old laws and regulations. Overall, most of the responses indicated the organisation's failure to operate the system.

Furthermore, the results of the questionnaires show that the vast majority of respondents felt that there were no clear objectives for their tasks. In the same context, one of the interview respondents expressed disappointment that the evaluation process was very subjective,

pointing out that operation of the performance pay system needs to be restructured. Another interviewee added that there was no clear mechanism for setting goals, noting that staff job descriptions were often loose. This fundamentally contradicts the PRP system, which proposes that it is a means of linking pay to a performance, which is measured against pre-determined goals. The results of the studies have shown that goal-setting helps to guide and improve staff performance, as well as helping to direct their focus towards achieving the strategic objectives of the organisation (Rubin and Edwards, 2018).

On the other hand, the results of the questionnaire seem to indicate that participants are aware that there is a contradiction between the performance pay system as a principle of achieving fairness and the actual results of its operation. This is evidenced by the questionnaire results that showed that the vast majority of participants felt that the primary task of the system was to achieve fairness. However, when statements were made to measure fairness in the questionnaires, most participants felt that Organisation D had failed to deliver this. This again contradicts the performance pay system philosophy, which regards fairness as a key element in the success of the system, as well as one of the main reasons for introducing it.

Furthermore, the questionnaire results also indicate that the majority of respondents thought that there was an element of favouritism. In the same context, the responses in the interviews were not positive. One of the management interviewees suggested that favouritism was rooted in the nature of the socio-cultural relations, such as friendships, relatives and neighbours. Another respondent added that the problem of the poor educational level of many managers made cronyism rampant. These results are not surprising, because the absence of clear tasks and objectives for employees and the absence of objectivity in evaluation and fairness inevitably lead to the deterioration of the system.

The findings from the literature review show that favouritism has negative social and economic consequences, and creates a sense of social injustice and oppression among employees (Ganster et al., 2012). This contradicts the objectives of the performance pay system, which is intended to stimulate performance and reward employees who make outstanding contributions (Hartmann and Slapnicar, 2012). This suggests that culture is a critical point in the implementation of the system. Studies have emphasised the importance of organisational culture being consistent with the principles, policies and processes of the system (Nacinovic, Klindzic and Galetic, 2019).

### **5.10 The differences and similarities between the public & private sector**

Overall, the gap between the public and private sectors can be clearly drawn through the process of implementation and operation of the PRP system and through the attitudes and responses of the line managers and employees about the system. The message that the system sends in the private sector carries clear values and constitutes a culture that influences employees' behaviour, performance, and awareness. In addition to that, it enhances the linking of staff performance with organisational goals and reinforcing the value of fairness, transparency and objectivity even in performance evaluation processes.

Top managers in the private sector seem to believe in the system and the importance of its role in establishing fairness, enhancing performance and achieving organisational goals, and this has been reflected in their efforts to involve middle managers and senior staff in designing the PRP system and in setting its outlines. It was clear from the way the system was operated that its operations were derived from the most important theories supporting the system and thus the processes were effective, structured, and systematic. In addition, one of the main reasons for the effectiveness of the system was also the strong presence of HRM and its effective role in operating the system. Moreover, the explicit regulations and laws, with a

clear HRM guidebook for employees on the mechanism of operating the system, had a major impact on enhancing the operation process.

On the other hand, in the public sector, it was found that among the obstacles facing the PRP system were the old rules and regulations that are not in line with the culture of operating the system, in addition to the absence of accurate job description cards that were supposed to help to employ and direct employees' efforts and define their basic tasks based on the skills and competencies of the job, which often helps to distinguish between high, medium and low performance. In addition, it was also among the drawbacks was the lack of involvement of middle managers and senior staff in designing the system, which posed a challenge for them to adapt to it. All of these factors perpetuated the culture of bureaucracy that was opening the door to favoritism and the culture of Wasta, which are among the most reasons for obstructing the system and undermining fairness.

Moreover, the apparent absence of the systematic design of the system due to the lack of integration of the most important key elements that were supposed to draw from the theoretical framework for the most important theories supporting the system such as the theory of goal setting and expectation theory. Adding to that is the real absence of the most important player in the process of design and operation, which is the HRM. All of the above-mentioned factors were among the most important reasons why the PRP system was not achieving its main objectives in the public sector.

## **5.11 Conclusion**

It was noticed from the literature reviews that there is a clear gap in dealing with PRP within the SHRM framework, although reward management is at the heart of HRM functions.

However, the outcomes of this thesis have emphasised the importance and impact of the

merging and integration between SHRM and PRP. Therefore, it is not logical to deal with PRP in isolation from SHRM and its concepts, because it is an integral part of it.

The key of the debate in this thesis was over the crucial components for ensuring a successful PRP system. The outcome of this study indicates that PRP operations need to be combined with SHRM and the theoretical framework associated with PRP, as this explains and maps the systematic method of operating the system effectively. This is the reason why design and implementation were correct in the private sector organisations (especially Organisation A & B), where SHRM was strongly present and its operations were merged with the key elements derived from the PRP theoretical framework, and this had a major impact on improving organisational performance.

This suggests that the three components of SHRM and the key elements of PRP theories and operating processes should work hand in hand in parallel and in an integrated manner. The separation or absence of one of these three components inevitably will not help the PRP system and may cause it to collapse. This justifies the presence of defects and problems in the public organisation (D) found in the operations, where the key components were absent, which are considered the backbones of the system, which have led to undesirable results.

In contrast, in private sector organisations, SHRM was strongly present in addition to the key elements of the theoretical basis of the PRP drawn from the most important theories such as expectancy theory and goal-setting theory. It is worth noting that the processes, in terms of application, were characterised by transparency and clarity, which had a significant role in promoting fairness. Moreover, the performance appraisal process was objective enough, and this was attributed to clear and measurable goals that linked pay to performance in an objective manner. More importantly, the outcomes were valuable and expected for employees, especially in organisations A and B. All these procedures were urged by the

components of the theories mentioned and have been addressed and touched in the operating processes, and this is what seemed to have led to the achievement of the desired goals of the PRP system. Therefore, the theoretical and practical contributions are derived from this thesis, as empirical evidence indicates that the theoretical elements produced by SHRM and the theoretical framework cannot be separated from the practical application or the applied processes of PRP system operation.

