

**The effect of the Performance Related Pay system on the performance of the employees in Saudi national firms: Three case studies.**

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**The effect of the Performance Related Pay system on the performance of the employees in Saudi national firms: Three case studies.**

By

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# Abstract

Performance related pay (PRP) has been widely adopted across public and private organisations. However, the evidence for its impact on performance and other possible objectives remains contested, and further questions are raised where the concept is imported to contexts which are culturally different to those in which PRP was originally developed. The aim of this research was to investigate and analyse the impact of performance related pay schemes in the Kingdom of Saudi Arabia on performance in Saudi national firms, through a case study of three indigenous Saudi organisations, namely: The Saudi Industrial Development Fund (SIDF; The Saudi Electricity Company (SEC) and; the Saudi Telecoms Company (STC). This was based upon an extensive review of the related literature, exploring the theories which underpin PRP such as agency theory and expectancy theory, and studies in various contexts worldwide.

The study was mixed methods and cross-sectional, and used survey questionnaire with employees and face to face interviews with managers. The findings reveal widespread dissatisfaction with the PRP schemes in place in two of the companies, and concerns among some management that the assessment processes and allocation of bonuses do not allow genuine assessment and reward for the best performing employees. There are also concerns about the underlying wisdom of differentiating between workers and providing different pay, in that it may go against the norms of working culture in Saudi Arabia. There was also evidence of moves to adapt what was being implemented in line with these norms. Further, in two of the case study organisations, it was felt that the proportion of pay related to performance assessment was insufficient to motivate, raising issues regarding how best to implement PRP. At the same time, there are also voices in support of the schemes at each company, and in SEC, overall satisfaction was expressed.

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## **List of Abbreviations**

ACAS - Advisory, Conciliation and Arbitration Service

HR – Human resources

HRM – Human resource management

OECD- Organisation for Economic Co-operation and Development

IMF – International Monetary Fund

KSA – Kingdom of Saudi Arabia

PRP – Performance related pay

SEC – Saudi Electric Company

SIDF – Saudi Industrial Development Fund

STC – Saudi Telecoms Company

UK – United Kingdom

USA – United States of America

# CHAPTER ONE: INTRODUCTION

## 1.1 Introduction

Pay is a central element in the employer-employee relationship, and due to its great importance to the worker, the prospect of using pay as a lever to optimize performance levels has been and continues to be a matter of great interest to the employer. At the same time however, pay is influenced to a large extent by elements which are external to the core relation of worker and employing organisation, whether that organisation be in the private or public sphere. These influences include the government of the country within an organisation operates, its legal structures and legislation regarding employment and pay, competitors, and economic conditions within the company of operation and increasingly clearly, on a more global scale.

Notwithstanding the various forces which constrain the employer in determining pay, pay for performance has emerged as a major route for shaping pay with the intention of influencing employee behaviour, being tried at various levels of the organisational hierarchy and in various formats. The development of pay for performance in the human resource management literature is viewed as largely based in principal-agent theory, and this is coupled with expectancy theory, which underpins the rationale for the employment of such approaches to pay (Liang, 2013). Payment by results first attracted wide attention in the 1980s and 1990s, and over the course of the ensuing period, typical implementation of payment schemes in the countries in which this first developed can be said to have altered somewhat toward the newer concept of performance related pay (PRP), based on the available evidence, with a recent shift toward notions of team-based reward within PRP as opposed to earlier consideration of individually based reward schemes which sought to

identify and presumably influence performance at this level. As the body of research evidence has grown, the success of pay for performance has been disputed, as has its psychological, sociological and economic underpinnings.

The narrative presented in the literature of human resource management for the development of pay for performance (PRP) approaches is largely situated within the research context of the Western world and particularly Anglophone countries such as the USA and the UK, where such approaches may be viewed as having emerged more or less organically from the prevailing cultures and attitudes within human resource management and in business culture. This ignores other settings in countries such as Saudi Arabia and others in the developing world, where many practices of Western human resource management have been, so to speak, imported, rather than developing out of an organic tradition or approach to pay and the management of personnel within the employer-employee relation. The issue is therefore connected to debates on convergence versus divergence, which centres on whether global human resource practices tend toward a universally accepted set of practices, or diverge to reflect more localized norms, and the implications of this for effectiveness. In light of the view that human resource management practices, in dealing particularly with people, behaviours and relationships, are more based in cultural practice and attitudes than many other aspects of the operation of organisations (Hollinshead, 2009), it is important to consider the way in which practices taken from other cultures are implemented and responded to when applied outside their original setting.

This study aims to shed light on the implementation of PRP schemes within a Saudi Arabian cultural and organisational context, and to consider the impact of this introduction of a facet of Western human resource management on employees within such organisations. To this

end, the study will collect data from employees and managers from three companies in Saudi Arabia, namely: The Saudi Electricity Company (SEC), the Saudi Telecoms Company (STC) and the Saudi Industrial Development Fund (SIDF). This project involves collection of primary data encompassing a range of aspects of and expectations regarding pay for performance schemes as based on a detailed examination of the available literature in this field, in terms of theoretical bases, practices, outcomes and perceptions. In seeking and analyzing primary data from the Saudi Arabian context and from three case study companies, a rich picture is drawn of implementation of PRP and responses to that implementation within discrete organisational cultures and within the wider context of the country studied.

This study is considered to be relevant to the companies studied, the state of human resource management within Saudi Arabia and to the body of human relations research in a global context. The picture of performance pay within the three companies studied will assist those companies in further developing their pay approaches and planning for the future, while allowing those responsible for decision-making and human resources professionals to form a deeper view of the functioning and impacts of the pay schemes. The study also offers a description at a company level of the interaction between human resource management concepts formed in the Western context and the new settings to which these are adapted and transferred in the developing world as a result of the globalization of business practice more generally. The research seeks through this to assist in the process of finding the best approaches to pay policy within the contexts that it covers, to the benefit of organisational performance and employee wellbeing.

The first chapter of this thesis provides a brief introduction to the concept of pay determination and more specifically to the development of pay for performance approaches,

which are covered in more detail in the literature review which is presented in Chapter Two. A concise consideration of human resource management in the international context and issues arising from this will also be presented. The chapter will go on to introduce the original research to be presented in this thesis, setting out the context, aim and objectives of the study and the research questions to be answered, as well as considering the relevance and importance of the research. Finally, an overview of the structure of the research thesis will be offered.

## **1.2 Pay Determination: background and definitions**

Pay is defined by Torrington, Hall and Taylor (2005) as what is provided in financial terms by an employer in exchange for a combination of time, dedication, effort and capability offered by the worker. While a variety of definitions exist for pay, as considered further in Chapter Two, they generally converge around the principle of money offered for work undertaken. With this basic definition accepted, pay determination represents the ways in which the level of monetary compensation for this work is decided, and here, various theories of pay determination and the labour market come into play. Human capital theory states that a wide range of stakeholder groups may have input into this process, including the state, trades unions, employers and workers of various types grouped according to skills, qualifications and experience (Lipsey and Chrystal, 2011). Meanwhile, Colling et al. (2010) state that based on the economic model, pay principally functions as a price signal in the labour market and as a pay-off to human capital investment, with the result that pay alters with fluctuations in demand and supply, with higher wages occurring for a particular profession when there is high demand, and lower wages occurring in cases of decreased demand.

Various theories of wage determination, including human capital theory, efficiency theory and self-selection theory, are discussed in Chapter Two. Bryson and Forth (2006) state however that pay determination is not satisfactorily explained by any one of these theories, with no universal theory of pay determination being put forward, and gaps in knowledge of some significance on this subject, due it is suggested to ambiguity within the employment contract and the precise nature of the exchange which it represents. With this in mind, pay for performance is necessarily developed from an incomplete understanding of the full range of forces determining pay.

### **1.3 Pay for Performance**

While there is no standardized version or definition of pay for performance, the term describes a general tendency in which organisations have sought new ways to strengthen the link between how employees perform and the pay which they receive (Lee & Eyraud, 2008). Pay for performance is premised on the notion that reward affects behaviour or individual performance in such a way as to impact upon the performance of the organisation (Gerhart & Rynes, 2003), and therefore stems at base level from the imperative to increased competitiveness experienced by the modern firm. Within this, Wragg (2004) cites a widely-viewed desire on the part of the employer to recruit, retain, and inspire the labour force, in conjunction with the belief that the possibility of reward for performance will lead to an interest in working for the company from the most potentially high-performing candidates. Pay for performance and its basis in theoretical constructs is generally explained in terms of expectancy theory.

The theory considers that external and clear incentives can be applied to the employee in order to extract greater effort toward a particular goal or goals, specifying two conditions

for the effectiveness of this: firstly, that the employees should believe in increased efforts leading to increased performance; and, secondly, that greater performance will be effective in leading to the outcomes which management have set as being desired. According to expectancy theory, in this case, workers will generally adapt their expectation of future reward and make greater effort based on this (Lunenburg, 2011). The evidence does not universally support the applicability of this theory however (Yuan et al., 2013). Agency theory is also regarded as a central theory in the development of performance related pay: this theory describes principals, or employers, and agents who the principal employs to act on behalf of the organisation, with the problem that the desires and objectives of these two parties are not the same (Arrowsmith & Marginson, 2011). Therefore, incentives may, according to this theory, be used to bring the agent's objectives in line with those of the employer, leading to greater performance towards organisational goals. However, this ignores intrinsic motivation as a prerequisite for high performance as put forward by theories of motivation emanating from psychology (Frey, Homberg & Osterloh, 2013; Larkin, Pierce & Gino, 2012). This begs the question of how pay for performance impacts upon intrinsic motivation and the evidence of the effectiveness of PRP is thus far unclear. This is further complicated by the range of approaches encompassed within the general umbrella of performance related pay, which makes the evidence challenging to assess. The theoretical background to pay for performance as a management tool to affect the performance of employees is explored in greater detail in Chapter Two. A wide range of schemes under the label of pay for performance are identified in the literature, including those based on individual reward only and others which seek to incorporate an element of reward for team-based performance, particularly more recently (Larkin, Pierce & Gino, 2012). This is an interesting distinction, particularly as the three case study organisations do not follow this

trend, despite some evidence in the literature that individually-based performance rewards may harm teamwork, and the effects on teamwork are explored in the current study.

## **1.4 Pay for Performance and Cultural Context**

Any and all aspects of human resources management and the effectiveness of particular approaches can be said to be subject to influence from their context, in terms of the individual organisation in which policies are implemented and in terms of culture in the wider sense, as may be applicable at country level (Rugman et al., 2006). The cultural content of practice and perception is equally applicable to the pay for performance context, and in this area, differences appear to arise in the way in which schemes are implemented across different countries, being adapted by the culture which adopts the tool, and with possible attendant impacts upon the reception of such schemes by the workforce and impacts on individual and team performance (Kang and Yanadori, 2011). Hyman (2004) contends that the differences in the underlying culture of a society mean that it is not possible to assume that similarly designed practices will have comparable effects across different cultural contexts.

The increasing presence of multinational organisations has led to a move to adopt practices which are of external origin, often coming from the US, in other cultural contexts, but there is doubt as to the actual fit of these practices in each case (Martinez Lucio, 2013). This is an issue explored in this research through the examination of PRP as a Western import into Saudi Arabian companies which form the case studies.

## **1.5 Saudi Arabian Context**

Saudi Arabia is a largely oil-based economy, and the discovery of this resource fuelled rapid development in the country due to its new-found wealth. While the country

retains a traditional absolute monarchy as its political structure, in recent years it has sought to develop a more modern economy and to set up advanced infrastructure through a series of 5-year plans. Further, Saudi Arabia is no stranger to the internationalization of the global economy, and the World Bank has rated Saudi Arabia as the easiest place to do business in the entire Gulf region (Ramady, 2014). Saudi Arabia permits 100% foreign ownership of business ventures and real estate, and in this climate, along with the fact that professionals within human resources management and other spheres often undertake part of their education abroad, it can easily be understood that there has been a strong influence from international business practices within the organisations operating in the country. Pay for performance seems to be one aspect of this general situation.

Based on the particular features of Saudi Arabia's recent history and development, the population of Saudi Arabia currently includes immigrants as 30% of its total, due to the demand for migrant workers in the labour market (The World Factbook, 2013). This is an influential factor in wage differentials and pay determination. Workers from abroad are disproportionately clustered in the private sector, and this affects conditions within that sector. Meanwhile, for cultural and financial reasons, Saudi citizens tend to prefer roles in the public sector. Further factors in this environment include a high level of unemployment and of a skills shortage (The World Factbook, 2013). It is clear from this brief outline, which will be discussed in more detail in Chapter Three, that the situation within Saudi Arabia as regards pay determination is complex and unusual, and in this context, pay for performance deserves investigation within that setting.

## 1.6 Research Aims and Objectives

The main aim of this research is to investigate and analyse the role and impact of Performance Related Pay schemes in the Kingdom of Saudi Arabia on performance in Saudi national firms, as conducted through a case study of three indigenous Saudi organisations, namely: The Saudi Industrial Development Fund (SIDF; The Saudi Electricity Company (SEC) and; the Saudi Telecoms Company (STC). The main question which has been created to drive the research process is therefore as follows:-

***What is the impact of PRP on employees' performance in Saudi national firms in Saudi Arabia?***

In order to inform the work undertaken to answer this question within the case studies selected, an extensive review of the literature was firstly undertaken. This has explored the theories which underpin PRP as well as research on implementation and impacts of pay for performance schemes across the globe. Based on this, the current research aims to explore the impact which the PRP system has on individual and team performance under the influence of the particular culture of the organisation and the country in question. This aim informs the detailed research questions given in the table below, which are divided in to categories of performance, teamwork, cultural role, fairness and feedback:

Performance	Q1: Does the introduction of the PRP system increase employees' performance? Q2: Does the introduction of the PRP system make employees work harder? Q3: Will employees be more highly paid if they work harder?
Team work	Q 4: Has the introduction of PRP helped in encouraging effective work as part of a team? Q 5: Has the introduction of PRP helped in unifying the goals of both parties within industrial relations?

Culture role	Q 6: How has PRP influenced organizational culture?
Fairness	Q 7: How fair is the PRP scheme from the employee's perspective?
Feedback	Q 8: How far are employees satisfied with the PRP system's approaches to the formal and informal feedback which they receive?

It is considered that by answering the questions in the table above, the research will provide a clear picture of the impact of PRP within each of the case studies undertaken. This will facilitate conclusions to be drawn regarding the effectiveness of the organisations' use of pay as a lever for performance, as well as adding to the body of more general research about the effectiveness of PRP at a broader level.

## **1.7 Importance of the Study**

The three case study organisations are within the same country, Saudi Arabia. This both facilitates the research process and allows cautious conclusions to be drawn regarding the implementation and effects of PRP within the Saudi cultural context. In doing so, the research is of importance due to its potential to shape policy within Saudi organisations as regards implementation of PRP schemes and expectations of the likely outcomes of such moves.

At the same time, in focusing on Saudi Arabia, the research also addresses a gap in the literature regarding pay for performance schemes in this area of the world, and adds to the small body of PRP research conducted in developing nations. Thus, the research helps to shift the focus away from a dominance of Anglophone and Western nations toward a more balanced and multi-faceted view of this area of HRM study.

## **1.8 Structure of the Thesis**

This study is presented through a thesis consisting of six chapters. A general outline of the content and aim of each chapter is given below.

Chapter One, the current chapter, has introduced the thesis. It has provided background information and definitions concerning pay, pay determination and performance related pay as the sphere of interest of the study. It has also considered human resource management in an international context and for Saudi Arabia as the context of the study. Chapter One has also set out the structure, aims and objectives of the research conducted for this study, and considered the importance and relevance of this research.

Chapter Two presents the literature review which informs and underpins the study. As such, it will offer a detailed consideration of pay, and pay determination, as considered briefly in the first chapter, as well as considering the employment relationship and linking pay to productivity. It will then move on to explore pay for performance in detail. Theories drawn from economics and psychology which underpin pay for performance approaches will be explored, and the common theoretical characterisation of PRP within human relations literature will be presented, along with critiques of this characterisation. Types of PRP scheme will be considered, as well as prescriptions in the literature for its effective implementation. The literature review will also consider evidence drawn from studies globally as to the effectiveness or otherwise of PRP, and case studies conducted in this regard. Issues in PRP and HRM practice in an international context and across different cultures will also be considered.

Chapter Three will present the background to the context of the study. This will include an overview of the important features and characteristics of Saudi Arabia as the physical, political, economic and cultural backdrop for the case studies included in this thesis. The chapter will then focus upon each of the three organisations which have been selected to form the case studies for this research. The history, market and operations of each organisation will be described in the chapter.

Chapter Four is the methodology chapter. It will offer a detailed presentation of the philosophical stance, research approach and methods used in pursuing the current research project. With qualitative and quantitative data used and a questionnaire and interview approach to data gathering, methods, sampling and ethics will be considered. Further, this chapter will apply the standards of reliability and validity to the study in order to justify the approaches taken.

Chapter Five presents the findings of the primary research. This includes, for each of the three companies studied, a presentation of the data gathered through questionnaire given to employees, semi-structured interviews with managers involved in implementing PRP, and selected documents which illuminate PRP policy within the organisation. Results are compared and contrasted between cases.

Chapter Six presents the conclusion to the study, and thus revisits the aims and objectives outlined in Chapter One to consider how far the research questions have been answered. This final chapter of the thesis will also draw conclusions from findings, present recommendations based on these conclusions and propose avenues for future study.

## **1.9 Chapter Summary**

Chapter One has given an introduction to the thesis. As well as outlining the broad subject area background in terms of pay and pay determination, the concept and definition of performance related pay has been introduced and its development briefly traced. Issues concerning the juxtaposition of PRP with the Saudi Arabian culture, in which it did not develop, have also been pinpointed for further consideration. The primary aims of the research in exploring implementation of PRP within three case study companies in Saudi Arabia have been presented, and justified in terms of the relevance of this research for HRM policy on the ground in Saudi Arabia and to filling the gap in current research regarding PRP outside the Western or developed context. The next chapter presents a review of the literature as relevant to pay for performance, and explores its theoretical underpinnings, implementation and documented results.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction:

The following chapter outlines the concept of pay and pay determination as a basis upon which private and public employers calculate wages for their workers. This chapter, therefore, provides a relevant literature review which will assist in justifying and clarifying the issues under discussion. The chapter discusses how organizations engage pay models and theories of bargaining and negotiating power, and focuses on theoretical and empirical arguments about pay and pay determination models. It also presents a scrutiny and critique of pay determination models. In line with these conceptions, the chapter provides a comparison of pay determination theories while incorporating arguments about bargaining and bargaining power and the nature of the employment relationship. It then explores the efforts of the firm to use pay systems to maintain or increase productivity in its employees, mainly through either time- or reward-based pay in various forms. Following this, the second main section of the chapter considers performance related pay, in terms of definitions, rationale, implementation and effectiveness. It considers motivations for applying PRP systems, and evaluates evidence for both positive and negative effects of such schemes in the context of those motivations. Marsden, French and Kobi (2000) for example find that there are both positive and negative impacts from PRP and that these applied to different workers within the organisation differently, incentivizing those who gained from the scheme but demotivating those who were not rewarded, who formed the bulk of the workforce. The second part of the chapter will examine this and other attempts to weigh the impacts of pay for performance to provide a background within which to situate the findings of the current study.

## **2.2 Pay and Pay Determination**

Pay and pay determination systems differ among countries. According to Bach (2013, p.190), pay determination is the feature of employment activities which is shaped most by external forces. Within this, emphasis is typically placed on the role of the government in setting wages, due to the diverse constraints which the government can impose. Fiscal constraints and reluctance among government agencies may affect the level of institutional control over the pay bill, and pay has not tended to rise recently however above inflation in most OECD countries.

### **2.2.1 The Definition of Pay:**

Pay, basically, refers to the amount of funds disbursed to a worker's account for the work done. According to Leat (2012, p.138), the definition of pay is extensive and incorporates "the regular basic or minimal wage or income and any other consideration, that could be in terms of cash or in kind, and given to a worker. This amount of money that the employee receives; whether indirectly or directly, regarding his or her employment from his or her employer".

Adopting the economics approach, pay is considered as though it were the cost of any good, that is, pay is an outcome of market pressures of supply and demand for labour (Ackers & Wilkinson, 2005). In the late 1970s, Phelps Brown (1979) developed and integrated notions of pay further in contrasting the economic and sociological approaches to pay, considering factors other than pure supply and demand in the hierarchical structures seen in pay across a wide range of contexts, and integrating class structures and educational access for the workforce in considering pay, and Routh (1980) also helped to clarify the characteristics of pay, which provides a picture of various institutional, official and informal rule-making procedures in the labour market.