Overall, it can be concluded from the findings that there are differences in the results from the four organisations, but with great similarity between Organisations A and B, particularly in the way the performance pay system is implemented and operated. The interview findings suggest that this convergence can be traced to the fact that Organisation A has shares in Organisation B. Therefore, it can be concluded that Organisation A was a source of inspiration and cultural influence in the application and operation of the system in Organisation B.

Surprisingly, similarities were also observed between the findings of Organisations C and D. This could be due to the fact that Organisation C is a company wholly-owned by the government, and therefore it is assumed that the government may to some extent have an influence and impact on the company's business and operation. This is what the results suggest; although this proposed assumption is beyond the scope of this study, it opens the door for future studies.

The findings generally show consistency between the results from the interviews and questionnaires in each case study, although it is clearly observed that there are significant differences between the public and private sectors in terms of PRP system operation and its effects. This indicates that the performance pay system is likely to motivate private sector employees more than public ones. Furthermore, the results of the thesis also suggest that

effectiveness of the performance pay system may depend to a large extent on the regulations and processes, and contextual, cultural and environmental factors in which the system operates (De Spiegelaere, Van Gyes and Van Hootegem, 2018). The characteristics of private sector organisations appear to be more supportive of PRP, whereas in public organisations the characteristics and working culture seem to need further improvement.

Through Organisation D's efforts to enhance its efficiency and performance, the PRP system has been found to be an effective tool and means to motivate staff with high performance and outstanding contributions and to retain them. However, it appears from the results of the field work that Organisation D has not taken into account that PRP system philosophy is not compatible with the bureaucratic administration often prevalent in government organisations, as bureaucratic culture undermines the values of transparency, fairness and non-patronage, which are the most important pillars of the system.

It can be concluded from the above that the issues related to the PRP system, such as organisational values and culture, policies, and processes and operations, can be addressed and remedied through the adoption of mechanisms adapted from successful experiences, even if they are Western. This assumption is based on the approach employed by Organisation B, as it has been embracing the policies of a global company (Organisation A), founded primarily in Western society such as the UK. However, the question remains as to what extent Western experiences in the operation of the PRP system can be useful to public organisations in the Arab world, particularly in Oman; in addition, whether the operation of the PRP system in Western public organisations is in fact successful.

The results show that Organisations A, B and C were able to incorporate elements of theories such as expectancy theory and goal-setting theory into their performance pay system processes. Organisations A and B have successfully employed the theoretical ideas in their

processes, which has been positively reflected in the interview and questionnaire responses. However, although to some extent Organisation C has been able to employ ideas from the theories, it does not however seem to have not applied them properly.

Furthermore, the results from the questionnaires and interviews in Organisations A and B show that the vast majority of staff felt that their good performance would inevitably lead to desirable outcomes, which is consistent with expectancy theory. In Organisation C, the results show that failure to use the bell curve was one of the reasons for the deterioration of fairness, as well as of staff expectations. In addition, the existence of favouritism was another reason for performance pay system deterioration, although it was far lower than in Organisation D.

On the other hand, the process of goal-setting and its criteria was among the most notable differences between the public and private sectors. In the private sector, the criteria, objectives and mechanism of PRP operation seem to be much clearer to employees. The majority of staff in Organisations A and B agreed that the goals assigned to them were clear and consistent with their performance appraisal and rewards. In Organisation C, the results show that the mechanism of goal-setting was in place, but that it lacked the elements of feedback and communication. Furthermore, there was an issue of linking the goals with the performance review.

In Organisation D, on the other hand, goals were ambiguous and often completely absent, with conflicts between objectives, performance ratings, employees' tasks, and job descriptions. Some respondents in Organisation D pointed out that bureaucracy and the old rules and regulations were among the obstacles that hindered the operation of the system, while others felt that the line managers were not adequately qualified in terms of educational

level. Moreover, other respondents argued that the problem lay in the lack of genuine will from top management.

Therefore, it can be assumed that the failure to incorporate elements from the theories underlying the idea of PRP system, beside bureaucratic factors, were among the causes for the failure of the system in Organisation D. In other words, the failure to employ elements of theories such as expectancy theory and goal-setting theory was perhaps was one of the main reasons for the failure of the performance pay system in Organisation D. This assumption stems from the idea that theory provides a logical and systematic explanation of how things happen or how things should be implemented (Kaufman, 2010; Hewett et al., 2018).

This leads to the conclusion that the success of PRP in private organisations can be justified by incorporating key theoretical elements into practical processes. Through this linkage (between theory and practice), private organisations have overcome the most difficult barriers, such as unfairness and favouritism. This different to what has happened in public organisations, which have failed to integrate the work strategy and the most important elements and processes advocated by the main theories supporting PRP. This will be discussed in more detail in the following sections, which will address the results of the findings for each individual organisation.

## **CHAPTER SIX: SUMMARY OF THE RESULTS AND CONCLUSION**

### **6.1 Introduction**

The main interest in this thesis was to understand the impact of the performance pay system on the public and private sectors and to establish the success/failure factors. The thesis included four case studies, three of which in the private sector and one in the public sector. A code was given for each case study (i.e., Organisations A, B, C and D), taking into account confidentiality and privacy factors, and due to the reservations of the participating organisations about revealing their data. Each case study organisation had differing characteristics to the others. Organisation A was distinguished by being a global organisation with branches in many countries of the developed world, whereas Organisation B was a local organisation working in the private sector. Organisation C was characterised by being a wholly-owned government organisation operating in the private sector, while Organisation D was a government entity operating in the civil service.