Generally however, pay is defined as ‘a transaction between the employee and the employer for a specific time, skills, commitment and loyalty’ (Torrington, Hall and Taylor 2005, p.594). According to Salamon (2000), the term pay refers only to direct monetary payments including allowance, premium payments and bonuses. It also includes a range of financial welfare benefits such as pensions, company cars, and cheap loans. Pay working arrangements can be applied to the way jobs are constructed and the labour is used, or in other words, how employee activities are related to the organization’s needs. Thus, the standard definition of pay across all organizational settings remains as the amount of money received by workers, whether directly or indirectly, in exchange for work done.

### **2.2.2 The Definition of Pay Determination:**

Pay determination is the process of determining how much money workers should be paid by employers in exchange for their labour service offered. Pay is determined, according to human capital theory, by different principles of social agents, such as union, government and employer as well as the skilled and less skilled, qualified and unqualified. Polanyi (1957) defined income as not only representing economic attributes, but also a range of social, political and historical conditions, which often represent conflict. According to Colling et al. (2010), the economic model suggests that pay primarily operates as a price signal in the labour market and as a pay-off to human capital investment. Therefore, pay can adjust to balance supply and demand, rising to attract labour when demand is high and decreasing in response to increasing unemployment.

A set of principles underlies the arguments concerning how pay determination should preferably operate, and the conception of an individualized employment interaction plays a central role in explaining these arguments (Cutler and Waine, 2008, p.53). The U.S Department of Labor (2015) views pay determination as the listing of salaries and fringe benefits rates for all classifications of workers. These are wages that the administrator of

remuneration and hour division of the United States Department of labor has settled on to prevail in a particular area for a particular kind of work (Webapps.dol.gov, 2015, n.p.). While testing the evidence on pay and pay determination in the tourism sector, Riley, Ladkin and Szivas (2006, p.39) based their evaluation of pay determination on three concrete assumptions which are relevant to this literature review. First, they assume that pay determination entails not just market rivalry, but also intercompany processes. Second, they make an assumption that all disputes concerning determination focus on managerial resolution to set the cost of labour (Ibid. p.39). Third, the authors assume that there is adequate resemblance between sectors within the same industry so as to facilitate the possibility of creating a conceptual framework. These assumptions are significant to this study because they facilitate the taking of a particular stance based on the available relevant arguments (Rubery, 2005).

Pay determination is significantly influenced by the economic pressure of supply and demand in the labour marketplace. As a result of this, an understanding of pay determination and its distribution must be partially based on the factors which influence market mechanisms for dispensing labour skills. In the past, people and institutions felt the need for the government's contribution to the power of the public sector agencies (Bach, 2013, p.13). Latterly however, governments across the globe pushed for decentralization of pay determination (Hegewisch, 1991). This was so because private parties raised disputes based on the notion that the state's determination of remuneration unavoidably gave birth to rates that were much higher than necessary (Gernigon, Odero and Guido, 2000). The government's practice of raising wages above the appropriate level was done to attract labour in significant local labour markets (Leat, 2012, p.185). It should also be noted however that governments may also act to keep wages artificially low. Forces of supply and demand play a crucial role in influencing how far organizations would set wages given the state of competition in the

labour market. Technically, setting the wage rate higher than expected leads to increased influx of labourers willing to work as employers steadily continue to compete for these labourers, and pushes employment rates higher. This wage setting raises questions in terms of the influence of any performance-related element when considering the effects of a given rate of pay

Notably, the economic forces of supply and demand create an aspect of wage agreement between labour unions, where they exist, and employers. Negotiations between companies and labour unions are termed collective bargaining, and aims to determine the workers' wage rate (Walton & McKersie, 1991). More specifically, Hayter (2011, p. 1) defines collective bargaining as

“...a process of negotiation between the representatives of an employer (or employers) and of workers. The intention of these negotiations is to arrive at a collective agreement that will govern the employment relationship. This typically covers issues such as wages, working time, and other working conditions”

and goes on to note that collective bargaining is distinct from other forms of governance, such as individual contracts, government regulation, and employers' unilateral decision making.

Collective bargaining is a means of addressing issues related to work in a manner that accommodates the interests of all parties. Its roots can be traced to the industrial revolution in the 18<sup>th</sup> century as workers sought to protect themselves from the impact of the new production methods by creating organisations to represent their interests to employers and the government (Hayter, 2011). Collective bargaining thus arose through the organisation and activism of working people as a means of balancing otherwise unequal (individual) bargaining power in the employment relationship (Thompson, 1980). It also protected workers from some of the negative impacts of competition by establishing what is known as a 'common rule,' which is standard rates of pay and conditions of work for workers in a

specific factory, trade, industry, or region. While many employers initially resisted workers' attempts to engage in collective bargaining, trade unions were strengthened when many countries amended their laws to remove restrictions on the formation of trade unions and legal obstacles to workers' right to strike.

However, these negotiations have waned in the last three decades as a result of the general shift in the wage determination system. The crumbling of industry-wide collective negotiations in the late 1980s and 1990s led to crucial consequences for the entire exposure of collective bargaining as a wage determination system (White & Druker, 2013, p.36). In discussions regarding pay determination, economists identify a relationship between this and the ideology of bargaining and bargaining power. Bryson and Freeman (2014) echo the above discussion of collective bargaining, alleging that the authority of multi-employer negotiations among workplaces in manufacturing impacted considerably on pay determination in work environments, with wage determination in the 1990s featuring collective negotiations which included some aspects of multi-employer bargaining. The next section will provide an overview of the influence of three factors in wage determination; the firm, the market and the state.

## **2.3 The Role of the Firm, Market and State in Pay Determination**

### **2.3.1 Role of the Firm in Pay Determination**

The primary role of a firm is to collect and utilize the available factors of production including land, labour, capital and entrepreneurship, to produce and supply goods in the market. As long as a firm is involved in production, it will have to incur operating costs in terms of salaries paid out to its workers. Pay determination models and theories thus provide considerable knowledge about how companies determine wages with efficiency, based on costs against income. However, it is also crucial to understand the role of firms in pay

determination. Apparently, large firms endow employees with high incomes, job security and high prospects of internal promotion. With profit maximisation as a central goal, firms promote the concept of pay determination by setting goals that are geared towards increasing profitability (Marx & Salverda, 2005, p.176). Because many empirical studies show that profitability is a crucial determinant of pay, changes in a firm's profitability might directly influence the concept of pay determination.

Furthermore, the power of companies in local labour markets might also influence pay and establish small wage employment pools (Marx & Salverda, 2005; Manning, 2003). Traditionally, the principal role of a firm is to amplify the effectiveness of transaction costs (Hayek, 1945). Therefore, many firms create and provide opportunities for capacity building for their stakeholders. Failure of the firm to promote capability building might result in many individuals quitting in search of fresh environments that would help in supporting these workers to accelerate capacity building in a more effective way. Conventionally, people believe that attention should be given to individuals in terms of offering training and augmenting the job experience. Characteristically, recruitment of low-skilled workers is significant in pay determination and more specifically, the quality of jobs accessible by such categories of labourers. Moreover, firms construct policy measures with an aim of improving the quality of labour, but this has restrained beneficial effects in the absence of adjustments in the conduct of these firms and the industry as a whole. As a way of determining pay, some firms have had policy measures directed to them to regulate their conduct. Such policies include minimum wages, the directive for working period and employee health and safety legislation which provides the minimum legal framework for hiring of workers and pay circumstances.

According to Clark (2004), institutions, governments and other organizations encourage, assist, provide necessary incentives and supervise the efforts of firms to enhance

the attractiveness of jobs, and especially through pay and pay determination (Marx & Salverda, 2005, p.176; Clark, 2004). Generally, the role of the firm in pay and pay determination necessitates a unique perspective regarding how much firms need to pay workers and the expected duties of the employees in the firm. Classical and neo-classical theories of the firm stand on the basis of viewing the organisation as existing to create the greatest level of profit, while individuals within that organisation have a different objective, which is to achieve greatest utility for themselves. In this view, as developed by Hicks in his *Theory of Wages* the utility perceived by the worker relates to their own work and wage, without reference to that of others (Flatau, 2002).

The following section will consider the role of the labour market and state in determining wages.

### **2.3.2 The Function of the Market and State in Pay Determination**

The labour market plays a very significant role in determining the wages that firms are willing to part with in exchange for work done, and views of the labour market were developed by Ricardo in the classical theory, before being extended by neo-classical theorists including Marshall (1890) and Hicks (1932, in Hahn, 2005). In a capitalist system, the price of labour is regulated on the basis of supply and demand, and it is generally held that fluid markets are essential in allowing workers to move from organisation to organisation in order for a market to be categorized as competitive (Lazear and Oyer, 2004). The neoclassical theory of the labour market is of a market containing buyers and sellers as for any other commodity (Lipsey and Chrystal, 2007; Corby et al., 2008; Wilkinson and Dundon, 2006). Thus the traditional starting point in economics is the neo-classical model of the labour market in which wages, just like any other price, are determined by the forces of demand and supply. Employers (generally a firm) will decide how many and which kinds of workers they want to employ at wage levels that allow them to trade profitably in their selected product

market. The firm will employ workers of each kind needed up to the point where their wage is equal to their marginal product (the additional added value gained by the firm from its least productive worker) (Krugman, Obstfeld & Melitz, 2012). On the supply side of the equation, each worker has their own preferences that will determine the amount of labour they are willing to supply at each wage rate. Workers will thus offer their labour once they find the wage rate to be sufficient inducement to do the job. In a perfectly competitive labour market, and with freedom of entry and exit for both firms and workers, the forces of demand and supply will produce a single wage rate at which supply and demand are in equilibrium (Lipsey and Chrystal, 2007; Wilkinson and Dundon, 2006).

The influence of the market on pay and pay determination is entirely dependent on the natural economic forces of supply and demand for the labour force. The labour market can affect both the extent to which companies require to internalize their systems of recruitment and the forms of employment techniques that would help them realize their objectives (Rubery, 2005, p.51). The labour market is an effective instrument for matching supply and demand of labour as a factor of production by engaging the terms of contracts between the employer and the labour unions (Nijhof & Brandsma, 2011, p.75). As many forms of work continue to exist while being differentiated by the level of proficiency, location, and gender among other factors, many markets are created, although these are connected and can influence the working of one another. As management has the mandate to set pay rates, the power that management has on wage determination exceeds this authority (Riley, Ladkin & Szivas, 2006). Thus, if one upholds the claim that pay is decided in the labour market, then the extent to which the market is the agent for employers and labourers is a subject of managerial choice.

As long as companies have to employ and retain labour they cannot completely evade the external influences that exist in the external labour market. Since companies operate in a

world of imperfect competition, the influences of the commodity market are in competition with those existing in the labour market to determine pay. Businesses recognize that there are tensions between the productive and allocative elements of pay. Therefore, if pay for a particular skill declines to much lower than the prevailing market wage rate, this may result in labour turnover. In the perspective of an internal labour market, however, increasing the pay for one group might lead to disruptive effects on outlined differentials with the remaining group of the company's workforce (Wilkinson and Dundon, 2006). In addition, Lazear and Oyer (2004) state that pay determination over the longer term seems to depend far more closely on external than internal wage-setting, and upon the sector and geographical location of the business. This may have important implications for the ability of firms to differentiate wages effectively through approaches such as PRP. Internal labour markets are a significant factor, taking into consideration that in the later stages of their career, workers tend to interact directly with the external labour market less frequently, with internal movement depending on the level of ex-post or later career fluidity in presence, as opposed to ex-ante or prior fluidity which refers to movement among those first entering the labour force (Lazear and Oyer, 2004). From the approach of economics, pay is illustrated as if it were the price of a particular commodity, which is the result of the external forces of demand and supply of labour.

However, the state intervenes in the process of wage determination, for purposes of taxation as well as to promote equality and social stability, and this occurs either directly through laws such as the national minimum wage (Edwards, 2003), or, in the UK, indirectly through committees and pay review bodies for nursing staff and school teachers (White, 2000). The state also interferes indirectly in wage determination through imposition and collective bargaining.

As argued by Ackers and Wilkinson (2005), the method of determination of wages in a liberalized market is simply the event of the general theory of value. Like the price of other commodities in the product market, wages are costs of labour and are influenced by external pressures as a result of supply and demand for labour force if not regulated. In ordinary cases, a person's income is determined by both the market salary for a single unit of human capital and the quantity of the human capital that is chosen by the buyer, who is the company, in this case. Technically, the human capital accrual is determined on the grounds of how much free time and current level of income the potential employer has to forego in order to invest in regular prospective flow of income when employed. The opportunity cost here is determined by the interest rates that are calculated in the capital market. Hence, it can be established that the future earnings of potential employees do not rely on market forces entirely, but also on the multimarket equilibrium that occurs as a result of simultaneous resolutions of the factor markets. Looking at this issue from an industrial relations perspective, pay does not run as a properly-functioning market indicator that provides a guideline for the distribution and allocation of labour. This is because the market concept is considered to be problematic in itself. Overall, one might support the statement that wages are an outcome of potentially conflicting economic, political, and social forces. The next section describes theories of bargaining and bargaining power, and how these interact with pay determination concepts and systems.

### **2.3.3 Bargaining and Bargaining Power**

Bargaining is a form of negotiation where a consumer and seller of a good or service discuss the price and the real nature of the commodity and the transaction as a whole. As it relates to bargaining in the workplace, ACAS (Advisory, Conciliation and Arbitration Service) notes that collective bargaining negotiations concern the terms and conditional of employment. According to **Brown** et al. (2008), the definition of collective bargaining varies

depending on the method through which a labour union is recognized by the legislative and legal system of a given country. Generally however, collective bargaining refers to a process where a union is recognized by the legal and legislative systems and given a mandate to conduct negotiations with employers on behalf of a faction or factions of workers.

The bargaining theory of wages maintains that wages, hours, and employees' working environment are determined by the relative negotiating strength of parties involved in the agreement. This is in line with Walton and McKersie's (1967) theory of labour negotiations. According to Bryson et al. (2006), the bargaining theory hypothesizes competition with governments for dispensing revenues and expenses in addition to the obvious competition from rival firms. The primary task of bargaining theory is to show the possible outcomes of conflicting circumstances and to elucidate the empirical outcomes in a test of values. Furthermore, the theory of collective bargaining disputes the existence of a single factor or a single mixture of factors that calculates wages and posits that no single rate of pay necessarily prevails. Alternatively, there exist a variety of rates that might occur independently. Atherton (2015) argues that although unions do not negotiate directly with respect to price, the wage policies constructed by many unions if considered collectively, they affect the general price level (Atherton, 2015, p.44). It appears that unions have an enormous influence on negotiations compared to individuals. Given forces of demand and supply, the unions act as bargaining units: hence, this gives birth to the concept of bargaining power.

With respect to pay determination and the general bargaining theory, bargaining power describes the relative ability of a bargaining unit to influence the decisions of the employer. Bargaining power in its general sense is simply political power possessed and implemented bilaterally. The idea of 'mutual gains' bargaining has gained prominence however, and this refers to more cooperative labour relations (Bacon and Blyton, 2007;

Prowse and Prowse, 2006). Mutual gains bargaining “encourages parties in a negotiation to focus on interests rather than positions, agree on objective criteria for evaluation of settlements, separate problems from people involved, and explore solutions without early commitment” (Hunter and McKersie, 1992, p. 319).

In bargaining, each party’s power is restricted by the power of the other party and the relative negotiating authority that ascertains the outcome occurs because of the resisted power of the two opposing parties (Snyder & Diesing, 2015, p.189). More specifically, bargaining power describes the capacity of a negotiating unit to yield results; the power that manifests in the product. According to Bowles (2008, p.349), bargaining power relates to outcomes: that is, how much merit one might earn more willingly than any given means of achieving this outcome. Concerning bargaining power, the employee has all the negotiating power (Bowles, 2008). Interestingly, while this power may be wielded through union or non-union voice, Willman et al. (2007) suggest that non-union voice brings most benefit to workers, although it is not clear whether this voice is direct or in a representative form. The authors also propose that, while a mixture of union and non-union voice is beneficial, for the organisation, productivity may be best served by non-union voice only (Willman et al., 2007).

Governments usually possess unique negotiating powers that are different from rival organizations in a market setting. Governments compete for economic gains, substantiate the rules of competition, and have enormous control over the production resources in terms of inputs. Therefore, bargaining power can be explained as the ability of one party to control the other as a result of influence, authority, size or status. In negotiations, the power to discuss prices between two parties could be achieved through a combination of diverse persuasive tactics instead of one single idea.

## **2.4 The Employment Relationship and Productivity**

The preceding sections of this chapter have considered pay and pay determination, which forms an aspect of the employment relationship. This section will briefly consider the nature of that relationship further, before considering management attempts and approaches to linking pay with productivity.

As stated in Section 2.3.1, the main role of the business organisation is to collect and utilize the available factors of production, including land, labour, capital and entrepreneurship, to produce and supply goods in the market. While employees were traditionally viewed by economic theorists as a factor of production which once acquired simply supplied that labour at the given cost, in the 20<sup>th</sup> Century, a new focus was created (as proposed by Simon, 1950, for example) to take into account the more complex nature of labour as compared with other assets of the firm. The need for labour thus specifies the necessary existence of a relation in which workers are employed by the firm.

The International Labor Organisation (ILO, 2015a) defines the employment relationship as “the legal link between employers and employees [which] exists when a person performs work or services under certain conditions in return for remuneration”. The employee-employer relation is governed partly by a contract which is entered into at the beginning of the relationship. However, where an employment relationship exists, laws and regulations governing this type of relation also come into play. Within this relationship, both the employee and employer have certain responsibilities and enjoy certain rights, depending on the country and structures within which the relationship is established (ILO, 2015a), possibly including union representation for workers, offering certain protections and collective bargaining opportunities, as discussed in Section 2.3.3.

The ILO (2015a) points to a lack of transparency and enforcement appearing in an international context in employment relations, to the detriment of employee rights. Meanwhile, within the firm, it may not be clear who is managing the employee-employer relationship in the absence of union-management interactions. HR departments might be considered to have the skills and focus to manage the employment relationship, but in the UK at least, the WERS (2011) study casts doubt on the degree of autonomy and actual capability of HR professionals to influence or shape this relation. Nevertheless, the discipline of HRM contains focus on managing the employment relationship, and considering the role of the state in governing the employment relation through regulatory channels and laws, the majority of larger firms include in their HR departments staff dedicated to managing this relation in accordance with law and in the interests of the firm (Bratton & Gold, 2007).

#### **2.4.1 Linking productivity to pay systems on the basis of time.**

Management of the employment relation is undertaken by the firm to maintain or increase productivity, and principals task managers with the problem of ensuring a productive workforce (WERS, 2011). However, actually identifying all of the variables which feed into this and controlling these specifically is reported as prohibitively costly, or more likely, impossible. In this context, instruments must be found which can be used to influence productivity, and one such lever available to management is the pay system. Strategic reward approaches therefore encompass the goal of alignment with other HR management practices to increase productivity (Armstrong, 2006).

A major approach within pay system design is that of time-based pay, with regulation of working time generally being specifically set out as part of contractual arrangements, and

much of union negotiation with employers concerning time-based rates of pay (Hart & Ma, 2008). Within this, market rate analysis, job evaluation or some strategy for assessing the reward level of a particular role is combined with the hours set to determine final pay (Armstrong, 2006). Carmichael (1983, cited in Hart & Ma, 2008) developed a 2-phase theory of time-based pay, with the early part of a contractual employment relationship being taken up partly with training and the development of the requisite skills and experience to perform productively. During this period, the time-based reward might exceed the actual productive return of the employee, but this is compensated by the later period of employment, in which productivity rises and the level of pay for time is justified by return. Hart and Ma (2008) extend this model to consider overtime reward for workers in the second period of employment, and find that the inclusion of hours in negotiations enhances efficiency, and further that systems of premium overtime payment are widely adopted and may also offer benefit for the firm. Thus, time-based reward has some support in the literature as an effective lever for productivity.

#### **2.4.2. Linking productivity to pay on the basis of performance measures.**

The main logic historically put forward for developing incentive-based pay linked to performance has been to bring the interests of the agents carrying out or arranging the work more closely into line with those of the principals who stand to profit from the firm's success. Other possible rationales and potential consequences are plentiful in the literature, as discussed in more detail in Section 2.5.2., and include for example self-selection effects when offering incentive pay and thus a potential rationale to influence the make-up of the workforce through self-selection at the recruitment stage (Dohmen and Falks, 2006).