The research questions were the main driver of the thesis, and the method of answering these relied on the mixed method approach, which allows the use of qualitative and quantitative methods for data collection. The main approach to collecting the data was by interviewing five middle managers in each organisation. The data were triangulated by distributing the questionnaires to the employees; in addition, document analysis was used to diversify the data sources in order to increase confidence in the results of the message and reach a clearer understanding.

The results of the fieldwork show that there was a difference between what academic studies call for and what is applied in reality in operating the system in some organisations. The results also reveal that there are basic elements and factors that should be provided during the

implementation and operation of the PRP system, without which it would be difficult to achieve the necessary goals. This was evident from the responses of managers and the overwhelming majority of employees in Organisations A and B, who expressed a clear sense of satisfaction in light of the availability of favourable factors that support the PRP system. On the other hand, the results from the other case study organisations (C and D) show differences in the level of dissatisfaction due to the lack of certain basic components for the success of the system.

This will be examined in detail in the following sections, which will include a summary of the most important findings from the literature review, followed by sections relating to the summary of the most important results from the case studies. The chapter then proceeds to address the thesis contributions, the recommendations, limitations and finally future research directions.

## **6.2 Main Literature Findings**

Some performance pay literature findings suggest that the effectiveness of linking pay to performance is still vague (De Spiegelaere, Van Gyes and Van Hootegem, 2018). There seem to be no magic solutions or recipes to address PRP system problems. This is assumed because PRP issues are often related to the culture or context of an organisation (Spano and Monfardini, 2018). The proposition is that each organisation has its own culture, values and context. However, the findings from the literature review do not indicate a specific context that conclusively supports the performance pay system. It seems that the prevailing assumption is that each organisation should have its own size PRP, commensurate with its characteristics.

Although some research has shown that PRP has not achieved the desired results in the public sector context, some empirical evidence indicates the success of the PRP system in the private sector (Park, Min and Chen, 2016). Several studies have concluded that system failure is often due to poor implementation and operation. However, these studies do not provide the best solutions and methods of implementation or operation. They diagnose the cause without suggesting a medication. This is assumed because some studies often overlook systematic analysis of the context.

For example, it was noted that most of the studies that are often cited in the literature, such as Marsden and Richardson's (1992) research, were more focused on the survey and results related to the participants' reactions, rather than the context in which the system operates. Even studies by Thompson (1992) are believed to have paid insufficient attention to the context. It is concluded that the limited understanding of the context in such research makes it difficult to extract effective formulas, processes, tasks and goals that can serve the system. In addition, it makes it difficult to draw out or recommend criteria or reforms that can provide improvements.

The findings from the performance pay literature indicate that activating the role of HRM is an essential and important element in the success of the PRP system (Ulfsdotter, Larsson and Adolfsson, 2019). This is because the concept of PRP is deeper than just being a pay system; in fact, it is a profound philosophy that must be integrated with the concepts of HRM and the theories that underlie its practices. This can be inferred even from the findings of Organisations A and B which means that the system needs clear goals and policies that guarantee its success. This in turn requires a dedicated, specialised and neutral unit to do this in a systematic and structured way. This unit is HRM, as pay is one of its strategic functions.

The findings from the empirical performance pay studies have provided considerable evidence that the relationship between the PRP system and motivation is moderated by fairness and transparency in the system's operation and processes (Hartmann and Slapnicar, 2012). Therefore, procedural justice is a critical factor in the performance review and pay distribution. The two cases reviewed at the beginning of the literature review chapter confirm this. In the first case, which reviewed a study conducted by Marsden (2015) which included 2950 participants, it was shown that transparency and favouritism were among the reasons for the failure of the PRP system and undermining the trust of the participants in the system.

On the other hand, in the second case, the results of the study by Burgess et al. (2010) to assess the impact of the PRP system on civil service in the tax office, which lasted nine months, show that the system effectively contributed to raising the level of individual performance. This success is down to a systematic design that guarantees transparency, fairness and non-favouritism. These results do not contradict the findings of this thesis, which will be briefly covered in the following sections, and each case will be dealt with separately.

### **6.3 Organisations A and B**

Organisations A and B are covered together in this section as they have largely shown consistency and similarity in their results, even in the way they operate their performance pay systems. However, they showed a completely different PRP philosophy to Organisations C and D. It is believed this is because Organisation A has a stake in Organisation B, and for this reason the same PRP model used in Organisation A was transferred to Organisation B. Therefore, success can be attributed to the transmission of the experience. This can be understood from the results of the fieldwork, as well as the documents of the two organisations on the PRP system, which suggest that the system is far from being just a motivational tool. Rather, it is considered a principle and philosophy for employee

engagement, as well as a means of creating a culture of competition and high performance, which incentivises, retains and attracts talented staff.

Both organisations seem to have the conviction that PRP is far better than other staff control and monitoring methods, which may be costly and exhausting. This reflects the deep understanding of agency theory in the organisational context. It was clear that the participants in both organisations were responding positively to the PRP system. Therefore, it can be judged as successful, and most of the success factors observed from the findings of the fieldwork can be attributed to the following elements:

- Activation of the role of HRM, as the central one in operating the PRP system.
- PRP operations that are very systematic and drawn from the most important theories underlying the system.
- Measurable tasks and goals assigned to employees, which gives management a reference guide for measuring final output reliably. The process appears to be derived from goal-setting theory.
- Grievance policies are well defined.
- Clearly defined processes for setting employees' goals, reviewing performance and the final outputs. This seems to be largely drawn from expectancy theory.
- Written guidelines on processes and policies which ensure transparency.
- Middle management staff are trained to effectively manage the PRP system. Training in performance management and familiarity with its concepts is a prerequisite for reaching the level of employee supervision.

Overall, the PRP system appears to be a strategic tool for the aforementioned organisations to achieve their ultimate goals, in addition to being a vehicle for rewarding and retaining outstanding staff who make productive contributions, as well as attracting talented people. In

other words, it appears that the system in the private sector is more than just a means of motivation, but also about communication and focusing employees' attention on the ultimate goals of the organisation.