However, while historically, the parties to the employment contract are held to be completely selfish in their interest in the employment relation, Fehr, Klein and Schmidt (2005, in Dohmen and Falks, 2006) report that regard for fairness influences the actions of at least some employees and that this influences the positive and negative impacts of reward for performance pay systems, depending on the basis on which they are set up. With this in mind, and also considering Dohmen and Falks' (2006) finding of self-sorting effects on recruitment for PRP-based contracts, the approach to designing strategic PRP schemes becomes complex, and it is unsurprising that a range of designs for this have been implemented, as listed and discussed briefly below.

**Payment by Results:** This is the oldest and simplest type of shop floor reward scheme. Under this system, workers are paid at a certain rate depending on their output or the quantity of pieces of production. The plan is organized in factions or on an individual basis where the individual is rewarded for his or her effort based on norms and conventions, whereas group piecework occurs only when the work process makes it appropriate (Melling & Booth, 2008, p.54). In this scenario, the employee effectively selects their production rate and thus their pay. The pay is in direct proportion to the output; however, many piecework schemes give a fall-back rate that shows a minimum earnings level. The ratio of the minimum rate in relation to the average returns differs accordingly. The plan involves paying a price for the output depending on a system designed to indicate the units of production which employees can accomplish in a specified time. An argument against the piecework plan is that, while payment rises with increase in production, this system mostly guarantees a base pay that is defined in the jurisdictions where there is legislation for the lowest wage payable for a piece of work.

This scheme might be appropriate in operations where the task is relatively repetitive and unskillful, where the employees can manage the rate of production and their output by

the use of their energy and dedication. Also, the scheme might be appropriate where speeding up in tasks does not significantly alter quality standards (Armstrong & Murlis, 2007, p.408). Furthermore, this system can be appropriate because it is easy to operate and illustrate to workers. Piecework systems tend to match all the criteria for reward schemes. Moreover, the piecework plan is easy to understand, and workers can quickly take control of their income by moderating their speed at work. However, the scheme might imply fluctuating earnings in the long run, thus making it hard for employees to budget for their ordinary items of expenditure. Another concern about this system is that the plan can operate well as a reward system but only if the rates are fair, and might be difficult to realize under ordinary circumstances.

**Merit Pay:** This plan pays strongly performing workers with extra payment and is usually associated with a performance appraisal which is carried out by a superior employee in the management or a line manager (ACAS, 2015). Merit pay systems typically illustrate an event in which the compensation or salary paid to a worker lies within a range for that particular job (Macky & Wilson, 2013, p.64) In simple terms, the bonus payments or pay levels are normally based on the general evaluation of a worker's contribution to the general organizational performance and may also be based on statistical figures. In some companies, these additional earnings are based on the accomplishment of goals and objectives predetermined at the start of the company's appraisal period. During the process of evaluation, the assessing officers might opt to include desired behaviours, for instance, cooperation and leadership. In most cases, this performance related payment plan is taken to be fair, and especially when the performance of the employees is evaluated using an appropriate appraisal system. Merit payment of individual workers is typically included in the final base pay.

**Team-Oriented Pay:** This plan is given to workers in the form of a bonus and is awarded to members of a formally founded and recognized team as connected to their performance. This system can strengthen group resources as well as client alignment (Lucifora and Origo, 2012). The major aim of this is to encourage team members to cooperate in order to increase team performance. An example of a team-based payment is where an individual team is given a bonus by the management when a newly introduced product accomplishes the regulatory process successfully. This plan is suitable for many companies on condition that the teams are clearly defined, the objectives of the group are explicitly underlined and the performance of this team can be measured or weighed on an individual scale that is acceptable to the management. Further, Lucifora and Origo (2012) caution against overly complicated schemes or direct link to profit generation in the team context.

**Profit-Sharing PRP Plan:** This system is based on the performance of a company and facilitates the workers to contribute to the prosperity and achievement of the business (Gernigon et al., 2000). The plan is regarded as being an efficient way through which employers can promote individual effort and motivation (Sutherland & Canwell, 2005). A certain ratio of the company's revenue is apportioned and reimbursed to the employees across the organization as a bonus payment. Statistically, this payment is an adjustable factor in the form of PRP that is remitted when revenues exceed the threshold earnings limit. Occasionally, profit-sharing assumes the form of shares instead of cash, where the workers can purchase shares of the business at the preferential prices. This may take the form of the organisation matching shares bought by employees, which Bryson and Freeman (2014) argue as both a 'gift' which may attract reciprocity and as a link to performance. The plan usually grants the employees an opportunity to become the partial owners of the company, whereby they earn a constant income paid out on the shares in the form of dividends.

**Bonuses:** This PRP scheme entails payment of additional income to a person, group or departments as an appreciation for the accomplishment of the predetermined performance goals. Bonus schemes relate to pay given to employees for the number of items they produce (Singh, 2012). These payment plans might be designed for any group of workers: for instance, in a manufacturing industry setting, workers are usually paid for enhanced productivity or quality advancements. In most cases, bonuses are paid as a variable payment and have to be re-earned for subsequent years. Notably, it is challenging to design a reward system that is affordable, comprehensible and motivational in promoting employee behaviors that yield an organizational competitive advantage.

**Gain-Sharing Scheme:** Under this system, firms try to accumulate savings by altering the work practices and this is based on the method of rewards calculated by measuring performance (Singh, 2012, p.163). The amount remitted as the gain is determined using an accepted formula and then allocated between workers and the company. The plan, however, necessitates a joint implementation with an involvement formation to create more ideas. Notably, the measures opted for in this scheme must be employee oriented.

**Commission:** This is a plan that involves payment on sales which is given to sales advocates or sales agents stationed in the company's retail stores. The additional funds for workers eligible for a commission involve a direct payment that depends on sales performance (Singh, 2012). It includes payment of as a percentage of total sales made by the sales advocate, and the amount is generally paid to workers in addition to an agreed base pay. This ratio may differ depending on quantity, rewarding topmost achievers at a higher value when sales rise beyond a predetermined threshold. The plan attracts potential employees who are principally inspired by monetary rewards, and it performs best for workers who are capable of carrying out their assigned tasks with minimal monitoring by the company executives.

**Organization-Specific Benefits Scheme:** Although organizations operate with organization-specific benefits, this technique can permit workers to apportion a given amount of money as a ratio of their wage on restricted menu benefits. Here, flexible benefits plans assist workers to restrict their contributions to those benefits which have rising costs. Some organizations negotiate rates for this scheme and later settle the benefits either wholly or partially. However, in some cases, the employers tend to be benevolent such that they extend the benefits to cover the families of the workers.

## **2.5 Performance Related Pay**

This section and the subsequent one cover the core issues on PRP and its implementation, definitions, theoretical underpinnings, rationale for the use of performance related pay and the various types of scheme that this umbrella term refers to. In particular, PRP may find its logical basis in Vroom's (1964) expectancy model as the theory which underpins notions of behavioural alterations as motivated by offered reward, and this will be considered in detail in Section 2.6. It also explores research and debate on the effects of PRP systems on performance, and the empirical literature regarding the take-up and evaluation of such schemes.

### **2.5.1 Definition:**

Performance related pay is a financial reward system for employees that involves monetary compensation based on an individual's performance as evaluated relative to particular criteria stated by the company (ACAS, 2015). Within the business concept, PRP relates to how an individual, a faction or team performs during a specified timeframe and in assigned projects. Although the meaning of performance related pay has differed across companies, evidence indicates that more and more businesses have been trying to bring in a particular type of new compensation to affirm the connection between pay and performance of the workers (Lee & Eyraud, 2008). However, there seems to be almost no connection

between a company's performance and its choice to bring in performance related pay, including both profitable and non-profitable companies attempting to introduce performance pay. The definition of performance related pay stresses that performance relates to what has been realized and how it has been realized (Armstrong & Cummins, 2011).

### **2.5.2 The Rationale for Performance Related Pay:**

Pay for performance stems from the concept that reward affects behaviour or individual performance in a way which is meaningful for organisational performance (Gerhart & Rynes, 2003; Pfeffer, 1998; Rigby, 2001; Rosenthal et al., 2005). In addition, there exists the view that fixed pay allows a culture of entitlement to prevail and does not sit with modern drives to increase competitive edge, teamwork and flexibility while de-emphasising organisational hierarchy (Baker, 1993). Society is continuously evolving with changing times and certain changes need to be made in order to adjust to such changes, requiring management to consider use of incentives and the application of a range of human resource management skills to apply persuasion and a feeling of personal ownership for completing its goals. According to the competitive perspective, the requirement for change is related to the need of business to maintain competitiveness within the marketplace. The drive for staying competitive leads to the requirement for incentives for increasing production. The driving force behind performance related pay schemes may therefore be broadly encapsulated as the search for a means to enhance competitiveness in the market.

Often however, the more precise rationale for performance related payments is indistinct, although a transparent method circumvents the uncertainty and ideologies of unfairness and decreases the chances of individual claims. The primary reasons for performance related pay are usually said to be to recruit, retain, and inspire the labour force (Wragg, 2004). This rationale is based on the belief that top-quality employees are attracted

to a company where they hope that their energy will be acknowledged through reward. Dohmen and Falks' (2006) study in fact suggests various self-sorting effects when individuals choose between fixed and variable payment schemes, and therefore suggest that job applicants' characteristics are affected by implementing PRP. Furthermore, the theoretical purpose for performance related pay is based on the notion that workers act to optimize their welfare (Dufour & Curtis, 2011). Yuan et al. (2013), categorise three bases for introducing incentive pay in the teaching profession which differ somewhat from this however. Motivation is the first of these, desired in the belief that this will lead working practices to be altered, including changing activities, increasing time spent on work and undertaking more professional development activities. The second basis is also similar to other accounts, being the intention to attract a larger number of candidates for recruitment or those entering the profession. The third basis differs however, in seeking to alter professionals' work environment through affecting changes in behaviour through PRP (Yuan et al., 2013).

Overall, seven main desires behind the introduction of PRP schemes within a firm have been identified from the literature. These are; motivation, changing organisational culture, pay system fairness, making managers manage, reduction of trade union influence, recruitment and retention of staff, and political imperatives. The seven desires are discussed in turn in the subsections which follow.

### **2.5.3 Motivation**

While human relations literature emphasises factors other than pay in motivation, pay is considered by authors such as Armstrong and Murlis (2007) to be capable of playing a role in motivation provided the pay for reward scheme is of appropriate design. Expectancy theory (Porter & Lawler, 1968; Vroom, 1964) is taken in most PRP literature to underlie approaches to motivation (Lewis, 1997). Employee motivation hinges on the individual linking effort made to work achieved, and linking work achieved with a desirable reward. For the

organisation to draw benefit from this, such perceptions must be strong, and strengthening these is a goal of PRP. Some part of the PRP literature however adopts goal-setting theory, which emphasises the importance of defining particular working goals or set working approaches to be taken, in agreement with the employees concerned (Lewis, 1997). Yuan et al. (2013) examine PRP through goal-setting theory and consider that the theory that goals increase expectancy may be applied on a team as well as an individual basis, with potential for improving performance therefore in settings where individuals must work closely together to achieve goals. Most PRP schemes, whether recent or long-established, are introduced with motivation as a goal (Frey and Jegen, 2000). Cannell and Wood (1992) meanwhile concluded in a large postal survey for the Institute of Personnel Management that providing reward for good performance was of greater importance than motivation in underpinning PRP strategy.

#### **2.5.4 Changing organizational culture.**

Performance management techniques in general, of which PRP may be considered a part, are attributed the aim of improving systems used by the organisation and enhancing organisational learning. This is thought to occur via enhancements brought in clarification of managerial goals, accountability and commitment to objectives (European Commission, 2012). Hartog and Verburg (2004) emphasise the impact of reward scheme upon organisational culture, and whether that culture is associated with participation, innovation, and value placed upon employees. This role of pay schemes is also supported by French and Marsden (1998), who argue that PRP has been used to negotiating higher performance standards. Further, Marsden (2004) argues that the main reason for introducing PRP was the desire to raise standards of management, change the organisational culture in the public sector as these organisations are pushed to become more performance-focused, This is

supported by an LGMB study of local authorities (1994). Kessler and Bach (2011) also observed change in organisational culture to be a factor in the implementation of PRP across both public and private organizations.

#### **2.5.5 Pay system fairness.**

Janssen (2001) and Bartol and Srivastava (2002a) suggest that perceptions of equity are an important function of any reward system, with Hackett (1979) contending that it is essential that reward be based upon performance. Further, Fehr, Goette, and Zehnde (2008) state that fairness should form the basis of pay calculation, which is in line with Kanter's (1987) assertion that a pay system which ties salary to position runs counter to this aim. Indeed, Fehr et al. (2008, p. 2) argue that "[t]he fact that many employment relationships are characterised by long-term relations greatly amplifies the importance of fairness preferences." According to a study by Bryson and Freeman (2006, in Bryson and Forth, 2006), individual performance related pay is the only form of pay for performance to significantly influence gross earnings of the individual, and to affect pay dispersal at the level of the workplace: it may therefore be regarded as a tool which is capable of exerting impact at this level, although this does not necessarily imply an impact on performance.

However, Lewis (1997) highlights the need to distinguish between notions of fair reward and the need to provide incentives to employees with the aim of increasing productivity. He goes on to question the meaning of 'fairness' in the context of studies into pay systems, considering that the moral implications of the term may not represent the basis of the desire of management to provide it.

### **2.5.6 Making managers manage.**

PRP has necessary impacts upon the working practices of managers, who gain responsibility for assessing and comparing worker performance. Managers are pivotal to the PRP process (Selden and Sowa, 2011) in terms of setting requirements, communicating, and implementing tasks (Storey and Sisson, 2005). The personnel department is also responsible for information provision, but the desire to place responsibility in the areas of pay and performance in managers' hands leads to perceptions that managers in general need to improve their handling of these spheres, being restricted by a reluctance to be involved in unpopular or difficult decisions (Lawler, 1990), and also to the need for greater accountability and opportunity for systemic change engendered by the flat or decentralised organisation (Selden and Sowa, 2011). Further, there is a view of performance management techniques such as PRP as being utilized to create a more general understanding of impacts of processes undertaken, as well as inputs and outputs (European Commission, 2012).

### **2.5.7 An attempt to lessen trade union influence.**

One of the characteristics of PRP is a blow to the collectivism of the trade union (Arrowsmith and Marginson, 2011), and indeed Heery (2013) attributes the introduction of PRP in some cases to a move against union power, in some instances leading to de-recognition. The possibility of the use of PRP to affect the power of collective bargaining, which he states may be restricted in either scope or depth, with union involvement being reduced. This is in line with research by Kang and Yanadori (2011) indicating that political factors affect the introduction of PRP schemes, indicating the importance of institutional factors on the use of PRP in a country. More specifically, Arrowsmith and Marginson (2011) examined the impact of more variable pay schemes on collective pay determination in the UK banking industry and found that "the growth of bonus schemes has both supplanted collective

profit-share and permitted greater standardisation of merit-pay awards. Unions have therefore achieved some success in terms of limiting variation in base pay, at the same time as the overall purchase of collective bargaining on employee earnings has diminished” (p. 54).

PRP may also act to remove the perception of employees that trade union representation is necessary for them, through decreasing its instrumental value, removing the prevalence of unionism in the workplace culture, tending to diminish perceptions of managerial acceptance of trade union membership, and finally by decreasing unresolved disputes in the case that the scheme works well. On the other hand, Heery (2013) also states that in cases where PRP systems are apparently unfair, the perceived value of trade union membership may increase: this is associated with increased overall labour costs (Bryson et al., 2005).

### **2.5.8 Recruitment and retention of staff.**

While pay in general is viewed as a tool for recruitment and retention, the picture as regards PRP is more complex. It is clear that PRP is often utilised with this aim in mind (Hasnain and Pierskalla Henryk, 2012; Marsden, 2004). However, Lawler states that reward for good performance should assist in recruitment and retention of high achievers, ACAS (2015) states that using PRP in such a way, and especially targeted at roles in demand in the market, gravitates against perceptions of its fairness.

The potential benefits for recruitment and retention of PRP are as follows: the extra pay works twice, in both attracting staff and resulting in better performance, and furthermore is channeled only to those whose performance is good; and also may attract those inclined to give thought to achieving high performance (Gerhart and Fang, 2014; Lewis, 1997).

### **2.5.9 Political imperatives.**

The political imperative can be another reason for the widespread introduction of PRP across a country. For example, as ideologically founded in the development of neoliberal ideas in the postwar era by Hayek (1945 and Friedman (1962), the Conservative government of the UK in the 1980s imported ideas from the private sector. This was criticised for tending to emulate private sector practice without proper evaluation of its effectiveness (Hughes, 2012). Other sources such as Weerakkody, Janssen, and Dwivedi (2011) however provide evidence of a change of attitude within the public sector toward greater customer focus.

A fundamental value of performance related payment is that the concept attempts to eradicate the notion of entitlement. While companies engage merit pay with an aim of generating and maintaining a performance-based culture, it is debatable whether this actually encourages the workers to optimize productivity. For this reason, motivation is regarded as a function of sophisticated variables, the most compelling of which could turn out to be non-economic. However, employers can show that reward is dependent on performance and contribution.

## **2.6 Theoretical basis of Performance Related Pay Models**

Performance related pay is an idea which was developed based on the combination of several theoretical strands from different disciplines. Liang (2013) views the foundations of PRP as the principal agent theory as an economic base, while its psychological underpinning comes from expectancy theory.

### **2.6.1 Expectancy theory**

Support for PRP is grounded theoretically in expectancy theory and reinforcement theory. Expectancy theory follows upon psychological insights on repeated behavioural patterns and learning through positive and negative stimuli. According to Perry, Engbers, and Jun (2009,

p. 40), “[e]xpectancy theory is predicated on a belief that individuals will exert effort if they expect it will result in an outcome that they value.” Thus in the context of PRP it is expected that workers will exert more effort if they value monetary rewards and believe that those awards will result from them working harder.

In its simplest form, the theory points out those explicit incentives in form of performance related pay work as per certain conditions. Firstly, the employees should believe in increased efforts leading to increased performance. Secondly, increased performance brings the desirable outcomes which are recognized by management. Whenever the two conditions meet, employees tend to form a behaviourally salient expectation on future reward and adjust their work effort upwardly (Lunenburg, 2011). In other words,

“Employees will respond to the incentive or reward on offer if they value it (its valence), if they believe good performance will be instrumental in bringing the desired reward (instrumentality), and if they expect their efforts will achieve the desired performance (expectancy)” (Marsden, 2004, p.353).

Like agency theory, expectancy theory presents workers as having some amount of choice and strongly emphasises the motivational effects of incentives and the issues that arise when targets are poorly designed.

Doubt has been cast on the translation of expectancy theory into practice in some quarters however. For instance, Yuan et al. (2013), in reviewing the evidence for expectancy theory in incentive pay in the teaching profession, find little impact of PRP on expectancy and report that many teachers, while affirming a link between their performance and student achievement, do not view an onward link toward attainment of organizational goals, due to the part played by factors beyond their control in achieving those goals (in this case, characteristics of the student population). In this case, the reality has failed to meet the

second condition of the theory, in which increased performance will bring desirable (in personal financial reward terms) to the worker. This research is in line with Marsden's (2004) argument that the valence-instrumentality-expectancy virtuous circle can be broken at various points. Further, a study of the Taiwanese hotel industry by Chiang and Fang (2008), while it supported the tenets of expectancy theory in broad terms, found a clear emphasis upon intrinsic motivation and intrinsic valence among the workforce in the case study organisations as opposed to external factors, and thus recommend that employers in this sector develop strategies to improve intrinsic elements in motivating staff. While the study did not explicitly address performance related pay, this finding suggests a mismatch between the real applicability of expectancy theory and its use to support PRP, which is founded on the external facet of the theory.

### **2.6.2 Reinforcement theory**

Reinforcement theory emphasizes the effect of cultivating a behavioural norm of high work effort by reinforcing behaviour with positive rewards. In other words,

“[r]einforcement theory posits a direct relationship between a desired target behavior (e.g., performance) and its consequences (e.g., pay). It suggests that pay can be used to create consequences for desired behaviors such as high performance that will reinforce the behaviours” (Perry, Engbers, and Jun, 2009, p. 41).

Barring the straight link between performance and individual rewards, advocates within the public administration field highlight secondary effects related to performance related pay. This helps in recruiting and retaining skilled and motivated staff who would presumably do better with such an arrangement. The awareness of the organisation's goals is increased through definition of explicit performance standards. This also weakens the strength of public sector unions, making managers more responsible. It signals the key organisational goals to exterior actors increasing the connection between individual and organisational job goals (Perry et al., 2009).

The dual conditions of expectancy theory may not be always fulfilled, argue critics. In practice, it is difficult to design performance related pay schemes which work as intended. Humans may not every time approach work effort and salary assessment in a fully rational way. Some of the services performed by government officers could be difficult to measure, non-measurable or outputs which are not market priced. For example, teacher performance is not measurable on the basis of mechanics student test scores. This kind of practice normally invites behaviour which may contradict the overall goals of the teaching profession (Marsden & Richardson, 1992).

### **2.6.3 Agents and Principals**

One of the main arguments for performance related pay is sourced in the microeconomic principal agent labour relations model. Here, a principal or employer wants to induce an agent or employee to do a certain job. Such kind of principal agent relationships are very commonly affected by double problems, namely, adverse selection and moral hazard. In case of moral hazard, the agent's action may influence the principal's payoff. However, the action is not directly observable to the principal in this case. Such circumstances occur in the workplace setting irrespective of whether it is private or public. The employee's effort at work is not directly observable but may influence productivity and those outcomes for which the employers care.

Against this theoretical background, and using jockeys, who are agents rather than principals, as a case study, Fernie and Metcalf (1999) find that the monitoring and incentive approach outlined in the literature is widely applied to in the horse racing industry, with an unusually significant proportion of pay hinging on performance. Further, the study finds that pay for performance brings results in terms of outcomes which are greatly superior to non-contingent systems, suggesting confirmation that pay systems have the capacity to exert a strong

influence on outcomes. Indeed in cases where jockeys were paid by retainer, eliminating any performance element, outcomes were appreciably poorer (Ferne & Metcalf, 1999).

There may be contracts which tie observable outputs which again are correlated with unobservable effort towards desirable pay incentives and can mitigate efficiencies within principle agent relationship from the employer's perspective. Providing a fixed pay contract provides the employer little leverage for influencing employee effort once the hiring decisions are finalized. The issue regarding incentives is exacerbated when employees are very challenging to fire. As a result, performance related pay schemes are a way to design incentive schemes which addresses moral hazard. However, Kang and Yanadori (2011) find a limitation of agency theory as applied to PRP, in that it contains no specification of the particular mechanisms in creating the pay performance link, and thus it is not clear how it applies to the different available models of PRP.

In a critique of agent-principal theory from a public sector management perspective, Frey, Homberg and Osterloh (2013) contend that in failing to factor in theories of intrinsic motivation, this perspective cannot provide a sound foundation for pay for performance in that sector. If this is so, it could also be assumed that this criticism would apply in some measure to other sectors also. This is supported by earlier research by Beer and Katz (2003), who find that attempts to increase external motivation through financial reward decreased intrinsic motivation. Further, Larkin, Pierce and Gino (2012) consider that agency theory discounts the psychological aspect of pay, and seek to integrate economic and psychological considerations in their own work. Meanwhile, in preference to principal-agent theory, Frey, Homberg and Osterloh (2013) turn to behavioural economics to consider PRP in the public sector. In brief, this view separates and takes into consideration both extrinsic motivation and

intrinsic motivation as playing separate roles and stemming from separate sources. The next section discusses the role that adverse selection and incentives schemes play in PRP models.

#### **2.6.4 The role of adverse selection and incentive schemes in performance related pay models**

Adverse selection refers to the asymmetry of information in existence between buyer and seller, or in the case of the employer-employee relationship, the principal and the agent. Moral hazard may arise from this situation, with the agent acting in their own interests or taking risks which do not benefit the principal, but are outwith the principal's knowledge or control. Prevention of this situation is attempted through incentivizing actions which are in line with the principal's interest, through applications of performance related pay. These incentive schemes may fundamentally need the capacity to measure a range of relevant outputs. They also require the design of a link which properly connects unobserved actions to outcomes and offers the bonuses which induce agents to give more effort in line with principal's objectives. The incentives may work perfectly provided the agent's actions are closely related to observable outcomes: i.e. if random noise is not overpowering for measurement of incentive effects.

Incentive schemes are also influenced by risk-aversion in employees. Any incentive scheme may link to results which are only partially under the control of the agent. As a result, making ultimate pay outcome-dependent lowers the utility of risk-averse employees and demands upward adjustment of average pay to compensate for the increase in risk. With even simplistic models, the optimality of this incentive scheme tends to be sensitive to various significant design aspects such as bonus schedules and based on the particularities of an employee's job.

However, the nature of the functional link between the outcomes and tasks may lead to decline in outcomes. As an example, while the tasks of a teacher can involve instruction related the curriculum set as well as coaching based on test taking strategies, poorly designed incentives may inspire teachers to re-allocate effort towards the latter, away from the former and to the detriment of human capital accumulation (Shilongo, 2013).

### **2.6.5 Rationale for PRP**

The rationale for encouragement of various forms of PRP is a belief which states that such mechanisms increase the labour market flexibility and generate high productivity or employment. This is premised on the notion that holding workers accountable for specific outcomes will raise their performance levels in the organisation (Dubnick, 2005, cited in Frey, Homberg and Osterloh, 2013). There are many private companies with global operations that have introduced a performance related pay system. Sales roles in several companies require professionals to fulfil targets on a monthly or periodic basis, and performance-related reward might be paid in addition to an employee's salary.

The payment system can contain some variants on which it is dependent. These include the performance of the entire organisation, team, group and individual results. PRP may involve certain stages such as development of the criteria through which performance is assessed. Another stage involves definition of employees meeting the fixed criteria and linking the achievements of employees to payment structure. There may be varied performance parameters such as knowledge, behavioural indicators, experience and skills.

## **2.7 Arguments in favour of PRP**

Some arguments are put forward in the literature in favour of the use of PRP. One of these is that due to PRP, motivation and cooperation is established and enhanced among workers, resulting in optimum output. Similarly, the counter argument states that risks of the company

are transferred in a way to the employees. As a result, their performance can be affected very negatively.

Performance related schemes normally differentiate on the basis of criteria. These may be related to the area in which the business works, company size and approaches to employee choices. However, it is still possible to create a distinction between the most common characteristics. These are as mentioned below:

1. Performance review is done regularly, such as yearly or monthly. It is usually assessed on the basis of recognized criteria or standards. Such a procedure is known as performance appraisal. As soon as the appraisal procedure is complete, the employees are further subdivided into various groups on basis of their performance rates. Reward is being defined as per each group of employees. The method of reward can vary but more often, it involves a cash bonus or increase in salary.
2. There are several reasons driving employers when they decide in favour of implementing such schemes into their practice. Firstly, this kind of payment system may be a convenient means of identifying a company's problems regarding underperformance and rewarding achievements. It is widely considered that in this way, the employees tend to become motivated to produce better results and achievement of company's targets.
3. Through PRP, objectives are clarified and communicated effectively which leads to a clearer understanding of the company's mission and goals. A flexible system of payments is introduced through this payment procedure. At the same time it can serve as a solution to retention and recruitment problems. The particularities of the system are dependent upon its various categories. It is the responsibility of each organisation to understand the form of PRP suitable in their individual circumstances. After a deep

analysis, they should work on carefully choosing and developing the PRP scheme (National Advisory Committee on Creative and Cultural Education, 1999).

## **2.8 A Review of PRP schemes**

Doubt has long been cast upon the wisdom of implementing PRP widely or even at all within the organisation (Frey, Homberg and Osterloh, 2013). While it is clear that PRP schemes were widely applied within organisations in the 1990s, and were often applied to the majority of an organisation's employees and in a meaningful way in terms of the amount of pay variation concerned, the outcome of this move in terms of worker performance is subject to debate, as the literature presents a conflicting picture. For instance, Belfield & Marsden, (2003) report that they found strong evidence that using PRP led to better performance outcomes in the organisation, while Frey, Homberg and Osterloh (2013) argue that PRP can lead to negative outcomes under certain conditions. Congruent with this, Ray et al. (2014, p. 6) note the following in terms of the public sector:

“There is some evidence of positive effects from PRP schemes on directly incentivised outcomes across education, health and the civil service. However, the overall conclusion is that findings are mixed, and often context- or outcome-specific, making it difficult to draw overall conclusions about the effectiveness of PRP for a particular public service.”

Forth, Bryson and Stokes (2014) find an apparent discrepancy between support in the literature for the effectiveness of PRP and its trajectory as far as take up in market economies has played out over the 2000s, with numbers employed via such contracts leveling out and even falling: especially among lower paid workers. In line with this Ray et al. (2014) report that PRP is still relatively uncommon in the UK public sector. It is also interesting to note that the majority of studies of PRP refer to executive pay schemes (see, for example, Larkin, Pierce and Gino, 2012). This is in line with research by Bryson, Forth, and Stokes (2014) indicating that PRP contracts are used more often in higher paying workplaces. In Britain,

while percentage share of pay attributable to PRP rose in the middle of the 2000s, PRP contracts as a percentage of employment fell, suggesting greater impact of PRP from those receiving it, but not greater use of the tool. Additionally, the perceived benefits of PRP are most likely not universally felt or are outweighed by other factors, as otherwise firms would have more enthusiastically adopted them in pursuit of competitive edge. This is supported by Larkin, Pierce and Gino (2012), who argue that psychological costs are underestimated by agency theory, and that these costs render individual performance-based pay unbeneficial. Meanwhile, Kang and Yanoki (2011) question the way in which theoretical models of PRP can be translated into effective practice. The advantages and disadvantages put forward for PRP in the literature are put forward in the subsections below.

### **2.8.1 Advantages of PRP schemes**

PRP schemes are attached to expected benefits in various fields for employees and employers. One of the benefits of successful implementation for employees would be the possibilities of a career boost. When effectively implemented, employees with its help can monitor their own performance and also further their careers. For people with good performance, it is possible to back up their argument that they deserve an incentive or a salary increase. Employees can receive cash rewards and pay increases through PRP. In some cases, after receiving the minimum wage, they increase their income through PRP. A feeling of work appreciation and reward may lead to an increase in the standard of job satisfaction.

Forth, Bryson and Stokes (2014) state that supportive evidence is wide-ranging for PRP schemes in terms of their benefits to productivity and in the attraction of high-capability staff. Indeed, based on the literature, PRP is advantageous for companies in various ways.

1. It is generally considered that after receiving a bonus for real work, staff may be more result oriented and motivated.

2. This kind of approach attracts newer talents in the form of qualified professionals.
3. Through the selection of a proper PRP scheme, staff productivity can be increased.
4. Many longer-standing employees stick to their jobs and those performing well are rewarded, for which they are likely to remain loyal towards their company.
5. Introduction of this payment scheme encourages the staff to achieve their company's goals.
6. According to some theories, the PRP schemes in middle income countries are quite effective for boosting performance levels. The reason for this is that participants in these studies focus more on the signaling functions performed by these schemes.
7. PRP schemes, as offering contracts based on outcomes rather than behaviours, have the potential to avoid the costs and challenges of effective behavioural monitoring of the employee by the organisation (Kang and Yanadori, 2011).

### **2.8.2 Disadvantages of PRP Schemes**

Recent research shows that take-up of PRP across developed nations has not followed the upward trend which might be expected based on the proposed benefits. In the United States, where it has been most widely taken up, PRP has fallen since the 1990s (Forth, Bryson and Stokes, 2014). There are arguments in the literature which emphasise the potential problems arising due to PRP as outlined below.

1. At times, the scheme may not be as effective as it should be.
2. Within the public sector, the way in which PRP is structured is limited by cash availability. As a result, the money offered in the form of reward fails to motivate employees.
3. Bias and personal favouritism as employed by some managers may influence the outcome of payment decisions. If the employees have a feeling of unfair evaluation of

their efforts, this may give rise to negative feelings, with results such as a fall in performance of offended staff and ultimately whole organisation.

4. Short term focus is boosted, which undermines team work. This may result in people believing that their pay is not dependent on performance but rather on expertise in establishing a connection with supervisors.
5. PRP is known to accentuate differences between the highest and lowest paid workers. It can be real challenge to design appropriate objectives so that all employees consider them as realistic and fair.
6. Performance measurement in the case of separate incentive programmes can be expensive to implement. Selecting the proper time frames to give rewards can be difficult.
7. The output of the work team may exceed the amount in terms of individual contribution. There are challenges to properly evaluating the contribution of each employee into the firm's total performance.

Further, Redman et al. (2000) highlight the difficulty cited by managers in measuring the effect of particular objectives, and in prioritising those objectives. Further, Marsden and Richardson (1992) point to a knowledge imbalance in favour of the manager in PRP schemes, which they assert is a barrier to perceptions of fairness. A further criticism of PRP is in the difficulty in providing equally achievable objectives across all jobs (Hasnain and Pierskalla Henryk, 2012), even provided that employees have the freedom to alter their working performance to any significant extent (Marsden and Richardson, 1992).

Lazear (1995) links PRP systems with inequity in pay, as individuals are subject to greater levels of differentiation than when pay is calculated based upon time spent and other inputs. While this is seen by Metcalf (1995) as having positive implications for organisational performance, equity theory on the other hand suggests a withdrawal of effort from those

employees whose efforts are not rewarded in line with that of their counterparts in their own and other similar organisations, and especially for those who work toward team rather than individual goals (Trevor, Reilly, and Gerhart, 2012). Belfield and Marsden (2003) combine these two views to suggest that there exists both a positive impact from PRP in its role as incentive, and a negative impact from the unequal pay which arises from it. They emphasise that the key point is to determine the relative strength of these two opposing forces in establishing whether PRP is likely to be a success and conclude that in general the incentive force of PRP outweighs pay inequality in terms of effect on performance. While evidence for the balance of harm/benefit is unclear, as will be described below, Lazear and Oyer (2004) state that the greater power of external labour markets in pay determination in the long term limits the ultimate power of the organisation to extract greater value from workers through this medium.

Available research outcomes reveal a contradictory picture of the influence of these schemes. Forth, Bryson and Stokes (2014) additionally point out that various recent studies call into question the reality of the theoretical 'sorting' effect which has been held an advantage of PRP in terms of attracting high-capability employees, by finding that the sorting effect does not hold true for black men or for women who have children (Heywood and Parent, 2012, 2013, cited in Forth, Bryson and Stokes, 2014). Brown and Armstrong (1999) shed light on the work satisfaction level of employees. Some factors which influence job satisfaction levels were defined in one of the studies, and this revealed that employees enjoy those work environments where their productivity is properly rewarded. As a result, this also boosts their optimism levels. High performance office spaces contribute well to the employee's sense of belonging, esteem and commitment.

Another study conducted by Godard and Bauer finds a positive connection between PRP and extreme job satisfaction levels, taking the view that one of the key reasons for PRP schemes

contributing to work dissatisfaction levels would be inappropriately selected scheme. In cases where workers have a feeling of dissatisfaction in terms of the fairness of the bonus distribution or similar aspects, it is not possible to be satisfied with their workplace. These payment schemes can be implemented as a disciplinary measure. As a result, they may lead to increased work effort and lower satisfaction, which amounts to negative influence.

In a different study conducted by Chiang and Fang (2008), varied dimensions of job satisfaction levels were thoroughly analysed. The evidence revealed that in general, internal and not external factors increased job satisfaction, and addressed concerns that over-focus on external motivation may not be effective.

### **2.8.3 Focussing on Models of Performance-related Pay**

The achievement of complete organisational alignment, including goals, objectives, missions, pay and performance is simpler to talk and write about than to approach in reality. It is a kind of alignment which requires commitment, for it involves starting from the highest aspiration for the organisation and working from there down to identifying and inspiring the smallest outcome or behaviour to reach this. Considering the variation noted in PRP schemes employed by different firms, it is not sufficient to establish whether PRP in general might bring benefit to a particular organisation, but also to identify a specific design of scheme in order to have a chance of bringing the desired benefit (Kang and Yanadori, 2011). For this, the organisation must explore the meaning, aspects, requirements, and procedures for PRP and PRP should be undertaken and designed in a way such that it becomes the basis for management, measurement, and compensation for performances.

Performance related pay models have their teams of detractors and supporters. According to the detractors, more and more PRP models have been designed, but without any desirable outcome. In this view, schemes have more often than not failed, or success has been very small, with performance related pay schemes tending to hurt performance for most tasks and

specifically those which require creativity and unknown solutions. Performance levels may drop with the carrot and stick management technique. Whenever performance related pay models turn out to be task oriented, they involve the highest possibility of failing.

The performance related pay models meet success where the goals and performance measures are based on overall enterprise goals, expected performance and to outcomes versus tasks. This approach is not an easy option for most of organisations and is where most failed performance related pay models have been let down. At this juncture, there is a meeting between human behavioural science and business. Making such schemes work involves providing clear cut articulated goals, a sense of purpose, increased individual, team and complete enterprise accountability.

The vast pool of performance related pay plans are primarily based on a starting market value for certain jobs. After this, the future compensation is basically guided by time in the job, with a complete corporate merit pool target percentage, etc. Performance related pay plans take a quite varied approach through assertion of the fact that there exists a clear difference between ordinary and extraordinary performance which merits a distinct difference in the compensation. Organisations seek performance related pay models to assist in strengthening the link between rewards and performance outcomes. Performance related pay plans may enable an organisation to base pay on the achievement of certain improvements, based on corporate performance and also on overall employee effectiveness. The primary research for this study examines whether the aims of the case study organisations reflect this picture, and in considering how effective the selection of PRP as a system of pay is. Therefore, it is vital to understand the various approaches to PRP and where the case study organisations sit within the range described by literature and elucidated in the next subsection.

## **2.9 Implementation of Performance-related Pay**

The performance of the organisation needs to be in a similar direction and in connection with the pay scheme to ensure the optimum level of performance for both organisation and staff. Additionally, the organisation may undertake pay for performance as part of its plan as evidence suggests that pay incentives raise employee productivity and efficiency. However, Where PRP does not succeed, Makinson (2000) points to the possibility of ineffective implementation, and states that, the compensation and reward system set up by the organisation needs to be consistent, reasonable, fair, and logical. It is up to the organisation to focus on the acquisition and utilization of human resources. This remains the key factor generally addressed by organisations to support the policies and regulations of the organisation in forming an effective compensation system. Despite doubt expressed for example by Marsden (2009) and Beer and Katz (2003) that failing PRP schemes can necessarily be rescued by keeping the PRP principle and changing the implementation, the practical factors involved in individual schemes must be considered relevant and influential for results at some level, and

Lewis (1997) summarizes prescriptions in the literature for the effective implementation of PRP, although he cautions that these do not enjoy the backing of empirical evidence. These prescriptions are categorised into two streams. The first concerns management processes surrounding PRP, while the second focuses upon the suitability of the payment system in its wider context within the organization

According to Kang and Yanadori (2011), the decision to implement PRP in general may be taken due to various factors and external influences, but these same factors do not tend to go on to influence the specific details of the scheme, creating a disconnect. There is a need to

select PRP schemes wisely in order to create employee satisfaction and maximize output. The steps below can be used to formulate and implement such policies after detailed consideration.

**Negotiability in objective and design:** Right from the start, employees need to participate in formulating criteria. This is for future assessment and other relevant measures.

**Transparency:** At individual and collective levels, the procedure of rewards and appraisal distribution needs to be transparent and clear.

**Training:** Both management and staff should undergo appropriate training.

**Piloting:** It is essential to have the scheme piloted to ensure and confirm its effectiveness.

**Realistic goals:** There is a necessity to define the goals and objectives which can be achieved.

**Fairness in functioning:** The scheme realization procedure should be clear cut and fair for all employees, as perceptions of unfairness may demotivate staff.

**Adequate appraisal:** The company managers should have plenty of time to make their appraisal, in order to make justified links between performance and reward.

**System explanation:** It is essential to make sure that the PRP schemes are clear and understandable to all employees and managers, as without such clarity, objectives cannot be conveyed and therefore any motivation produced may not be directed toward the intended goals. Additionally, perceptions of fairness may be negatively affected by lack of clarity.

Reward systems are considered to be significant in terms of organisational effectiveness and much effort should be exerted to design effective reward systems. The PRP system focuses more upon employees' effort with their own performance however owing to the inherent features of the payment mechanism. It is also doubtful how performance related pay would be beneficial to expert and older employees. The former tend to give extra focus on quality instead of quantity. As a result, their performance cannot be compared to those employees who are merely concerned about product quantity. One of the parameters to measure performance should be flexibility. Salary and compensation to be given must consider limitations and ability (Atkinson et al., 2009).