The question that arises is whether public services have the same perspective as private sector organisations and whether they adopt the same approaches and standards as private sector organisations in operating the PRP system.

#### **6.4 Organisation C**

The final results regarding the performance pay system in Organisation C did not appear to be positive enough. However, there did seem to be some gradual improvement in system operation, especially since there were positive initiatives, such as the company providing an electronic performance management system to ensure more objectivity and transparency, which is expected to boost employee confidence in the performance pay system.

Consequently, it cannot be judged whether the system in Organisation C has fully achieved its objectives. However, it can be said that the system is still in the process of developing and eliminating bureaucracy.

It is assumed that PRP experience in the company has not matured enough due to bureaucratic practices that may have been derived from the public sector, as it is a company wholly owned by the government. Nevertheless, it seems to some extent that there is a positive response, suggesting that there is a real trend towards improving the effectiveness of the system. Company management has shown its intention to improve the system by introducing a high-cost electronic performance management system, which reflects the real will of top management towards improving the operation.

Most of the participants' responses in the fieldwork were somewhat conservative and indirect, reflecting some uncertainty or confusion. This implies that the company is facing organisational problems related to the design and operation of the system, rather than problems with its culture. The responses reflect the existence of awareness and a performance pay system culture; however, this has not been translated into the operating mechanisms.

The bell curve problem was one of the most noticeable problems in operating the performance pay system, which is the forced performance classification system that management imposes on employees. It was noted that there are many criticisms of it. Moreover, some observations were noted about participants' expectations of performance outcomes and the goal-setting process. This suggests that the company needs to review some of the regulatory procedures and operation processes of the performance pay system, as well as training middle management to manage the system effectively and formulating clear written guidelines about the system's work cycle.

## **6.5 Organisation D**

In general, the results from Organisation D show harmony between the responses of the management and those of the workers. However, most of the responses are negative and reflect the dissatisfaction of the participants with the way the system is run. The performance pay system does not seem to have brought about the desired change in organisational culture. The vast majority of the participants expressed a pessimistic view about fairness and favouritism, which appears to have undermined staff confidence in the system. The obstacles that hinder the success of the system can be summarised as follows:

- Marginalisation of the role of HRM, which is one of the strategic elements in the application in the system.

- Absence of fairness and the presence of patronage due to weak procedural justice.
- Laws and regulations are old and not consistent with the objectives of the system.
- Lack of objective measures in reviewing employee performance.
- Lack of clear tasks and goals for employees, which makes the process ambiguous.
- Marginalisation of the role of middle management in formulating the performance pay system goals and performance measurement tools.

It can be concluded that the performance pay system in Organisation D lacks the basic ingredients and principles that underlie it, namely fairness, which is the critical factor in its success, in addition to other factors and flaws in its implementation and operation, which have led to problems such as favouritism. Some of the literature findings indicate that the system is one of the main pillars of public administration reform, yet there is limited evidence about its positive effects. However, there have been wide efforts in the United Kingdom, for example, by the government to promote the PRP system across public organisations (Bryson, Forth and Stokes, 2017).

Consequently, it can be inferred from the findings that among the factors believed to contribute to improving and moving the performance pay system forward in the public service are:

- Ensuring that there is a real will to bring-up a change by top management.
- Activating the role of human resources management.
- Studying and understanding the organisation's context and characteristics.
- Modifying the laws and regulations to be consistent with the system.
- Establishing clear key performance indicators (KPIs) and linking them to employees' goals and tasks.

- Involving middle management in formulating the goals and operations of the PRP system, as they are closer to the employees and better know their needs.

## **6.6 Overall Summary of the Results**

It can be concluded from findings that there is no single size PRP that appears to be suitable for all organisations. In other words, each organisation has its own way of implementing and operating the system. Despite the increased interest in PRP, there are very few studies on it in the public sector, perhaps because it is less common than in the private sector (Bryson, Forth and Stokes, 2017). In studies conducted on the private sector, the results have been largely mixed. Therefore, it is difficult to establish criteria for improvement and success of the system.

However, it is believed that this thesis has been able to extract the most common criteria for the private sector organisations included in the study. Despite the uneven results and different levels of effectiveness of their performance pay systems, there are common factors between them in terms of the processes, criteria and standards used in operating the system; for example, in activating the role of HRM; setting goals for employees against which performance is measured; the existence of a grievance policy; and having written principles and guidelines about how the system should operate.

On the other hand, it appears that the nature of work in Organisation D and its characteristics have not been sufficiently adapted to the work culture and should be compatible with the PRP system. However, this thesis is not in the position to assert whether the system is invalid in the public sector, but rather it attempts to define the criteria, standards and work culture that can be compatible and able to effectively adapt to a performance pay culture in a public department. Some findings from the literature review have shown preliminary evidence of the

positive effects of the performance pay system in the public sector (Prentice, Burgess and Propper, 2007); however, such studies lack a clear recipe or criteria for ideal operation of the system.

For public services, the PRP system may be effective if it is applied in an efficient and systematic way. It is also thought to be worthwhile to observe the experiences of the private sector and draw lessons from these. It is believed that effective implementation of the PRP system can contribute to controlling the wage bill, especially in light of the economic challenges facing the state. This can send a strong message to employees about improving performance and work efficiency and creating a high-performance culture, in addition to enhancing the spirit of initiative, competition and productive contribution and focusing attention on achieving organisational goals.

This should take the place of the current unsystematic pay system based on seniority and promotion every three or four years, regardless of employees' contributions and productivity, which places enormous financial burdens on the country in the wage bill. This is in addition to ignoring highly qualified employees, those who are more likely to be lost if they find a better job opportunity because of the current poor pay system, and in the absence of a strategy to retain competent employees.