Various possible issues arise in relation to implementation of PRP and ensuring a strong link between performance and pay. Performance can be linked to pay via three mechanisms (ACAS, 2015): as a percentage on top of the basic salary rise; by faster progress through set pay increments; and thirdly as a one-off bonus. Private sector organizations tend to utilise the first method, and public sector organizations the second, with the third method increasing in popularity across sectors. The benefits of cash bonuses as put forward by proponents of this approach as including its higher visibility, the fact that it can easily be kept separate from pay in general and thus does not increase pay permanently or affect pensions, and that this approach keeps fixed labour costs low.

In terms of the proportion of salary linked to performance, the literature mainly sets a minimum of 10% if this is to be an effective motivational tool. However, due to the establishment of fixed budgets for PRP in many organizations, the actual allocation of PRP does not approach this level, and many schemes suffer from the unintentional adoption of a normal distribution curve which does not fit patterns of workforce performance where many workers perform well, and instead brands half of employees as below average (Lewis, 1997).

The organisation's implemented performance related pay system may cause the employees to focus on financial reward more than quality. Emphasizing too much cash incentives may not bring the desired results. Employees can start behaving in a manner equivalent to seals in a circus which do tricks when a fish is on offer. According to the European Commission (2012), Public Employment Service organisations report that priorities are altered as a result of processes of performance evaluation and resetting of targets on a departmental level, with changes in short-term targets and activities to reach these, and that this distracts staff and management from the basic functions of their work. Employees may be more happy and content when their effort brings unexpected rewards such as free vouchers for restaurant outings, vouchers for treatment or check-up at a discounted price, payment for vacations, medical insurance etc. Those performing well and achieving the goals of the organisation can be enrolled for training to improve their skills and increase their efficiency. Whenever teamwork thrives, it motivates the full team to try harder. Training programmes can be designed to encourage the employees in cooperating with colleagues such as communications skills training to avoid conflicts.

Performance related pay or PRP is used to motivate employees to raise their performance levels. Workers may end up placing too much emphasis on production compared to relationships with others however. This is likely to give rise to mistrust and lack of collaboration. It is sensible for employees to understand the why they are paid.

Merit based and goal based payment are two possible approaches in performance related pay. Goal based PRP involves employee achievement in terms of their objectives. A score is evaluated for rating staff which is based on a pay level set up and offered by the organisation. As a result, the employee may solely focus on what they believe will enable them to achieve these objectives. One of the major benefits of the method is that the goals and objectives

become the priority of the individual. It allows companies to communicate with clarity their strategy in a specific way. In order to implement performance based pay in a firm to achieve the organisation's goal at a higher level, the main factor to affect performance of the organisation is the performance and perception of employees.

Implementation of PRP systems is the subject of a number of suggestions in the literature (Kessler, 1994; Kang and Yanadori, 2011). For example, Annual appraisal more often determines the performance rating which governs the sum total of performance related pay. This means that the line manager or person responsible for the appraisal must make sure that discrimination does not take place. It is extremely significant that people who will be undertaking appraisals should be trained. They should have access to advice on the performance system and on the avoidance of bias.

Another suggestion is to look throughout the company at various performance assessments and payments. This involves looking at each grade, distribution of assessments and of payments related to each of the grades. There is also the perception that the criteria for rewarding performance should be defined clearly and achievable. The targets designed should be fair throughout all the departments involved. Performance may be linked to a measurable factor such as sales which may be viewed as objective. Soft skills like personnel management which are often done by women can be quite challenging to quantify. However, they should not be excluded from access to performance pay.

The firm is also advised in the literature to make sure that training is given in equal opportunities, which leads to avoidance of bias for those involved in appraisals. Limits should also be exercised upon the element of discretion with regard to appraisal, and a clearly defined explanation of the system should be given to the staff so that each and every one understands it properly. Groups of managers may be used for reviewing the nominations

together and for reaching consensus on assessment of performance. This is specifically at the highest and lowest level, thereby lowering the risk of individual bias and for the promotion of fairness and consistency.

## **2.10 Empirical Research**

The rise of PRP schemes in 1990s and early 2000s is well-documented, spreading in popularity and in scope across sectors and spreading down the organisational ladder. In the public sector for example, Frey, Homberg and Osterloh (2013) report a situation in which public sector organisations have come to view PRP as the norm as a result of the movement towards New Public Management of previous years, which included PRP as one of its tenets, seeking to raise performance and service quality by rewarding outputs. With this, literature concerning PRP's implementation has also grown, and a general consensus formed which cites employee involvement in set-up, and a positive attitude from higher management as pre-requisites, in addition to adequate planning (Kessler, 1994). At the same time, doubt has been cast upon the wisdom of implementing PRP widely or even at all within the organisation. While it is clear that PRP schemes were widely applied within organisations in the 1990s, and were applied to the majority of employees and in a meaningful way in terms of the amount of pay variation concerned, the outcome of this move in terms of worker performance is subject to debate, as the literature presents a conflicting picture (Belfield & Marsden, 2003). In any case, the growth in PRP in percentage of employment terms does not appear to have continued to the present time (Forth, Bryson and Stokes, 2014), raising questions as to the scope of its utility. Larkin, Pierce and Gino (2012) state that PRP on the individual level is currently used only for 50% of Fortune 100 companies, and in most of these for a small minority of employees, mainly in senior positions. This suggests that PRP is not universally effective, based on the assumption that effective strategies would come to

dominate pay in such companies. On the other hand, team-based versions of PRP are more widespread, indicating greater efficacy.

Marsden (2004) argues that performance related pay should be examined with higher analytical foresight and from a better controlled perspective. This should not be from the normal starting position of whether PRP is motivational or not. Two procedures could be explored here, with one of them being effort bargain. This involves the reorganisation of work in a bid to standardize effort measurement, which is combined with attempts for intensifying effort levels. The other possible procedure is the process bargain, including changes or reforms to the administrative system of an organisation.

Examples include human resource management, varying systems of budget control and performance management, all of which involve subsequent changes to rules systems, control and measurement. Importantly, it may be argued that this is not a search for control per se as a simple labour process theory can predict. Representation of reactions and control as homogenous is misleading and dangerous. It also leads to labour control systems turning out to be a real focus of crisis. Rather, performance related pay is representative of a wider quest for competitive advantage which may involve restructuring and changes to the organisation.

Early practitioner accounts highlight variety in approaches to PRP along with general similarities such as the intention to facilitate change through such schemes. Management aims have been subject to more rigorous scrutiny by academic studies, which also provide an examination of implementation of PRP. Kessler (1994) approaches the subject with the intention of uncovering reasons why schemes are implemented in various organisations, as well as examining why an organisation implements PRP in a particular way.

### **2.10.1 Evidence of link to motivation.**

Beer and Katz (2003) contend that in the humanist perspective, pay is not able to influence motivation, irrespective of the way the pay scheme is designed. Lovrich's (1987) study supported the humanist view that pay is not an effective motivator, with findings favouring participation and job enrichment as motivating factors. This is somewhat reflected in a review of evidence in the education sector (Yuan et al., 2013) which found that teachers, while finding financial reward desirable, cited their main motivations as stemming from factors independent of this reward, such as student achievement. Meanwhile, the original research conducted by Yuan et al. (2013) found no impact of PRP on motivation. In line with this, research by Bellé (2015, p. 230) in the healthcare sector actually showed a negative relationship between PRP and task performance, which he argued is "consistent with theoretical predictions that monetary incentives for activities with a prosocial impact may crowd out employee image motivation." This provides empirical support for the motivation crowding effect in which it is posited that an external intervention such as monetary incentives can undermine employees' intrinsic motivation (Frey and Jegen, 2000).

Beer et al. (1985), following the human relations school, set out four factors underpinning worker satisfaction, namely how the reality of reward matches expectation; how it compares with the individual's peers; how the individual perceives the reward which others receive, rightly or wrongly; and the combination of reward received, including both intrinsic and extrinsic factors. However, Marsden and Richardson's (1992) survey of employees at the Inland Revenue found little perceived alteration in work or behaviour as a result of the introduction of PRP: a picture of PRP's failure to motivate which was supported more recent research in both the public and private sector (Frey, Homberg, and Osterloh, 2013). Overall, Perry et al.'s (2009, p. 46) review of 57 studies on PRP in the public sector led them to

conclude that “performance-related pay continues to be adopted but persistently fails to deliver its promise.”

Marsden, French and Kobi (2000) reports that the majority of employees would rate their performance as above average, and comment that this has implications for PRP, as in this case, such schemes do not address the motivational needs of the bulk of the workforce. Further, Bregn (2013) found that perceived unfairness in PRP systems may have a detrimental effect on performance. Indeed, sometimes employees see PRP as arbitrary, unfair, and tending to reward work of peripheral significance, with knock-on effects for attitudes to managers, organisational change and the process of appraisal (Lundström, 2012).

Frey, Homberg and Osterloh (2013) emphasise the need to include detailed consideration of intrinsic motivation in evaluating performance related pay, and report two types of intrinsic motivation: the first stems from the inherently satisfying characteristics of the content of the work for an individual, while the second is based in feelings of obligation which cause the individual to wish to perform work well, such as in situations where fulfilment of the work has important implications for others (for example in caring professions).

PRP may also be assessed upon its ability to create fairness in pay systems. PRP is often seen as unfair by employees, but this is often related by such employees to technical aspects of its delivery and to performance measurement rather than to inherent unfairness in such an approach. For example, Marsden and Richardson (1992) found that employees suspected the application of a quota system to performance ratings, with a resultant feeling of unfairness, in addition to perceptions of the unsuitability of the assessment system for particular roles and suspicions of favouritism. Marsden (2004, in Bryson and Forth, 2006) also points to the

possibility of flawed measurement tools in assessing performance, and to lack of staff consultation over measurement criteria as major factors in leading PRP to be seen as unfair.

### **2.10.2 Evidence of effect on organisational culture**

PRP's effectiveness in addressing cultural change within an organisation is based upon the challenge of assessing that change. There is the problematic concept of organisational culture as an asset which is held as opposed to an essential quality as seen by the anthropological tradition (Alvesson, 2012). As a result, there is uncertainty whether respondents in studies such as that by the LGMB (1994) were able to attach sufficient meaning to questions regarding this topic to give their answers validity.

On the other hand, research by Lazear (2000) and Paarsch and Shearer (2000) indicated that the introduction of piece rate schemes increased the productivity by 40% and 23%, respectively, and more recently, Gielen, Kerkhofs, and van Ours (2010) report that the introduction of PRP led to productivity gains at the firm level of 9%. Bento and Ferreira (1992) compared the cultural assumptions of those responsible for PRP with those subjected to it and noted significant differences. In line with this Harris (2001) reported that middle managers often do not share the principles or the stated objectives of the PRP schemes which they have to implement.

There is conflict between the concept of teamwork and individually-focused PRP, as the element of competition for a finite overall amount of available financial reward creates conflict between workers, increases their rating of self against that of others, and reduces communication between co-workers (Woodfield and Kennie, 2008). This notion of conflict reflects earlier empirical findings by Marsden and Richardson (1992) and Cannell and Wood

(1992), although in the latter study, teamwork was taken into account in the planning of employee objectives. Meanwhile, an LGMB survey (1994) reports enhanced teamwork in fact, there appears to be a movement toward the award of team based pay incentives (Larkin, Pierce and Gino, 2012). A wider but relevant point concerning the influence of performance competition in general is thrown up by a case study of a performance management system introduced in the UK's Public Employment Services, known as the JET or job entry target scheme (European Commission, 2012). This scheme involved frequent scrutiny of individuals' performance against set targets represented on a 'points' basis, and fostered a highly competitive culture, even though performance was not linked to pay. Problems arising as a result of this focus included decreased information sharing by employees as well as inappropriate interventions with the public focused on improving the employee's points score. In addition to highlighting the possibility of competitive focus on performance in the absence of PRP, this case study raises the possibility of this focus misdirecting employee efforts if not channeled appropriately, which may be challenging.

A European Commission paper (Nunn, 2012) considers the case of German public employment services, in which pay for performance is utilized at the level of the team rather than the individual employee, through PRP for the manager, while individuals are aware of the 13 targets set nationally for the organisation's activities, and pay incentives are offered for the achievement of these. Management appraisals include assessment of performance against these elements, and on this basis the possibility of bonus payments is determined. The bonus in this case is reported as being small. In contrast, PRP was implemented with a significant reward element in the analogous organisation in Austria, and is reported to have led to a stronger sense of individual accountability on the part of regional managers toward enhancing performance (Ecorys, in European Commission, 2012). However, the Austrian

system has been criticised for attributing variations between regions to strongly to team performance rather than separate variables which also change over time, and also for driving unsuitable job placements for clients due to the focus on quantifiable targets (European Commission, 2012).

Wilkinson and Dundon (2006) suggest that choice of approach in consideration of the organizational context is the key to success, but also that such choices are subject to strong influences coming from this same context, in terms of organizational culture and history, as well as the influence of the particular objectives held for the scheme on the part of management. In a comparative case study conducted through documentary analysis and interview, Kessler (1994) examines PRP schemes and the choices made regarding them in light of their wider organisational context. At Newsco, PRP was introduced against a background of weakened but nonetheless significant trade union power, and was clearly aimed at strengthening the power of the editorial manager at the expense of this union power by widening the managerial influence upon individual wages, as well as reasserting a stronger role generally for line management. The PRP scheme was in effect used to strongly confront the organisation's existing culture, as advocated by Fombrun et al. (1984). While the confrontational aspect of this was not embraced by all management and pay decisions in large part remained in the remit of union-organisation dialogue, the desire to assert management control was clear in the fact that the setting aside of funds for performance pay was not subject to negotiation with the trade union, that no appeals procedure was initially allowed for, and that criteria for award of this pay were vague and procedures opaque. Means of participation in the scheme's design and operation was therefore closed to employees and the unions, reinforcing management power. The lack of clarity in criteria is also taken by Kessler to reflect a culture where the creation of extensive documentation would be resisted

as a burden. The adversarial context of the introduction of PRP is further reflected in the swift introduction of the scheme, lack of consultation and minimal training or preparation which would lay management intentions bare. Beer et al. (2004) also take the stance that PRP should not be used as the major driver of organisational change, but as an adjunct to a wider strategy.

### **2.10.3 Effects on organizational performance**

The difficulty of establishing a link between the performance of the employee and that of the organization, which compounds the difficulty of connecting PRP with organizational performance, is discussed in the literature. However, in an Institute of Personnel Management study from 1992, the majority of those surveyed noted a positive effect of PRP on itself on the organization's performance, and almost 95% noted this where PRP was run in conjunction with a range of performance management tools. Therefore, it may be considered that PRP should be part of a set of performance management activities if it is to maximise its effect on organizational performance. However, caution may be needed in interpreting its effectiveness here, due to a lack of evidence. Further, Nunn and Devins (2012) put forward the possibility that introducing new performance management approaches within an organisation may influence performance positively on a temporary basis only, with reversion to the status quo over time. Bryson and Forth's (2006) assessment is that no direct link is in evidence to connect performance related pay to productivity or further to performance. Further, it is proposed by Freeman and Kleiner (2005, in Bryson and Forth, 2006) that the costs associated with establishing and running PRP systems could prove to be greater than the benefit gained in doing so.

Belfield and Marsden's (2003) wide-ranging study based upon the Workplace Employment Relations Survey (WERS) 1998 and 1990, examines the effectiveness of PRP through "New Economics of Personnel" (NEP), which is premised on the concept that the choice of purely input-based pay or of a scheme which includes a performance-based element depends upon conditions in the particular firm (Lazear, 1995; Pfeffer & Langton, 1993). The influence of the "monitoring environment" in the workplace on the success of pay schemes, and the interdependence of these factors in impacting on organisational success is emphasised in this view. Belfield and Marsden (2003) therefore advocate a trial and error approach if managers are to achieve the best interaction between pay scheme and monitoring environment, especially as the variables involved are complex, making their analysis by managers highly challenging. NEP assumes a direct positive effect on individual and organisational performance coming from truly accurate assessment and reward of employee contribution, and a negative effect from either under- or over-estimation such that in this case input based pay would be preferable. From this perspective, the possibility of a PRP scheme achieving its goals hinges on establishing the real value of each individual to organisational success: a challenging task, and more costly and time-consuming than providing fixed pay (Beer et al., 2004). Performance assessment within a given organisation may be seen as consisting of a "bundle of variables" which make up the "monitoring environment" (Belfield & Marsden, 2003). Taken together, this group of variables may create a climate which is either favourable for input- or performance based pay in order to enhance organisational performance.

Lucifora and Origo (2012) examine group as opposed to individual PRP schemes, in the context of the metal and engineering sector in Italy, and utilising both panel data and a quasi-natural study of a firm in which unionized collective bargaining and fixed pay was replaced

with group-based PRP. The results show an appreciable change in performance on introducing team PRP in which organisations' performance moves by an average of three percentile points and 8% of average overall productivity increases attributed to PRP. Detailed findings suggest that this positive effect is limited to organisations comprising over 20 individuals and stronger in both less unionized workforces and higher technology areas for the sector. Interestingly, in light of a general dearth of evidence regarding type and implementation of PRP scheme, Lucifora and Origo (2012) find that schemes with a higher complexity level are slightly less positively correlated with performance, and that there is a significant negative difference when considering schemes where reward is linked to profit on a direct basis. The case studies in the current thesis do not concern PRP with a group element, and the context, with no trade union influence, also differs considerably.

Bryson and Freeman (2014) look at indicators for effort in employees participating and declining to participate in a share plan in which one multinational corporation across four regional sites offers to match shares bought by employees. This is seen by the authors as representing both a reciprocal 'gift' and a pay for performance element. The authors attempt to control for other variables which may affect effort, to examine the effect of membership of the share scheme itself. The findings show a higher perception among plan participants as to how hardworking they are, and also a perception of being more hardworking than others. In addition, plan members are found to work more hours over their basic hours than non-plan participants. Further, the perception by participants that they work harder than those within their working environment goes down where take-up of the share-matching plan is higher. However, Bryson and Freeman attribute this more to the share scheme in its role as 'gift' than in seeing a genuine pay to motivation to performance link as in an attempt to raise share price through individual effort. Frey, Homberg and Osterloh (2012) support the notion that rewards

which are seen as gifts rather than a strategy of control are better received, with lesser negative effect on or 'crowding out' of intrinsic motivation, than reward which transparently seeks to affect behaviours.

Some research has suggested that pay for performance gives positive results in terms of performance, but despite the wide range of research undertaken, there is a lack of focus upon the importance of managerial approaches to implementation and of managerial decision-making upon the success of such strategies (Beer & Cannon, 2004). What research does exist suggests that the manager's role is key (Gerhard & Rynes, 2003) and that implementation is indeed problematic, throwing up unintended consequences such as hindering creativity, damaging collaboration and reducing the effects of intrinsic motivation (Beer & Katz, 2003). Employees may narrow their focus to that which is laid out in the incentive scheme, which may not be in the best interest of the company, and as Beer and Cannon (2014) point out, is not a question of design alone but also of effective implementation working alongside this, especially as implementation can be hindered by a 'knowing-doing' gap among managers, where knowledge exists without the ability to put it into practice (Pfeffer & Sutton, 2001). Beer and Cannon (2004) delineate two main areas of focus: firstly, assessing the connection between effort and performance, for which they claim that performance must be effectively measured and managers must overcome any reluctance to differentiate between individuals, and influential external factors must be taken into account. Secondly, fairly and transparently linking performance to pay is suggested as important, against a constantly changing technological and organisational environment and employees who adapt to such changes, leading to both payout and performance standards which are subject to change, and bearing in mind a tendency on the part of employees to inflate the value of their contribution, as well as budgetary constraints. While constantly adapting to the above factors, the pay scheme's

reputation for fairness is also cited as an important factor which must be maintained. Furthermore, Lazear and Oyer (2011) suggest that at higher levels, effort extracted from employees promotes dislike, which may affect performance in other ways.