According to the participants' responses from Organisation D, the performance pay system does not appear to have achieved the desired success. This calls for a review and diagnosis of the current situation, as many of the participants' opinions indicate the following obstacles: lack of involvement of middle management in system design; strict adherence to outdated laws and regulations; bureaucratic and centralised decision-making; lack of procedural fairness in the distribution of rewards; and issues surrounding the mechanisms of performance appraisal. In addition, there is an absence of employee goal-setting or KPIs,

which are the key driver of the system and should reflect individual performance. These factors represent the basic framework and evidence-based guidelines for operating the system and also represent important determinants of PRP success. As these factors were not present in Organisation D, it can be concluded that no common factors were observed between the private and public sector organisations in this thesis.

With regard to the theoretical aspect, it was noticed that the practices of the private sector organisations were largely derived from the theories underlying the PRP system. In terms of agency theory, it was noted that the three companies seem to realise the cost of monitoring employees, the difficulty of observing their efforts, and the performance measurement challenges. Consequently, linking goal-setting theory to the PRP system has been considered an effective solution in influencing employees' behaviour and directing their focus towards the organisational goals.

In terms of expectancy theory, it was noted from the fieldwork responses that the participants in Organisations A and B had clear expectations about the outcomes of their performance. Therefore, they seemed to believe that an increase in the level of performance that they put into their work will inevitably lead to an increase in the value of the outcomes they receive. A similar feeling was evident with some of the participants in Organisation C, but was largely absent from Organisation D. Expectancy theory is crucial to the operation of the system, because it simply assumes that increased effort will lead to the desired performance, and consequently that performance will be rewarded accordingly.

## 6.7 Addressing the Research Questions

### **What is the impact of PRP on employees' performance in Omani public and private sector organisations?**

The findings show evidence of the positive effects of the performance pay system in the case studies of Organisations A and B in the private sector. These findings suggest that the impact of the system may depend largely on the context, the nature of the organisation, and the method of operating the system. This makes the overall conclusion somewhat mixed, due to the only slightly positive impact of the system on Organisation C, which is wholly owned by the government. This modest improvement is perhaps due to certain practices that are consistent with the bureaucratic style often seen in the public sector. In addition, it may be due to the limited experience in operating the system, unlike in Organisation B, which has drawn its experience from a global organisation (Organisation A). However, the results indicate that the experience is gradually ripening in Organisation C.

On the other hand, in Organisation D (the public organisation), the results show that the performance pay system has not brought about the desired change. This is due to several reasons, as mentioned in the previous sections. However, the system cannot be judged as a failure in the public sector. This is because of the issues and shortcomings that were evident due to the lack of basic elements in operating the system. The success of PRP is largely dependent on the implementation processes and the consistency of the system's operation with the organisational context. The absence of an effective role of HRM; the issue of favouritism; poor procedural fairness; and the absence of objective performance measures and KPIs were among the most prominent challenges faced by the organisation.

Consequently, it is believed that the ineffectiveness of the performance pay system in Organisation D is a result of the lack of the aforementioned factors, in addition to the lack of readiness of the line managers and the weakness of management in setting goals and priorities. Therefore, it is assumed that the availability of such factors would have probably improved the effectiveness of the system, or at least would have facilitated the issuance of an objective judgment on its effectiveness in such a public organisation.

### **What are the key differences in the operation of PRP between the public and private sectors?**

Among the main differences that have been noticed is that the role of HRM in private sector organisations was active and instrumental in the operation of the performance pay system, while it was absent in the public sector case study organisation.

In addition, in case studies on the private sector, measuring staff outcomes was objective, which has reinforced the factors of fairness and procedural justice. However, this was largely absent from the public sector organisation due to poor performance review measurements, which is assumed to have opened up the door to favouritism.

### **What are the factors leading to the success of PRP?**

It is concluded from the results that a successful PRP system requires the following criteria to be met:

- Fairness: Employees' perception of fairness is a critical factor in the success of PRP systems. This can be achieved by designing clear and transparent processes stemming from the principles of justice. This is because employees' perception of unfairness generates feelings of distrust and frustration, which undermine achievement of the goals of the system. Therefore, pay increases received by employees in return for their

performance should be systematically and objectively justified to the maximum extent possible.

- **HRM:** Activating the role of HRM is an important criterion. This is because compensation and rewards are the primary functions of HRM and an effective tool for it. It is necessary to understand the importance of its inclusion and involvement and to activate its role, as well as to develop its strategies in a manner consistent with organisational goals. The findings from Organisations A and B show the effectiveness of the HRM role as facilitator, observer and as a neutral party, which greatly contributed to the success of the system.
- **Line Managers:** Preparation and rehabilitation of line managers to manage the PRP system and supervise staff performance, as well as to address the challenges and complex tasks of the system operation, are critical factors and key elements in system success. The importance of their role is:
  - As an interface between senior management, HRM and employees.
  - Being responsible for achieving organisational goals.
  - Being responsible for implementing the PRP system policies and processes in line with business objectives.
  - Being responsible for planning and prioritising employees' work and objectives and conducting their performance reviews.
- **Organisational Context:** A good understanding of the organisational context helps to design an appropriate PRP system and link it to the organisation's strategy and goals. The organisation must identify cultural and organisational issues that may hinder the success of the system and try to overcome them. It is important for organisations to be able to define clear and objective goals that can be cascaded down to departments and employees' tasks so that they are aware of their contribution.

- Importing Successful Experiments: The necessity of taking advantage and benefitting from successful experiences, and attempting to import and adapt them, has great potential for successful implementation and operation of the system. This can be clearly inferred from the case of Organisation B, which adopted Organisation A's experience and achieved the desired success.
- Connecting Theory to Practice: The theoretical framework can be seen as the foundation laid down for developing practice. It is believed that theories can be used effectively in practice, but it is difficult to design practical and effective practices without a clear understanding of the theories and their interpretations. This was evident in Organisations A and B who employed theories such as expectancy theory and goal-setting theory in their practices, which have added value to them. Consequently, it can be concluded that devising practices from the theoretical framework may help in designing and operating the system in a more systematic way.