Beer and Cannon (2004) examine PRP implementation in a high-commitment environment from the perspective of local managers in five Hewlett Packard offices, and conclude that the culture of the individual organisation may dictate the most suitable approach to pay schemes, rather than advocating any model as ideal for all. Gerhart (2001) suggests that there are certain attributes which indicate the suitability of pay-for-performance schemes, including a strong company line on opportunism as well as an environment in which professional and personal reputation is valued. Hewlett-Packard was a case which seems to fit these conditions, where managers enjoyed both support and a good degree of autonomy as well as an environment of trust between employees and management (Beer & Cannon, 2004). The managers, however, after expending considerable time and effort designing a pay for performance system, including careful attention to metrics, and implementing this system, discontinued their use based partly on the perception that it was not as effective as hoped, suggesting perhaps that their expectations of the potential of PRP were unrealistic: this is held by Rigby (2001) to be a facet of human nature, and also highlighted is a failure on the part of managers to sufficiently foresee the complexity and effort involved in maintaining an effective PRP system in constantly changing conditions, as well as potential for harm to morale and trust involved. The HP managers felt that the system they had implemented was harmful to the culture of trust within the organisation. It was also found to be divisive, with problems in reallocating members of low-performing teams to better performing ones. Beer and Cannon (2004) therefore argue that, while high-commitment cultures may appear to have more to gain from PRP, the commitment they enjoy means that they also have more to lose

from such systems. They advocate that in high-commitment cultures, management should seek input from and dialogue with employees when introducing a new payment system, and further that this input should inform design and evaluation of that system: both management and employees should understand what each side seeks to gain from the system and be involved in assessing whether these expectations are in fact met by it.

They further warn against the evaluation of pay for performance based purely on the organisation's financial performance as being inappropriately simplistic. Also, while in the cases studied by Beer and Cannon (2004) the newly-implemented pay systems showed themselves to be successful in terms of employees reaching the targets set within the system, the authors argue that set against loss of the trust and commitment which firms have historically relied upon to succeed, this is not in itself an adequate goal. In this view, commitment is the superior force, and this is created through equitable treatment and employee voice (Beer et al., 1985). Evidence from a US study suggests that workers paid a fixed but higher-than-market rate less frequently ignored unacceptable lack of effort among their co-workers, suggesting an effect of fixed pay on commitment to the firm in situations where close monitoring of work by management is not practicable (Freeman et al., 2006, in Bryson and Forth, 2006). In high-commitment firms, Beer and Cannon (2004) suggest that implementation of pay for performance may prove too costly to employee trust to achieve any net benefit. The European Commission (2012) when considering public employment service organisations, warns against indiscriminate use of reward for performance approaches, stating that outsourced payment for results services have not been consistent in giving the promised advantages.

During research, a vagueness within the objective setting procedure was common to several organisations. It is also noted that changes in the companies were complicated by the search

for consent, control and compliance. Moreover, the outcomes were majorly specific to each of the organisations, depending upon negotiation of politics of pay. Some of the companies used certain mechanisms to in order to do this which included controlling labour charges and their distribution, flexible standardization, individual but only standardized contracts and mass individualism.

The countries with significant performance related pay elements connected to posts such as senior and middle public service managers include Australia, the Netherlands, Ireland, Denmark, Canada, the UK and New Zealand (Cardona, 2007). For managerial positions, this is used to fill the void between public service manager salaries and those in private sector. This is for attracting and retaining private sector managers into public administration for assistance in building up a business-like public administration. However, it has given rise to problems regarding internal compatibility, triggering pressure for the internal equalisation of salaries.

Evaluations based on a performance management and recognition system were set up in the US in 1984 and abolished in 1993. Evaluation of the UK Inland Revenue service scheme concluded that most of the staff hardly scored anything less than satisfactory performance (Marsden & French 1998). As only employees with the achievement of outstanding performance were entitled to performance related pay incentives, in practice only limited staff received the bonus. On the other hand, most employees performed satisfactorily and were not rewarded with a bonus. They found the system to be discouraging, triggering jealousy and leading the staff to question it, which de-legitimized the established performance related pay. Such uninspiring outcomes were quite consistent with comparable evaluations made in Australia.

To research performance related pay, Chiang (2010) evaluated the tourism industry in Hong Kong hotels. Questionnaires were distributed among service employees through the assistance of different hotel departments. A sum total of 258 responses were recorded from more than seven hotels located in Bangkok. Correlation coefficients and descriptive statistics were used for all the study variables presented. Hierarchical regression procedure was used for the analysis. It was revealed through this research that perceiving a high PRP link, the employees exhibited a more positive work attitude. Reward practices like PRP schemes play a crucial role in alignment of employee-organisation service quality values. Apart from establishing a simple relationship between performance and reward, PRP tends to enhance commitment and job satisfaction.

In another research study by Bulan (2010), longitudinal data was used on worker productivity with two plants after each of them changed their payment scheme. This was done in order to measure the outcome of performance based payment on the productivity of the workforce. Robustness checks and an empirical model were used. This study it showed the same effect of change in incentive schemes for high ability and low ability workers. The results showed effects on high ability workers by incentive effect of piece rate component. However, it does not show the reason behind low ability workers raising their level of production post-implementation of piece rate policy alongside a basic wage (Bulan, 2010).

## **2.11 Gaps in the Literature**

There are significant gaps in the justification provided for pay and pay determination theories and also in the general understanding of performance-related pay. Bryson and Forth (2006) report that studies exploring variables which impact upon wage setting, including features of the organisation, role and worker, attribute just half of hourly wage variation to the factors measured. Concerning occupational segregation and pay determinant theories,

although a large amount of theoretical literature has been written and reviewed, and theories formulated, the issue of occupational segregation has not been addressed satisfactorily, and hence it needs further research. Labour market issues in the form of occupational segregation and structuring of job duties is likely to result in a gender pay gap. The gap not only emanates from gender disparity in basic pay rates, but also via minimized access to wages, promotion, training, and professional improvement opportunities (Özbilgin & Tatli, 2008). In addition, reimbursement of bonuses and performance related payment and on-job training activities are usually minimal in feminine occupational capacities. Moreover, society is still based on the traditional thinking that places more value on the male figure. Hence, women face more resistance from the community itself whenever they try to compete with men in top managerial and executive positions, and especially in the public sector.

Another gap arises from the job-matching theory, which suggests that the experience of the labourers is a good that has unknown characteristics. This raises a question regarding how companies manage to recruit competent employees for them to obtain high-quality productivity. According to the fundamental argument upon which this theory is based, the experience of employees is a good which has actual features that are revealed after some time by productivity performance (Heibel, 2009). This model was originally suggested by Jovanovic (1979) and was chosen as a benchmark model of employee turnover in global labour economics. It is important to value the experience of workers: especially when recruiting new employees. Essentially, the fact that a person's experience is not known to the company at the time of hiring is the greatest uncertainty and barrier to the concept of job-matching. Hence, more literature is needed to justify the assumptions of this model and to test whether the theory conforms to other assumptions stated under this theory.

## **2.12 Conclusion**

This chapter firstly described theories of pay determination, considering the role of the state, the market and the firm in this, as well as theories of supply and demand combined with approaches to pay based in sociology and the role of hierarchical systems in defining pay by occupation and position. From this, it is apparent that there is no definitive view of the mechanisms which determine pay, and that the factors involved in this are complex and multiple. Payment systems may be strategically used within the employment relationship to seek to influence productivity however, whether based on time or performance or a combination of both. In terms of the foundation of theory for performance pay, the principal-agent function is applied, and expectancy theory provides an avenue for external motivation and valency to feed into increased motivation in line with objectives set, and, by implication, better performance. However, perspectives and evidence conflict as to whether this theoretical potential is seen in reality, with some evidence to suggest that intrinsic motivational elements are of greater value and may be negatively impacted in PRP for those not receiving a reward.

Possible desires driving the implementation of PRP were also identified, to include; motivation, changing organisational culture, pay system fairness, making managers manage, reduction of trade union influence, recruitment and retention of staff, and political imperatives. However, of these, motivation and change in culture seemed to be the most frequently sought. As well as multiple objectives, PRP schemes have been implemented in multiple forms leading to a need to evaluate such schemes on a case by case basis, and with possible potential to match contexts to scheme types rather than prescribe a system to fit all organisations. Having said this, the increasing popularity of team incentives may indicate a benefit to this type of scheme, which is not seen in any of the case study companies in the primary research for this study.

The macro environment of a company comprises significant general features in the company's surroundings that are capable of altering the organization's goals, objectives, and strategies. Socio-cultural factors are among the macro environmental aspects which have the power to affect a company's operations. While performance related pay is considered by Poutsma et al. (2006) to represent a natural extension of previous practices among Anglo-American cultures and the United States in particular, Kang and Yanadori (2011) highlight the point that in Eastern cultures, PRP does not represent an evolution of existing practice but a replacement of a different system, and thus may face various problems of acceptance and/or applicability not considered in its original setting. The socio-cultural determinants to be considered in this literature review include customs, lifestyles and societal values of the Saudi business environment. Since these factors have the power to influence the company's ability to obtain resources and operate within society, they have a significant impact on pay and PRP systems. They also include socio-cultural variables such as demographics of the Saudi population, education levels, principles and values, and the attitude toward providing social responsibility.

In Saudi Arabia, the ability to reward good performance is accessible to the management to because it has the mandate to approve additional payments of up to 3 months of the worker's basic pay for achieving good performance (OECD & OCDE, 2013, p.167). Structural and cultural forces are ideologically influenced by the need to alter tasks and technologies, and faced with a long-term failure to manage essential motivation, these have resulted in the entire panoply of modern-day KITAs. This has led to desperate efforts to restate power over rewards in performance related payment (Thompson & McHugh, 2009). Considering the Saudi context, in a country where the society accords more emphasis on customs and religious beliefs, a performance related pay system might prove to be

unnecessary. However, a blend of skills insufficiency and a mounting wage bill has resulted in calls for a rethink of how health facilities and health personnel are financed and compensated (Oxford Business Group, 2014). Although Saudi Arabia's public sector has not yet adopted performance-oriented fees, their introduction will be welcomed (Oxford Business Group, 2014). This is because of the challenges occurring due to increasing shortages in the labour market.

However, Kang and Yanadori (2011) point to an emerging situation wherein socially legitimized business practices are introduced in contexts where they may be challenging or not compatible, but in such a way that they do not materially alter the current organizational culture or operations, while being employed in an ineffective manner. This view has important implications in the Saudi scenario, and especially in light of the already opaque picture of the aims and effectiveness of PRP as described previously in the chapter.

Many companies consider that recognizing the efforts of their employees may boost not only the level of participation of these workers but also enhance business revenues. Apparently, workers tend to be attracted to employers who reward their additional capability and will automatically wish to be employed by these types of companies. Motivation is usually an essential factor of employee performance, and especially the type of motivation that involves monetary bonuses in addition to the workers' base pay. Therefore, performance related payment is a key potential tool in the running of a business.

However, from the variety of PRP systems discussed in this chapter, and the conflicting evidence as to the effectiveness of PRP in general in achieving the various aims ascribed to it, it is apparent that adoption and implementation of PRP is not a straightforward decision. Any company adopting PRP should undertake an evaluation of these schemes based on other testable variables as a function of profitability. This should not be restricted to one

system, but one after the other should be tested in order to decide on the most effectual plan that will facilitate the achievement of the set target. Further, in the Saudi context, the possibility of conflicting socio-cultural conditions and the potential for a surface-only application of alien systems adopted raises further questions about the potential of such schemes for success. With this in mind, the next chapter will provide a background to Saudi Arabia as the broad context of this study, and an introduction to the three organisations participating in this research.

# CHAPTER THREE: BACKGROUND

The first section of this chapter provides a general guide to the political and economic structure of Saudi Arabia, with geographic, demographic and social features discussed. The second section covers the background, size and product of the three firms under study. In light of the convergence/divergence debate considering whether human resource management practices in different parts of the world are similar, applied in the same ways or yield the same results, the country background is an important part of the contextualisation of the study. The data collected for this study reveals the suggestion that the technique of performance related pay schemes has been imported and then applied in the Saudi context, and that this has implications for the way in which it is implemented and the perceptions of affected parties towards it, as well, possibly, on its utility. This chapter will provide an introductory context for those findings by firstly offering general insights into the relevant features of the country and culture, and then considering the organisations which were investigated in this study;

## **3.1 Saudi Arabia: Political structure.**

Saudi Arabia's government and legal system is based firmly upon Islamic principles and teachings, as is set out in the Basic Law of Governance (1992). Its official language is Arabic and its official religion Islam. The State is a monarchy and power lies in the hands of the King, to whom all citizens are bound to pledge their allegiance, as the head of the royal family. This role passes down the male line via the Crown Prince. While the King's power is supreme, it is balanced by the law, which lays down the need for justice, consultation and the rule of Islamic *Shari'a*. The family is viewed as being at the core of Saudi society and the law and government of the country is designed to strengthen and maintain the centrality of

the family unit, while inculcating within this unit Islamic and Arab values. A duty of care toward and to develop the potential of all citizens is also placed upon the State.

The Law of Governance (1992) is clear in prescribing the duty of citizens to maintain a unified whole, supporting each other, the State, and Islam: the intention of the state to work to eliminate disunity and discourage dissent is also laid out. Meanwhile, the Law places emphasis upon Islam, national feeling and the need to contribute to society as the cornerstones of the education system.

In the Law of Governance, the State lays claim to all natural resources within the Kingdom and its waters, which are to be preserved or utilised in service of the State only as detailed in law: the right to exploit such resources may not be sold or given except through processes of law. In addition, a duty is placed upon the citizen, other residents and the State to protect public property. Meanwhile, private property and ownership of capital and labour is allowed by the Law of Governance as an important foundation for economic activity in the Kingdom as well as for the structure of Saudi society. This is set out in law with reference to Islamic *Shari'ah*. Further, the imposition of taxes must be justified in terms of the public need and must follow legal process. The right to hold private property and protection of that property is also enshrined in law by the Law of Governance, with the provision that where the public interest dictates that property be taken, this may occur, but only with the provision of appropriate compensation. Public expropriation of property is prevented by this law, and private expropriation may only be made through proper legal process.

### **3.2 The Country and the Culture**

Saudi Arabia's population stands at 27 million, of whom 8.4 million are not Saudi nationals. The Kingdom occupies the greatest area of the Arabian Peninsula, and enjoys a varied terrain

comprising mountain, plain, forest and desert, and a range of climates. However, the country receives only 4 inches of rain per year on average. Despite this, a programme of reclamation of desert land has resulted in dramatic progress in agricultural production, and allows the export of various produce, from wheat, vegetables, fruit and flowers to fish, poultry, eggs and dairy produce.

Since the country's founding in 1932, Saudi Arabia has modernised quickly while still retaining many of its unique cultural features. Bedouin and Arab cultural traditions are important to Saudi Arabian culture, and Arab hospitality is an example of this. The chief cultural influences upon the Kingdom also include its historical importance as a centre for trade, stretching back at least 5,000 years, and connecting the Indian sub-continent and the Far East with the Mediterranean and the Byzantine Empire. Another pillar of Saudi culture is formed by Islam, adopted in the 7<sup>th</sup> Century AD and soon afterwards leading to a 'Golden Age' of scientific and cultural development. Muslim observance shapes the year, including the month-long daylight hours fast of Ramadan and the festival of Eid-Al-Fitr which follows it. In addition, Saudi Arabia's role as a religious centre for Islam leads to cultural enrichment by means of the large numbers of pilgrims coming to the country each year for the Hajj, or pilgrimage to Makkah.

### **3.3 Emergence of the Saudi Labour Market**

In Saudi Arabia, prior to the production of oil, the labour market was restricted and did not show a distinct dissection of classes. Many Saudis were involved in traditional categories of occupation, and some were self-employed. Most people lived an itinerant life due to the physical setting of the country. Neither did the country have a strong fundamental administration nor a compound classification of the workforce. Later, with the unearthing of oil in the late 1930s, its economic structures experienced the start of modifications which

would make the petroleum industry the key to the Saudi financial set-up (Woodward, 1988, pp. 45-51).

The start of the creation of the salaried labour market was with the Arabian-American Oil Company (ARAMCO). ARAMCO provided many Saudis with oil-related jobs and other job activities linked to the company. Between the 1940s and 1960s, oil production and other related jobs were the main economy driver, although this had little impact on the country as a whole. During the initial period of planned progress, it was ostensible that Saudi Arabia's population and the magnitude of its countrywide labour power were inadequate to provide the entire manpower necessary for the quickly evolving economy. It was then decided to import additional workers to enable attainment of the country's development goals (Sirageldin & Sherbiny, 1984, p. 36).

In the 1970s, the basis of the economic structure was recognized. Development plans to consider the complete variety of human needs were addressed. Capital from the Saudi government plus imported manpower made this achievable, and imported labour dependence increased each year as stated by Sirageldin and Sherbiny (1984). Most of the imported labor was from neighbouring Arab nations. The ratio of external manpower has progressively reduced as from the end of the 1970s.

### **3.4 Overview of the current situation**

The problem related to international labour in Saudi Arabia is known to be one touching each and every corner of the world. The total population of Saudi Arabia is 27.3 million, out of which 30 % are immigrants from other nations (The World Factbook, 2013). This has resulted in changes in the labour laws of Saudi Arabia which not only influence labour, but also result in influence on workers' families, and this issue is spread all across the

globe. According to a study by the International Monetary Fund (IMF, 2013), the value of remittances from the international labour in Saudi Arabia holds accountability for 6.2 % of the Gross Domestic product in Saudi Arabia. This is out of \$927.8 billion, and can be considered as a significant source for income for a number of nations.

Apart from this, the nationals of Saudi Arabia have been witnessing a high degree of unemployment for the last decade. There was a peak of unemployment in 2011, reaching 12.4 % (The World Factbook, 2013). This is known to be due mainly to problems of structure, including competing with lower levels of payment necessary for international workers. Apart from that, there was also the issue of a number of unskilled workers of Saudi Arabia who were in need of training for integration into the employment market. In this context, it can be stated that there is a problem concerning demographic factors. The biggest group by age consists of the younger population, those between the ages of 20 and 34. The employment market thus has a need to accommodate a huge group of workers on a yearly basis (Saudi Ministry of Labor, 2012).

Therefore, the government of Saudi Arabia, with the new Minister for the Labour Market, Adel Fakeid, who was appointed in the late months of 2010, started to take measures to drastically lower the rate of unemployment by the introduction of innovative programmes. This resulted in impact upon the level of demand and supply for labour in Saudi Arabia. The policies as well as institutions of the labour market affect the success enjoyed by economic reform, and these stem more from the political environment in comparison with the economy. Hence, in order to be more effective, policies focus on the rigidity of the labour market as related to political in comparison with economic reasons (Jebreel, 2012).

### **3.5 Employment Structure**

The labour market in Saudi Arabia has long suffered from a number of different imbalances of structure which include high dependency upon international labour, a serious gap in gender in the supply related to labour, high disparities in wages amongst similarly educated and trained non-Saudis and Saudis and a high level of unemployment amongst the people of Saudi Arabia, and particularly the youth (Saudi Ministry of Labor, 2012; ILO, 2015b). As a matter of fact, in the year 2009, the 10.5 % rate of unemployment amongst Saudi nationals was almost double the total rate of unemployment, which was 5.7 %. The rate of unemployment amongst those between the age of 20 and 24 was 30.2 %. These figures highlight the difficulties being faced in the country in relation to labour market management.

Two interrelated and dominant features in the structure of the Saudi labour market are known to be the utilization of international workers within the private sector and their different conditions of employment and wages (Saudi Ministry of Labor, 2012). These conditions have been identified to be unattractive for the national, and there is known to be a strong preference among nationals for working within the public sector. Due to this, the population of Saudi Arabia seems to be dominating employment within the public sector, whereas non- Saudis dominate employment within the private sector despite efforts by the government to increase the representation of Saudi workers in these areas (Peck, 2014). To understand the labour market more effectively examination of its structure through economic activity was undertaken.

#### **3.5.1 Employment structure by economic activity**

Within Saudi Arabia, a major current feature of the employment structure is formed by the policies of Saudization focusing upon indigenization of the forces of labour with a

specific focus created for the private sector (Sadi, 2013). For this particular purpose, the adoption of a number of different approaches is in evidence. Some of these measures entail the imposition of minimum-level quotas for the nationals of Saudi Arabia within specific industries (The World Factbook, 2013), placing jobs under blanket reservation with respect to specific occupations for domestic nationals (Ramady, 2013). Others focus on improving employability and the skills of workers in Saudi Arabia, along with their accessibility for the jobs which might otherwise have been carried out by the international workers, (Alfawaz *et al.*, 2014) and over the creation of new opportunities for job seekers from Saudi Arabia within the private sector. With respect to this latter regard, creation of new employment is known to have a close link with the diversification taking place in the economy of Saudi Arabia apart from the lucrative but volatile oil sector (Albassam, 2015; Cole, 2015). The relation between PRP and Saudisation has not been made clear by previous research evidence. Introducing PRP seems to represent the import of Western employment theories and condition, but on the other hand could be argued as an incentive to Saudi nationals to view working in the private sector as an opportunity to gain more in financial terms from this sector. With the governmental imperative for private sector organisations to increase the proportion of employees recruited from the Saudi labour force, HRM in general and pay and conditions in particular may offer an important avenue for research in order to implement this policy effectively.