## **6.8 Contribution to the Body of Knowledge**

The value and contribution of this thesis lie in the fact that it presents the reality of the PRP system from three different perspectives, that of middle management, of employees and from the perspective of the PRP theoretical framework. This was done through four organisations with different classifications, namely a global organisation, a private organisation, a fully government-owned organisation, and a public organisation.

Although many studies have dealt with the performance pay system, according to the author's knowledge none addresses the PRP system in organisations with different classifications and from multiple perspectives, especially in the Arab world. In other words, most studies neglect the context and focus on one dimension, either management or employees, with the theoretical framework covered in insufficient depth. However, it is believed that the methods of

triangulation, documentary data analysis, and the diversification of the contexts (in which the performance pay system operates) in this thesis have effectively contributed and enhanced the reliability of the results and also helped to provide in-depth understanding from multiple perspectives.

The results show that the private sector adopts a work culture that is more adaptive and more in line with the performance pay system compared to the public sector. Moreover, it was found that the culture and style of a global organisation in operating the system can be imported and accredited to local organisations in Oman. Consequently, the contribution of this study lies in the results that have added to the body of knowledge. Therefore, the thesis suggests that the mechanisms and processes of operating the system in a global organisation can affect the performance of employees and the organisation in general.

In addition, it is believed that the recommendations and proposals made in the thesis are important for decision-makers in Oman, in order to develop and design an effective performance pay system that enhances and keeps pace with the changes in the political, economic and social challenges that the country is facing with regard to civil service performance and the pay system in general.

## **6.9 Recommendations**

Based on the fieldwork in Organisations A and B, the results show a broad consensus that reflects positive opinions, which strongly support the way in which the performance pay system has been implemented and operated in both organisations. This is evidenced by the standards and policies that they have adopted, the results of the fieldwork and the system documents and guidelines. These two examples deserve to be studied, highlighted and presented as experiences that can inspire and be learned from. They are vivid examples of

how to apply a Western experience and concept to an Arab world country whose culture and values to some extent do not coincide with the requirements of the original context of the PRP system.

In Organisation C, management should review the overall design of the system and attempt to enhance employees' trust and perceptions of fairness. At present, it appears that the company is facing challenges in operating the bell curve system performance classification, which is believed to create a competitive environment. However, it seems that the difficulty lies in giving clear outcomes of employees' performance, as they do not appear to reflect the real natural distribution of performance rankings, which makes it possible for management to make wrong decisions. It may be effective for the company to rely on more objective evidence in the staff performance reviews, rather than on the bell curve system. This is because errors in evaluation often adversely affect employees' future attitudes and performance (Wu, Bacon and Hoque, 2014).

Moreover, it is important to pay attention to improving the mechanisms of the goal-setting process to ensure that more objectively measurable and evaluable goals are assigned to employees. Furthermore, the organisation must ensure the existence of clear guidelines for the performance pay system work cycle in order to enhance transparency and objectivity. It is also highly recommended that consideration be made of learning and benefiting from the successful experiences of other companies, such as Organisations A and B.

According to Organisation D's fieldwork outputs, the results indicate that the organisation needs to review its policies, and the design and mechanisms of its current performance pay system due to its limited impact, which does not seem to satisfy the ambitions of current and future stages. In the current situation, the system does not appear to be able to achieve organisational goals nor the ultimate goals of the state. Therefore, in order to take the

necessary measures to improve the system, the organisation must first review all of its regulations related to the performance pay system so that they are compatible and support its operation, as well as supporting transparency and fairness and a culture of high performance.

In light of the current challenges and requirements, the system does not seem to be attractive or effective. Hence, the potential for losing competent staff and the inability to retain them exists. Therefore, in order for Organisation D to ensure effective implementation of the performance pay system, the role of HRM must be activated and its strategies should be aligned with PRP. It is also recommended that consideration should be given to studying and benefiting from the most successful and developed experiences in the private sector, such as the experiences of Organisations A and B.

Furthermore, among the major flaws that Organisation D should pay attention to is the performance review system. The current system is very subjective and does not reflect the actual performance of staff. This is due to the absence of objective standards and criteria, which open up the door to favouritism and unfairness. Consequently, management should focus attention on finding objective standards and effective key performance indicators that guarantee transparency and fairness.

Moreover, it appears from Organisation D's results that the role of middle management is marginalised, which is one of the reasons that undermine the effectiveness of the system. However, in light of the economic and technological challenges and the pressure to improve and provide quality services, public organisations need qualified, trained and capable personnel to manage the performance pay system effectively and efficiently. Consequently, it is necessary to involve middle management and prepare and equip them to manage the system effectively, as they are a critical factor for success. This is because line managers are in direct contact with employees, so it is important to ensure that they are able to adopt the

highest degree of objectivity and fairness in conducting the performance appraisal process. It is also necessary to undertake a periodic survey in which employees are involved in expressing their opinion on the design and implementation of the system.

### **6.10 Limitations of the Research**

Despite the results of the thesis, which are believed to be rich and to contribute to the body of knowledge related to pay, there is no thesis or piece of research that is free from limitations. Accordingly, this thesis does not claim to have covered all the issues and aspects related to the performance pay system. The most prominent limitations can be summarised in the following points:

Because of privacy and confidentiality considerations, access agreements in the four organisations were enforced to adopt a probability sample that consisted of a simple random sample, instead of a systematic random sample or other types of probability samples.

However, the sample size chosen was reasonable compared to the number of staff in the organisations covered. Moreover, access to the organisations was in itself an achievement and a significant contribution to the thesis, given their size and socio-politico-economic impact in the country.

Among the most important goals of the thesis was to extract the most important success and failure factors in operating the performance pay system. Consequently, it is believed that a longitudinal study would be more effective and realistic than employing a snapshot time horizon. However, the resources allocated did not allow this, although this does not weaken the thesis, as it was able to extract crucial factors that could improve the effectiveness of the performance pay system, especially in civil service organisations. Furthermore, it is believed that the study was able to gain good understanding of the challenges encountered in operating

PRP, as well as making recommendations that it believes will contribute to improving the operation of the system.