However, in the historical context, Saudization is known to have restricted levels of success in terms of numerical targets which were rarely met (Saudi Ministry of Labor, 2012). Challenges related to greater employment amongst the population of Saudi Arabia involve a mismatch related to skills because of deficiencies in the system of education, with the entrenchment of perceptions that prevent nationals from pursuing specific categories of

work, and the low involvement of females within the employment force (Torofdor *et al*, 2012). Competitiveness and productivity are also known to pose challenges.

### **3.5.2 Labour Demand**

As the recovery of the global economy lifted oil prices in 2010, the economy of Saudi Arabia showed higher growth and the enlargement of fiscal spending by the authority of government. This resulted in boosting demand at domestic level and in the acceleration of GDP growth in non-oil areas, which is estimated for 2015 at US\$ 805 billion (Global Finance Magazine, 2015).

At the same time, there is a predicted SR715bn for the 2015 budget, which leaves a deficit of SR145 (5% of GDP) and foreign reserves are at \$736bn (98% of GDP), according to the UK Foreign and Commonwealth office (gov.uk, 2015). Furthermore, government debt to GDP has reduced dramatically in the last few years as the figure below indicates.

Figure 1 Government Debt to GDP



Source: Trading Economics, (2015)

The effect of this improved economy on labour demand is that there is increasing opportunities for those that were unemployed during the recession. At the same time there is pressure from employment regulation and the way the labour market is run, including the role of recruitment agencies.

### 3.5.3 Employment regulation and recruitment agencies in the Saudi labour market

Article 14 under the Executive Regulation of Labour Law covers the work standards to be followed at local recruitment agencies. These organisations facilitate the recruitment of workers who are non-Saudi, and recruitment at domestic and international levels. The population of workers recruited should not exceed the needs set by those employers who are successful in receiving approval for the recruitment of international workers (Ramady, 2010). The recruitment officer may also recruit workers in accordance with the set limits of the Ministry. These employment services are offered to employers who are facing failure in the recruitment of their own individual workers. The recruitment agencies have responsibility for making payments to workers and giving guarantees over their rights (Flynn, 2011). Further, Article 14 subsection 2 covers the conditions which have to be met by Saudi nationals to obtain a license for the establishment of recruitment offices (The World Factbook, 2013).

### **3.5.4 New entrants to the labour market by level of educational attainment**

The Ministry of the Interior estimates the immigrant population at 6.2 million, drawn from a number of different nations, and in particular from North Africa and the Middle East. As per the official data from the Ministry of planning, the total workforce population in Saudi Arabia was 7.2 million at the end of the year 2000 (Saudi Ministry of Labor, 2012). This population was constituted as 44.2 % or 3.12 million from the Saudi population 56.8 % or 4.02 million non-Saudis (The World Factbook, 2013).

At the same time, the country aims to reduce its dependence on foreign labour. Irrespective of the other major efforts made through development plans, the main tool for increasing the supply of qualified Saudi workers from Saudi Arabia was rapid expansion of systems of training and education (Sadi and Al-Buraey, 2009). However, although the number of participants from the foreign labour force within the state sector has diminished in a significant manner, Saudi Arabia still seems to be relying largely on an international work force, which is known to be of high quality in comparison with its counterpart Saudi workforce (Ramady, 2013). In addition, there is a further key issue which hinders the labour force of Saudi Arabia, which is the restricted participation of females within each and every sector of the economy (Saudi Ministry of Labor, 2012; Al-Salloum & Bin, 2012). Even with an increase in the level of demand for labour, approximately one half of the population of Saudi does not seem to be participating within the activities of the economy which are beyond the domestic front. The female labour force within the urban region only contributes to approximately one % of the economy (Borjas, 2011). This particularly small percentage additionally seems to be working only within the reaches of social institutions (The World Factbook, 2013). The participation of rural women is known to be greater in the provision of income for the family: however, the lower level of productivity results in reduced share within the total range of national product.

Foreign manpower from specific countries provides particular types of labour force. Koreans are mainly construction labourers, while most Thais work in service industries, and most westerners are found at management levels. The figure below shows the estimated country of origin of foreign workers.

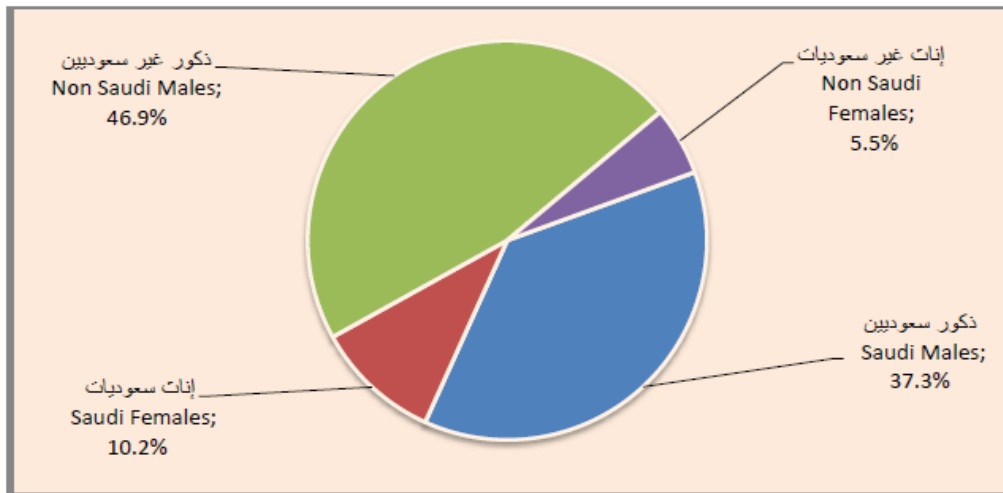
**Figure 2 Country of Origin of Expatriate Workers**

Estimates of non-national populations in Saudi Arabia, selected nationalities (figures up till November 3, 2013)		
Country of citizenship	lower est.	upper est.
1 India	2,000,000	2,800,000
2 Pakistan	1,500,000	
3 Bangladesh	1,500,000	
4 Indonesia	1,500,000	
5 Egypt	1,000,000	2,000,000
6 Syria	1,000,000	
7 Sudan	500,000	900,000
8 Yemen	800,000	1,000,000
9 Philippines	670,000	
10 Sri Lanka	550,000	
11 Afghanistan	500,000	
12 Nepal	500,000	
13 Palestine (holders of travel documents)	500,000	1,000,000
14 Burma	250,000	600,000
15 Jordan (workers only)	250,000	300,000
16 Lebanon (2009)	160,000	
17 Ethiopia	>150,000	700,000
18 Somalia-Eritrea		?

Source: Bel-Air (2014)

The alignment of imported labour was focused on making prompt alteration in Saudi Arabia (Roy, 2009). Despite attempts to increase the supply of competent Saudis through the rapid increase of the learning and training schemes, Saudi Arabia still depends greatly on foreign labor which is of advanced level in some sectors compared to that of Saudi. In Saudi Arabia, there are approximately as many foreigners as citizens working in the country as the figure above indicates. Further, female labour is minimal relative to other labour markets internationally. This limited input of female labour is a drawback limiting the Saudi labour market, and most planning strategies ignore this primary resource. The percentage of work provided by men is ten times that of females (Sirageldin & Sherbiny, 1984). The chart below shows manpower distribution in the Saudi labour market in relation to Saudi males and females and expatriate workers.

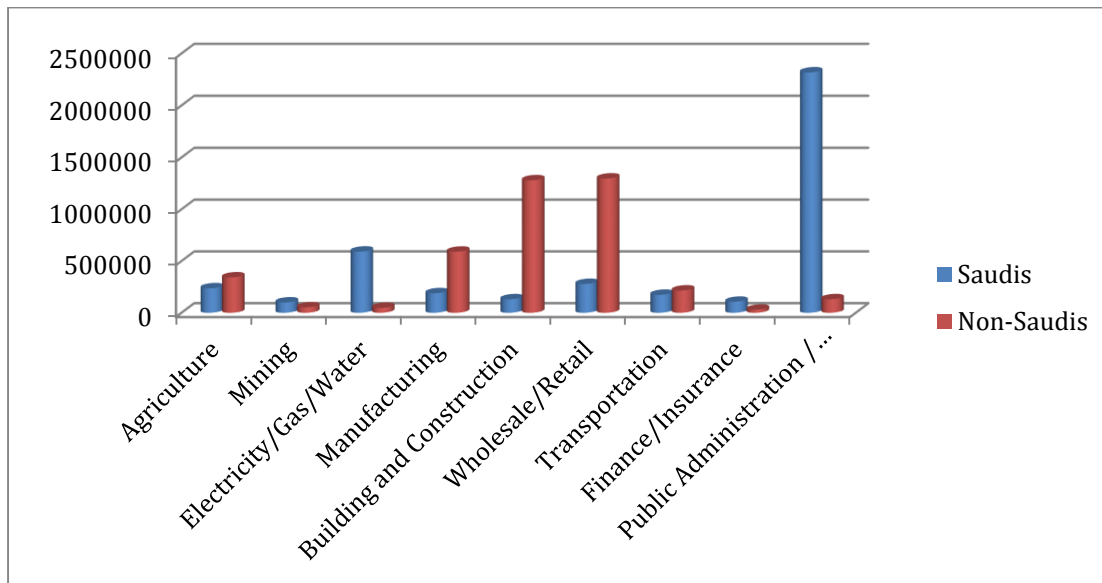
**Figure 3 Saudi and Non-Saudi's in the work force**



Source: CDSI (2014).

One of the development objectives is to increase native Saudis' involvement in the private sector and raise the percentage contribution of women in the labour market. As the figure below indicates, there is a clear dominance of Saudis in the public sector.

**Figure 4 Labour Market Breakdown by Industry**



Source: CDSI (2014).

Currently, many women work in the public sector: mainly for the Ministries of Education and Labour. The overall separation between genders makes it almost impossible for females to find appropriate employment in many other sectors, with female involvement in the private sector was until recently almost null, as noted by Sirageldin and Sherbiny (1984). Although this has now risen as Achoui (2009) highlights, female participation remains low unless they are setting up their own enterprises, a view also indicated by Alothman and Mishra (2014).

In conclusion, there are several causes for the figures regarding foreign employees in Saudi Arabia. The evolvement of private fields, a small and young Saudi population with insufficient skills, restriction of the employment of women due to cultural practices and the fact that most work categories are negatively valued are some of the reasons involved.

### **3.6 Special features of the Saudi labour market**

As previously mentioned, the Saudi Arabian workforce is mainly employed in the public sector. However, most increased development is seen in areas that classically rely on imported manpower. Recently, Saudi Arabia has invested in public development on massive infrastructure projects.

The primary construction of roads was undertaken by expatriate Korean labourers who possessed the necessary skills (Woodward, 1988). Easy access to low wage, low-skilled expatriate labour makes sectors such as transport and individual services the core drivers of private sector development. These individual divisions have however, not assisted in reducing Saudi unemployment. Public sector labour forces and wage policies are another distinct feature of the labour market in Saudi Arabia. The accessibility of government jobs, with additional substantial reimbursement packages, has impacted on registration pay chiefly for low-educated Saudis, which is relatively higher than the salary of equally skilled non-Saudis in the private sector (Moussa, 2013). However, vocation in this sector has developed at a slower rate than in the individual segment. In this connection, the effectively expansive government compensation bill (in per cent of GDP) has involved slower development in civil occupations, in spite of the fact that business development has escalated since 2012, according to the International Monetary Fund (2012).

Private sector salary dissimilarities mean that a Saudi with the same level of education or skills as a foreigner is paid higher than the foreigner in the same sector (IMF, 2012). The private sector utilizes remote work, and endeavours to help in promoting private sector jobs for nationals have yielded indifferent results. In Saudi Arabia, outside workers take up more

than 80 percent of private sector occupations; this is in spite of the execution of work share plans to raise the numbers of nationals in private-sector employment in the long run. However, the use of nationals in the private sector is skewed towards highly-paid positions, with small numbers of Saudi citizens working in low-wage sectors, and the vast majority utilized in supervisory positions, according to the International Monetary Fund (2012).

### **3.6.1 Labour market segmentation and wage determination.**

The labour force in Saudi Arabia is subdivided into public and private sectors. The public segment has in many ways outdone the lower-paying private sector. Due to this, many Saudis prefer to work as civil servants than in private sector employment. According to the Saudi Central Department of Statistics & Information (SUSRIS, n.d.), average salaries for all levels of education are higher in the public sector (Ramady, 2014). Wages in the private sector increase at a low rate compared to quickly increasing salaries in the public sector.

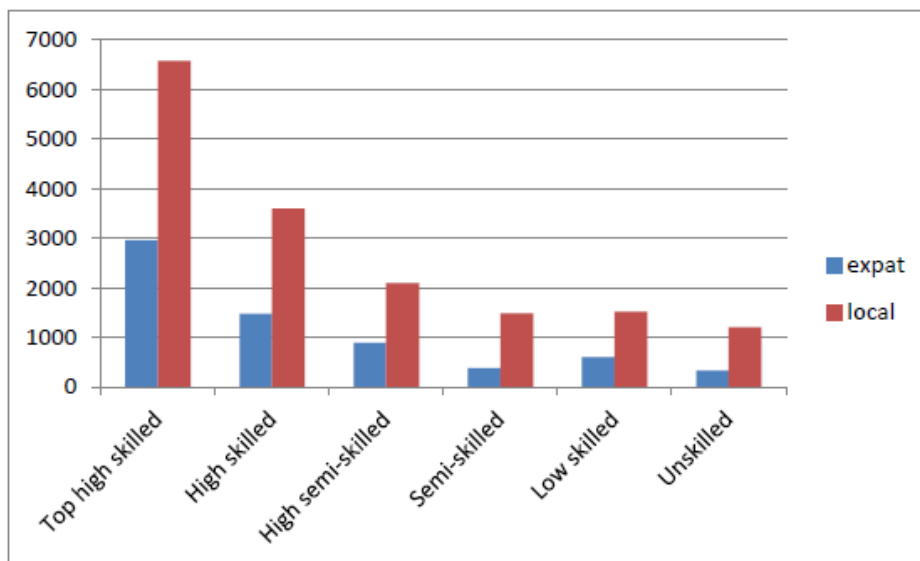
Peripheral reimbursements such as allowances in the public sector are a major factor tending to raise the preference towards civil service as a career. In the private sector, the working hours are comparatively higher, at approximately 48 or more per week, than in the public sector. The risk of losing employment in the public sector is low and rises in wages happen frequently compared to private employment. The chart below, as shown by Narea (2011), displays the salaries in both public and private sectors.

Private sector compensation for foreigners' work is inherently lower than that for nationals at comparative educational levels; this creates an inclination for managers to contract in outside labour, particularly at the lower skill levels. Aside from the compensation differential, the

absence of motivators for nationals to gain skills for the private sector likewise makes managers inclined toward outside labour (International Monetary Funds, 2012). Workers from abroad are less lavish, not so versatile but rather more malleable, at least in the service industries and private sector, perhaps because they rely on upon the employer for their legitimate status.

Up to date figures on monthly wages were not available, however, the figure below indicates the differentials that existed between the private and public sector in 2008. public sector wages have grown faster than private sector, reinforcing the desire of Saudi nationals to work in this area, and encouraging a higher level of foreign nationals in the public sector (Hertog, 2013).

**Figure 5 Public and Private Sector Wages to 2008**

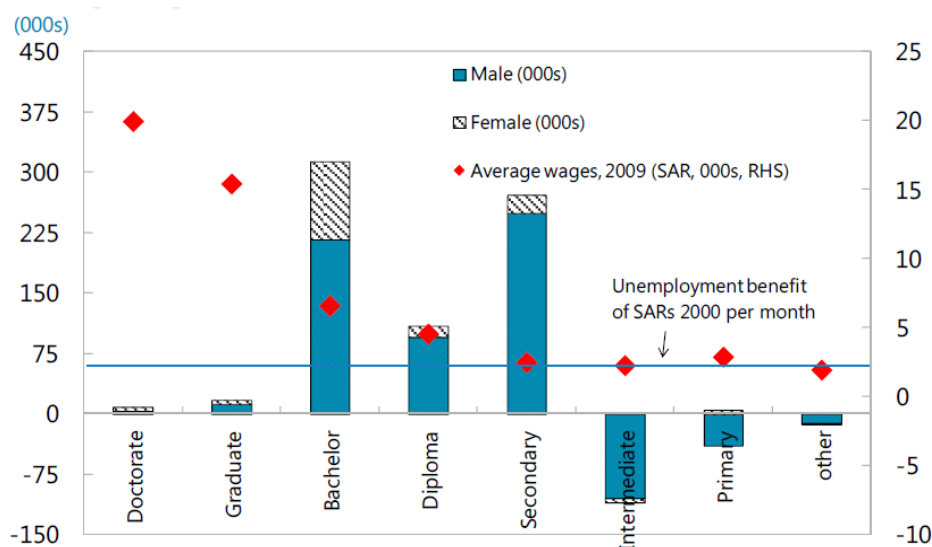


Source: Hertog (2013)

A second labour market segmentation is by gender. Female workers have significantly lower salaries than male workers, despite the fact that women perform better than men educationally. The population of unemployed women is very high compared to unemployed men (Roy, 2009, pp. 44-51).

Woodward (1988) states that culture and religion make it difficult for them to find suitable employment. The Saudi ethos is altering, and more females want to join the labour market instead of remaining at home to bring up children. Lastly, when the lower pay was familiarized, joblessness for women went up, since they had a lower wage proportion compared to males, and then the gap broadened separating those seeking a job and those who gained employment. Recently, Saudi Arabia barred gender-based discrimination between males and females employed in the same occupations, and the changes that have occurred in relation to education, employment sector and wages between 2009-2012 are shown in the figure below.

**Figure 6 Change in Saudi employment by gender, education level and wage**



Source: International Monetary Fund (2013)

Age is another means of segmenting the labour market of Saudi Arabia. Most of the employed population is aged between 15 and 29 years, as indicated in figure 10 later in this section, with the least employed part of the working population aging 45 years and more; this means that young people are earning a larger share of wages on offer than older people.

Nationality is another subdivision which determines the wage of any person in any professional field. In the private sector, Saudis are paid more than the expatriate workforce. In the private sector, Saudi pay ratio is an average of twice as high as the pay of foreigners. The share of unskilled workers among non-Saudis is greater than that of unskilled Saudis; therefore the highly paid Saudis may be more valuable employees in both public and private sectors, as Sirageldin and Sherbiny (1984) argue. Apart from the very uppermost levels of skills, Saudis tend to be more expensive to employ than non-Saudis, as they have advanced pay prospects, as shown in the chart above. This has implications for the possible utility of PRP, as on the one hand the prospect of a significant pay increase may attract workers, while on the other the potential for demotivation in those who do not receive bonus payments, and comparisons with the state sector, may lead to higher turnover or poorer response to vacancies by Saudi workers.