Most of the data collected from the fieldwork were selective. It is worth noting that some of questions asked in the questionnaires and responses were overlooked. This was to avoid deviations from the research path and to sharpen the focus of attention on the core issues, consistent with the research questions and objectives. For example, there was a question about team-based pay. It was noted that interviewees ignored that question and focused more on individual pay. Consequently, the responses that resulted from team-based pay were not worth discussing. It was noted that individual PRP was more common and favoured by staff and management.

The scope of the thesis was limited to only one public organisation, which may be seen as undermining the generalisation of the results of the study to other such organisations.

However, it is believed that this does not diminish the importance of the thesis, as it has intentionally diversified the types of organisations (global, private, government-owned and government ones) to enrich the findings and extract the factors of success and failure, as well as the factors common to the four organisations.

Most of the studies cited and relied on in the thesis were Western studies, specifically from the United Kingdom and the United States. This was due to the lack of performance pay literature in the Arab world. This factor is not considered to weaken the thesis, but rather an opportunity to promulgate Western experiences and the reality of the pay system in Western society.

## 6.11 Directions for Future Research

According to what has been mentioned in the limitations section, this can be built upon in developing proposals for future research, as follows:

It is clear that the scope of the study in the public sector was limited, and it is not sufficient that one organisation represents a whole public sector. Accordingly, it is suggested that explorations be made on a larger scale to include the civil service, the military, and the educational and health sectors.

As an extension of what was mentioned in the limitations section, it would perhaps be worth conducting longitudinal in-depth studies in the private and public sector on the way the performance pay system works, thus giving a more realistic picture of its progress and effectiveness at certain times, as well as to determine its true impact in the long-term.

The thesis was limited to the reactions of line managers and employees to ascertain their perceptions and attitudes towards the PRP system. Perhaps in the future it would be worth focusing on top management to find out their views and perceptions about the system and compare the findings with the outcomes from middle management and employees.

The thesis did not go into much depth about the role of HRM in supporting the PRP system and promoting the culture of performance. Therefore, it would be useful if future studies focused on HRM strategies and its role in enhancing the effectiveness of the system.

Given that Omani public and private sector entities are case studies in this thesis to determine the impact of the performance pay system on them and the success/failure factors, it can be said that the general objectives of the thesis have been met. Therefore, it can be concluded that the PRP system is a powerful tool for change and performance enhancement. However, it

appears that the context and method of implementation will remain a subject of major debate and controversy. Therefore, it is hoped that the outcomes of this thesis will provide the basis on which future research can be built.

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## APPENDICES

### Appendix 1: Permission Letter for Research

Dear Mr/Mrs

#### **REQUEST FOR PERMISSION TO CONDUCT RESEARCH INTERVIEWS AND QUESTIONNAIRES**

I am a registered Ph.D.'s student in the School of Business, at the University of Wolverhampton.

My supervisor is Roger Seifert, Professor of Industrial Relations at Wolverhampton Business School.

The proposed topic of this thesis is: The Impact of Performance Pay on Employees Performance.

The objective of the study is to explore the nature of Performance-Related Pay practice in Oman.

The method of the thesis focuses on the Omani public and private sectors organisations, which intends to learn and benefit from their experiences. Each case study organisation aims to include interviews (approximately one hour long) with five to ten middle managers in your organisation. In addition to questionnaires targeting 70 to 100 participants.

I am hereby seeking your consent to participate in this research, which is hoped will contribute significantly to improving the productivity and performance of organisations in the Omani public and private sector.

Should you require any further information, please do not hesitate to contact me or my supervisor.

Our contact details are as follows:

Email: [REDACTED]

Mobile: [REDACTED]

Email: [REDACTED]

Mobile: [REDACTED]

Upon completion of the study, I undertake to provide you with the findings derived from the research.

Your permission to conduct this research will be greatly appreciated.

Yours sincerely,

Mohammed Al Rashdi



## Appendix 2: Interview schedule

| Case study Organisations | Date and timing of the interviews |                                 |                                      |                                   |                                     |
|--------------------------|-----------------------------------|---------------------------------|--------------------------------------|-----------------------------------|-------------------------------------|
|                          | Interview 1                       | Interview 2                     | Interview 3                          | Interview 4                       | Interview 5                         |
| Case Study A             | 25/03/2018<br>8:30-9:40 AM        | 25/03/2018<br>9:50-10:30 AM     | 25/03/2018<br>10:45-11:40 AM         | 25/03/2018<br>12:30-1:50 PM       | 26/03/2018<br>10:15-11:40 AM        |
| Case Study B             | 03/04/2018<br>8:30-9:20 AM        | 03/04/2018<br>9:30-10:30 AM     | 03/04/2018<br>11:15 AM -<br>12:00 PM | 03/04/2018<br>12:30-1:30 PM       | 03/04/2018<br>1:45-2:30 PM          |
| Case Study C             | 28/03/2018<br>9:00-10:15 AM       | 28/03/2018<br>10:30-11:20<br>AM | 28/03/2018<br>11:40 AM -<br>12:45 PM | 29/03/2018<br>9:00 AM -9:40<br>AM | 29/03/2018<br>11:00 AM -12:40<br>PM |
| Case Study D             | 01/04/2018<br>8:00-9:00 AM        | 01/04/2018<br>9:30-11:00 AM     | 01/04/2018<br>11:20 AM -1:00<br>PM   | 01/04/2018<br>1:30 PM -2:40<br>PM | 02/04/2018<br>10:00 -11:20 AM       |

### Appendix 3: Interview Questions

During the interviews, the following questions were used as a general guide for discussions. Participants were given enough time to try to extract the most ideas relevant to the research. The questions were asked flexibly to accommodate the factors of the study content, timing and extent of interaction of the participants.

1. Can you tell me something about your background?
2. What do you think of the idea of linking pay to performance?
3. What do you think about the performance pay in the organisation?
4. Why do you think the performance pay system was introduced?
5. How do you see the relationship between the employees and management under the current performance pay system?
6. How is employee performance measured?
7. How do you see the effectiveness of performance measurement?
8. How are employee goals set?
9. How do you see staff expectations?
10. How does the company ensure fairness?
11. How do you see the difference between team performance pay and individual performance pay?
12. How do you see employees' commitment and behaviour under the current performance pay system?
13. How do you see organisational culture under the PRP?
14. How do you see the company retention strategy?
15. How do you see the relationship between performance and training?
16. What are the most important challenges in managing the performance pay?
17. What do you recommend to make the performance pay system better?

## **QUESTIONNAIRE SURVEY**

This questionnaire is intended to obtain information on the effectiveness of performance pay system in Omani organisations. The research aims to contribute in improving the pay system in Oman.

All information from this questionnaire will be used for doctoral research only, and the information will be held in strictest confidential and anonymous. The research results will be presented in a way that participants and their responses cannot be identified.

Please read each question/statement that asks for your level of agreement and indicate the statement that best matches your personal view by ticking in the box. Please remember that there are no right or wrong answers. Your honest point of view is important for this research, and will hopefully help in improving the performance pay system.

The survey will take about 7-10 minutes to complete. Thank you in advance for your time and your desire to participate.

If you have any questions about the questionnaire, please don't hesitate to contact [REDACTED] or [REDACTED]. Thank you in advance for your participation.

Mohammed Al-Rashdi

## Appendix 5: Questionnaire Survey

| To what extent do you agree the following statements?                    | (5)<br>Strongly<br>Disagree | (4)<br>Disagree | (3)<br>Neutral | (2)<br>Agree | (1)<br>Strongly<br>Agree |
|--|-----------------------------|-----------------|----------------|--------------|--------------------------|
| The principle of performance pay is a good one                           |                             |                 |                |              |                          |
| The idea of performance pay is fundamentally fair                        |                             |                 |                |              |                          |
| Managers use performance pay to reward their favourites                  |                             |                 |                |              |                          |
| I would like to see appraisal without a link to pay                      |                             |                 |                |              |                          |
| Money is the most important motivator                                    |                             |                 |                |              |                          |
| Performance pay in my organisation means good work is rewarded at last   |                             |                 |                |              |                          |
| I am fairly rewarded for the amount of responsibility involved in my job |                             |                 |                |              |                          |
| I am fairly rewarded for the amount of skill required in my job          |                             |                 |                |              |                          |
| The appraisal processes are highly visible                               |                             |                 |                |              |                          |
| My pay is low compared with what others get for similar work             |                             |                 |                |              |                          |
| My manager is objective when conducting performance appraisal            |                             |                 |                |              |                          |
| My manager is capable of managing performance pay                        |                             |                 |                |              |                          |
| Performance pay has improved communication between me and my boss        |                             |                 |                |              |                          |
| Performance pay has made me more willing to cooperate with management    |                             |                 |                |              |                          |
| Overall, I am satisfied with the performance pay scheme applied          |                             |                 |                |              |                          |
| Performance pay has damaged the relation between me and my boss          |                             |                 |                |              |                          |

| To what extent do you agree the following statements?                                      | (5)<br>Strongly Disagree | (4)<br>Disagree | (3)<br>Neutral | (2)<br>Agree | (1)<br>Strongly Agree |
|--|--------------------------|-----------------|----------------|--------------|-----------------------|
| The quota system in performance appraisal makes it fair                                    |                          |                 |                |              |                       |
| Performance pay has increased the quantity of work   |                          |                 |                |              |                       |
| Performance pay has made me want to show more initiative in my job                         |                          |                 |                |              |                       |
| Performance pay has helped to increase my productivity                                     |                          |                 |                |              |                       |
| Performance pay inspires the very best in me   |                          |                 |                |              |                       |
| Performance pay motivates me to work beyond job requirements                               |                          |                 |                |              |                       |
| Performance pay would have more impact if it were part of basic pay, rather than a 'bonus' |                          |                 |                |              |                       |
| Performance pay award is sufficient to motivate me   |                          |                 |                |              |                       |
| Performance pay system systematically evaluates employees' training results                |                          |                 |                |              |                       |
| Qualified employees are appreciated under the performance pay                              |                          |                 |                |              |                       |
| I am provided with the training I need to excel in my job                                  |                          |                 |                |              |                       |
| My training has helped me do my job more effectively                                       |                          |                 |                |              |                       |
| My manager uses appraisal to assess my training and development needs                      |                          |                 |                |              |                       |

| To what extent do you agree the following statements?            | (5)<br>Strongly<br>Disagree | (4)<br>Disagree | (3)<br>Neutral | (2)<br>Agree | (1)<br>Strongly<br>Agree |
|--|-----------------------------|-----------------|----------------|--------------|--------------------------|
| Goals set for me are specific and measurable                     |                             |                 |                |              |                          |
| I know exactly what to do in each task                           |                             |                 |                |              |                          |
| Performance pay has made my manager set work goals more clearly  |                             |                 |                |              |                          |
| The nature of my job makes it very hard for me to meet the goals |                             |                 |                |              |                          |
| I feel a strong sense of belonging to my organisation            |                             |                 |                |              |                          |
| If I get better opportunity I will resign                        |                             |                 |                |              |                          |
| Performance pay has made me less willing to be absent            |                             |                 |                |              |                          |
| Individual performance pay damage teamwork                       |                             |                 |                |              |                          |
| I feel motivated when pay focuses on team performance            |                             |                 |                |              |                          |
| Performance pay harms teamwork                                   |                             |                 |                |              |                          |
| I prefer individual pay to team pay                              |                             |                 |                |              |                          |

**Any Further Comments:**

## **Participant information**

- 1. Gender M / F .....**
- 2. Age (please write your age) .....**
- 3. Educational qualification (e. g. HND, Bachelor, Master)? (Please write in) .....**
- 4. Years of employment in current organisation? (Please write number of years) .....**