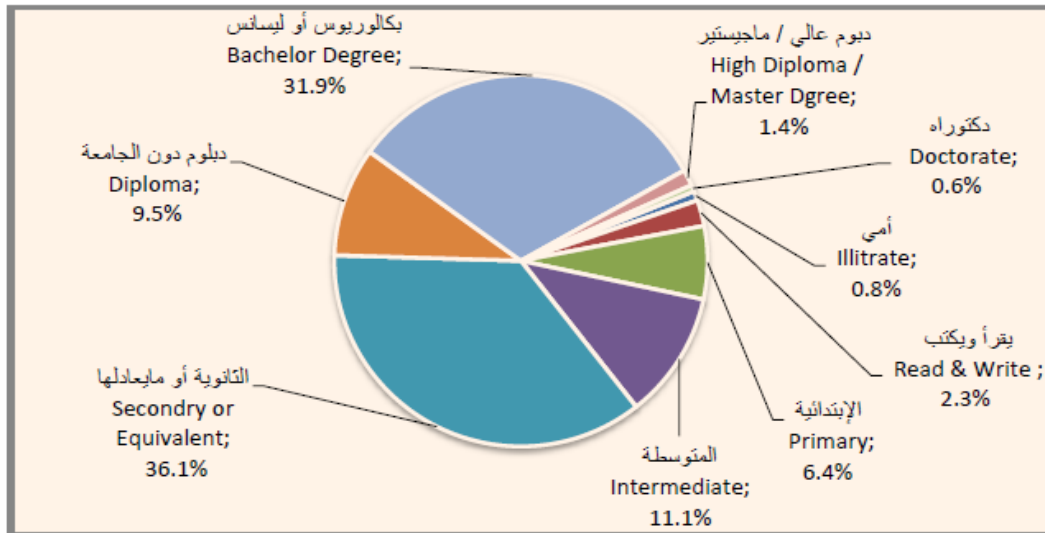
### **3.6.2 Labour market demand and wage determination.**

Labour in Saudi Arabia is required based on qualifications and education levels. Medical professionals, engineers, chartered accountants, lecturers, and bankers are the most in demand professionals in Saudi Arabia (Al-Rajhi *et al*, 2014). Highly skilled workforce members such as project managers, heavy machinery operators, financial managers, hospitality service providers, systems analysts, computer programmers and school teachers are also in high demand in the Kingdom. Skilled or semi-skilled workers and the low-skilled workforce are also in demand however. Most of the professionals required are provided by the foreign workforce (Ali, 2009, p. 76).

The highly in-demand skilled workers are mainly employed and well-paid compared to the less skilled labour for both natives and non-Saudis (Ramady, 2013). The following two

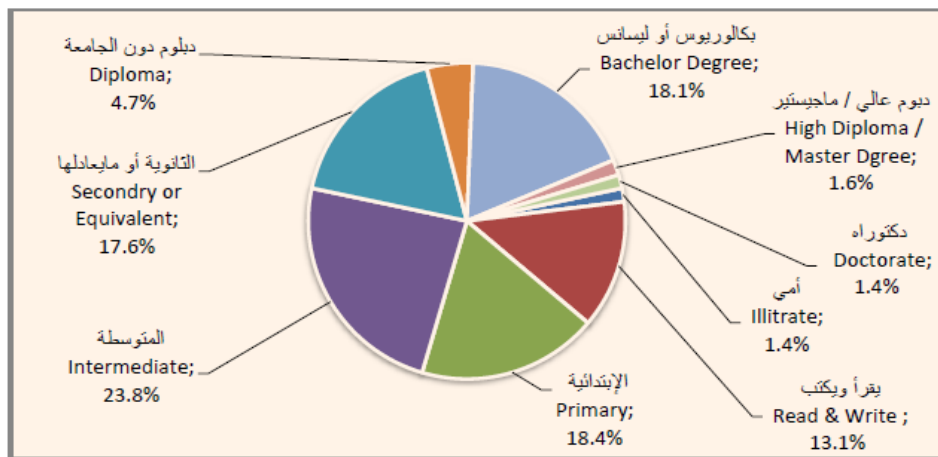
figures show the educational level of both Saudi's and non-Saudi's and their percentage share of the labour market.

**Figure 7 Saudi National's Share of Labour Market by Education Level**



Source: Source: CDSI (2014).

**Figure 8 Non-Saudi's Education Level in the Labour Market**

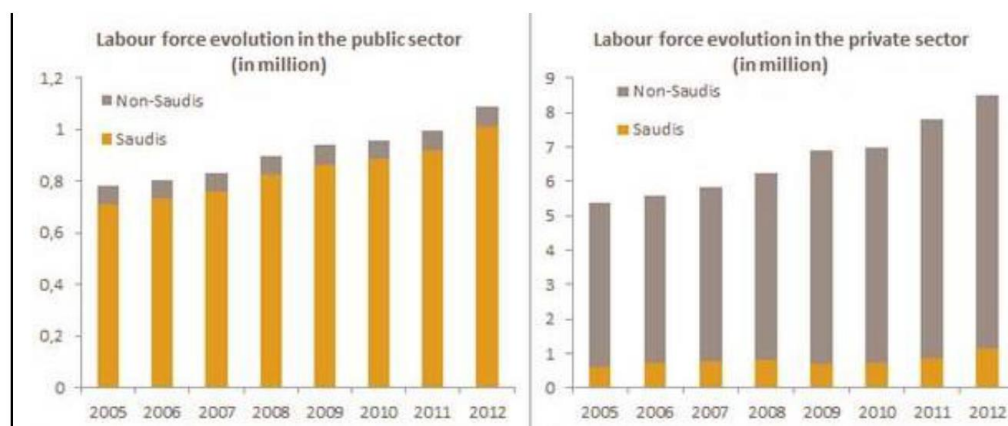


Source: Source: CDSI (2014).

What the two figures indicate is that Saudi nationals are employed in a greater proportion of the higher skilled areas of the labour market, and thus receiving higher wage levels.

Many of the highly qualified Saudis therefore are focused on finding work in the public sector. Part of the reason for this is that The Saudi Arabian government has created additional privileges to attract the population to the public sector. These opportunities lead most Saudi employees opt to work for the government rather than working in the private sector, even if this means being unemployed till a job opportunity arises (Al-Waqfi and Fortstenlechter, 2012). The variations that exist in the public versus private sector are shown in the figure below

**Figure 9 Labour Market Evolutions in Saudi private and public sectors**



Source: Riskreporter (2014)

Moreover, public sector pay is better than for those working in the private sector, (Narea, 2011, pp. 98-100). These wage differentials are a further issue within the Saudi labour market.

### 3.6.3 Wage differential and wage discrimination.

Roy (2009) notes that the salaries and perks for foreigners compared to Saudi nationals are not similar. Apart from the very uppermost levels of skills, Saudis tend to be more expensive to employ than non-Saudis, as they are considered to have advanced pay prospects. This is

imitated in typical private sector salary levels, but the differentials have also been impacted by the introduction, in 2012 of a minimum wage for both Saudi nationals and expatriates. However, as Pupic, (2014) highlights the potential decision of the government to set the minimum wage for Saudi nationals at twice that of expatriates in 2015 is likely to increase the differentials. The aim is to increase the attractiveness of working in the private sector for Saudi nationals.

The rationale for this is that the vast compensation differential between the public and private sectors represents a motivator for nationals, and especially those individuals who are less educated, to lean toward public sector careers. Ramady (2013) states that the decision by Saudi Arabia to give high pay and advantages to public sector workers has prompted strong reservation compensation for nationals: reasonable wages in the public sector are frequently several times those of the private sector: especially for low-skilled workers and it is this difference that minimum wage is trying to close (Alhamad, 2014). Non-wage advantages such as working hours, and professional stability are additionally more alluring in the public sector. High public wages and advantages can make a disincentive for nationals to put resources into aptitudes that are critical for the private sector.

Expenses for foreign labour can help limit the compensation differential with nationals, while minimum wages focused at nationals are prone to go the other way (Alhamd, 2014). As these are lower in Saudi than in different nations, and in connection with the pay differential, it is unrealistic to expect to close the compensation differential naturally. However, , but this approach however can be utilized in conjunction with pay sponsorships, which the expenses could help to store according to Ali (2009). Regarding least wages, global experience recommends only an unobtrusive adverse effect on work from a small increment in the lowest

pay allowed by the law. Be that as it may, in Saudi, minimum wages have been set in an abnormal state, and are prone to augmenting the compensation differential.

Other workers who are not fully Saudi will no longer be discriminated against, and should receive fair wages like the rest of the Saudis workers according to the new regulations announced. Female discrimination has been banned, and women given equal rights and equal wages to any male in the same job. The “Saudization” (Sirageldin & Sherbiny, 1984, pp. 66-69) plan is strategically planned to inspire more citizens to work and try to reduce the rising unemployment rate among Saudis. Saudi Arabia has thus been looking to replace many foreign workers with nationals as part of this strategy and thus reduce unemployment amongst nationals (Abouraia, 2014).

#### **3.6.4 General conditions of labour market demand and supply in Saudi Arabia.**

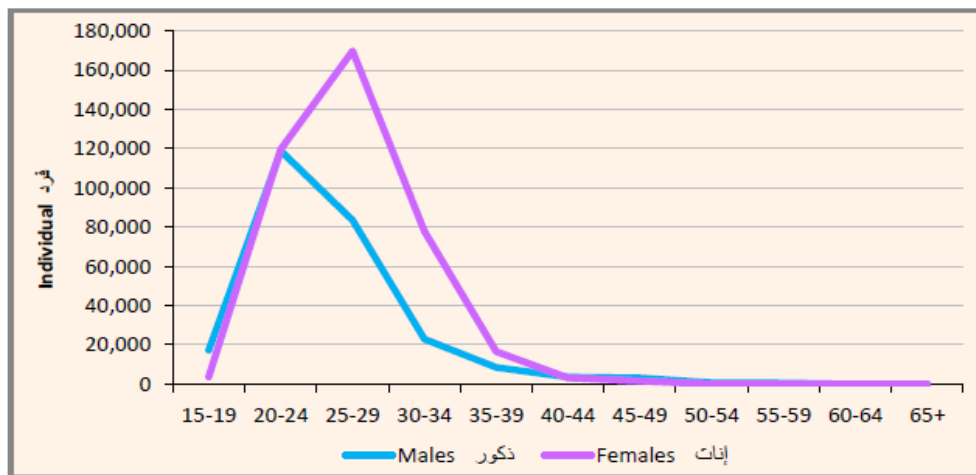
Lack of jobs among Saudis is however still a significant problem. Most of the unemployed are recent university graduates looking for public jobs; occupation holders looking for better occupations; and due to traditional practices as well as family ties hindering workforce mobility: especially among women (Ali, 2009, p. 56). However, in other situations, unemployment is becoming a more instant economic and social concern, and in addition, the government is dealing with the problems of creating new chances for productive jobs for its citizens.

In this context, the developing supply-demand subtleties of the workforce propose additional constrictions. More precisely, the developing supply of labour which echoes both the high population growth and rising contribution levels is outstripping demand for work, which is being curbed as a result of slower economic growth and additionally from changes in the

forms of production. These conditions are intricate, as a result of the rising incongruity between educational and practical skills of emerging applicants as well as the necessities of the market (Ramady, 2013).

Unemployment of nationals differs among Cooperation Council for the Arab States of the Gulf nations, notwithstanding times of substantial non-oil development. Unemployment in Saudi has stayed flat because of a moderately sized populace which is to a great extent utilized in the public sector. In Saudi Arabia, unemployment among nationals has expanded from 10.5 percent at the end of 2009 to 12.1 percent at the end of 2012 and is concentrated among highly qualified females and lower qualified men -IMF Country Report 13/230-(Funds, 2012). For Saudis, unemployment was measured at 14 percent among nationals in 2009. Rising female work interest rates are to a limited extent because of falling incomes and increasing educational levels among females, and have added to high female unemployment against the setting of constrained job opportunities. In Saudi Arabia, female unemployment rates are higher than for males, coming to about 35 percent. As the figure below indicates, the rates of unemployment are higher for those in the 15-24 year age bracket for both males and females, but overall unemployment is much higher for females in the country.

**Figure 10 Unemployment Levels by Gender and Age**



Source: Central Department of Statistics (2014)

On the demand side, the government, the main employment channel previously, can no longer act as such, due to the necessity of trimming the high government pay bill. In addition, there is a robust connection between civil expenditure and domestic economic activity in the Gulf nations and government spending impacts the demand for the workforce, according to Ali Abbas (2009). Consequently, the private sector has remained unable to pick up the shortfall, due to labour market inflexibility.

Generally, the movement for individuals in public employment to help raise their way of life through private-sector work creation for nationals has been constrained. Public sector use of merchandise and administration has reinforced local interest and citizens have formed a higher expectation for everyday comfort through enhanced foundations and social policies and in addition, work (Ali, 2009, p. 76).

This situation has thrown up challenges as far as private sector work creation for nationals is concerned; low-skilled foreign labourers hold more than 80 percent of private sector

occupations. Unemployment is high and citizens depend fundamentally on the public sector for employment. This has likewise brought about poor profitability development.

### **3.7 Saudi Arabia's Business Environment**

The business culture of the Western world gives a definite separation between work and religious conviction. Even devout Christians do not mix divine scriptures with typical business practice. However, doing business in Saudi Arabia is a different experience, and it is paramount to consider the entirely pervasive nature of Islam and its impact on company activities in the Gulf region. According to International Business Publications (2013, p.65), the internationalization of the global economy dictates that Saudi Arabia's business environment must be attractive to be competitive. In fact, the World Bank has rated Saudi Arabia as the easiest place to do business in the entire Cooperation Council for the Arab States of the Gulf region (Ramady, 2014,). The business environment in the Kingdom mirrors the tradition of independent private projects. That is; Saudi Arabia's new Foreign Investment Law permits 100% foreign ownership of business ventures and real estates.

As depicted by economic reports and analysts' estimates, the economic growth of Saudi Arabia has been extremely stable over the last decade. According to a statement by the Oxford Business Group (2013, p.26), and flying in the face of the existing world economic depression that has seen many Western financial systems under pressure to regain their stability, Saudi Arabia continues to register high economic growth, albeit with high levels of unemployment. This growth relies on its thriving hydrocarbon sector, bolstered by steady

political and financial support. Mounting oil prices and production led to the country celebrating one of the world's topmost average rates of growth in GDP in the period 2002 – to- 2011. When expressed in terms of dollars, Saudi's GDP tripled to approximately \$580 billion. This amount equals a yearly average growth rate which exceeds 20 percent, and over 15 percent when inflation is considered. According to Cordesman (2009, p.65), Saudi Arabia registered SR590 (US\$157.49bn) in excess of its budget for the 2008 fiscal year, and the country had a healthy overall economic performance in 2008 despite the unexpected global financial crisis (Cordesman, 2009, p.65). The country has the largest economy in the Middle East, and it contributes about half of the pooled GDP in the Gulf region. The fact that Saudi Arabia's economy is the largest in the Gulf region has steadily grown implies that the country has a favourable environment which can promote business projects.

Saudi Arabia's economy has been termed an economy in transition. The emergence of the Saudi Arabian economy as the foremost and most encouraging economy in the Cooperation Council for the Arab States of the Gulf region (Saudi Arabia Report, 2010, p.52), has supported economic reform to transfer the economy from the traditional financial system platform into a skill-oriented economy, thus joining the leading economies internationally. The impact of the global financial crisis is steadily fading over time. Given the continued economic recovery of Saudi Arabia's economy in the global and regional economy, the country's business outlook is quite encouraging (Saudi Arabia Report, 2013 p.52). The clear indications of healthy economic revitalization were supported by oil prices in 2010, and significant recent economic developments have promoted optimism in the business environment. In particular, business prospects rely entirely on the current and prospective path of the Saudi Arabia economy: especially high foreign and domestic demand, the increasing growth in the stock market, and constant government support (Saudi Arabia

Report, 2010, pp.52-53). Evidently, the ongoing positive economic changes suggest the profitability of projects in the Saudi business environment. Along with the global interest in performance related pay, it is therefore pertinent to consider the status and effectiveness of these schemes in the Saudi context.

### **3.8 Brief Introduction to the Firms and their Products.**

The organisations included in this study are all large in the context of national firms, and all have had governmental support or are semi-privatised national interests, with the state retaining a share in their stock. The firms concerned include Saudi Telecoms Company, previously entirely state-owned and still by far the largest provider in the telecommunications sector. Also, the Saudi Industrial Development Fund is surveyed, and represents government investment fund to promote commercial development in the country. Finally, the Saudi Electric Company controls the electricity supply within the country as well as having various interests abroad. Further background to each of the companies will be provided in the subsections which follow.

#### **3.8.1 Saudi Telecoms Company**

In 1998 the Saudi Telecoms Company was created as a Joint Stock Company, and inherited all technological, human and administrative working assets from the government Ministry of Post, Telegraph and Telephone's telegraph and telephone division, to become a separate entity but remaining fully state-owned at that time. Four years later, in 2002 however, the government of the KSA made a share offering of 30% of the company, with two-thirds of this offering taken up by private individuals (within Saudi Arabia only) and the remainder purchased by the General organization for Social Security and the Public Pension Fund. Thus, the company remains mostly state-owned, and is a clear descendant of the Government department to whom its functions previously belonged. However, since that time the company has expanded its interests dramatically through the cultivation of links and

investment in companies with similar interests both at home and in other countries of the Middle East. For example, STC owns 100% of Arabian Internet and Communications Services and the Telecom Investment Company in Saudi Arabia, as well as of STC Bahrain. It is also the majority shareholder in NTS Indonesia and Gulf Digital Media Holding in Bahrain, with 50% shares in Arab Submarines Cable Company Ltd as well as in the Call Centre Company in Saudi. It also has minority stakes in Kuwait Telecom Company, the Arab Satellite Company, Oger Telecom in the UAE and Binariang GSM in Malaysia.

With head offices in Riyadh, STC provides services in telecommunications and is by far the largest player in this market in Saudi Arabia. The company and the companies in which it has stakes provide various services in this area locally, nationally and internationally, and cover both mobile and fixed line services, data services, line lease and Internet provision for homes and businesses. The company has an extensive infrastructure, as a part of which the company invests in cabling through sea and over land.

### **3.8.2 Saudi Industrial Development Fund**

The Saudi Investment Development Fund (SIDF) was founded in 1394H, based upon a royal decree. The organisation is an affiliate of the Ministry of Finance and National Economy, and was set up for the purpose of acting as a lender to support the industrial sector through soft loans repayable over the medium- and long term. In addition, SIDF provides consultancy for the sector in the areas of finance, administration, technical services and marketing. The overarching aim of the organisation is to facilitate expansion and development of the industries of Saudi Arabia.

The Company is currently supported by Government through a capital fund of SR 20 billion, expanded from its opening allocation of SR 500 million. Thus, SIDF is the major organisation concerned with meeting Government targets in its programmes for the development of private industry and manufacturing. Its mission included the encouragement of sustainability in growth, while also enabling companies to enhance performance.

In greater detail, the work of SIDF involves investigation of the projects for which organisations apply for loans, in consideration of their likely impact in micro- and macro-economic terms, and assisting in ensuring that capital is directed in the best manner to achieve a successful project outcome. This work is conducted within a framework of stated objectives which include return on investments, decreased reliance on imports through local production, increase in goods exports other than oil, integrating different industrial sectors, increased employment for Saudi citizens, utilisation of local natural resources, development of technology level and use, increased foreign investment, enhanced safety compliance in industry and greater environmental protection.

### **3.8.3 Saudi Electric Company**

The Saudi Electric Company was established on 05/04/2000 as a Saudi joint stock company with 33,758,632,650 Billion SR (around 5,626,438,775 Billion GBP) in paid-up capital. It was split into 675,172,653 shares. Ten small firms which operated in each province of Saudi Arabia, and all other electricity operations became guided by the General Electricity Corporation. This became a single joint stock company in 2000, and is known today as the Saudi Electricity Company ([www.se.com.sa](http://www.se.com.sa), 2011). Its total employee base has reached 28,603 with 22,489 employees regarded as core staff. The objectives of SEC are to generate and supply electricity services in Saudi Arabia, either alone, or through partial subsidiaries

(TADAWUL, 2011). The stated vision of the firm is to “help and improve the standard of living and enhance the economic competitiveness of the Kingdom of Saudi Arabia in all domains” (www.se.com.sa, 2011).

The impossibility of storing electricity means that it must be produced at the time of demand for it. Demand is not constant but rather varies greatly over time, and furthermore the expectation of the consumer is that electricity supply should be reliable and uninterrupted. Therefore, a margin of excess production must be maintained. In practice, larger numbers of consumers require a smaller margin per head, thus reducing costs: thus the electricity industry naturally tends toward a monopolistic model. This is further influenced by fact that the electricity supply system works as a whole entity, and thus the performance of individual generators affect the entire network. This also means that any improvement in one part of the network benefits all, and implies that the public good is served by a monopolistic approach. However, the electricity industry contains the multiple functions of generation, transmission, distribution and supply, and these tend to be viewed as distinct by reforms in regulation, as they possess different economic characteristics.

The generation of electricity represents the greatest part of the cost of electricity supply, and relies upon transforming energy from various sources into electrical energy: each source requires different technology and involves different costs, depending on capital costs, operational and maintenance costs, and fuel costs. The nuclear method involves high capital costs but incurs consistently low fuel and operational costs, while hydro generation also presents little variation in costs, which are fixed by natural features including climate. Fossil fuels such as coal or oil are sources for generation in which costs may vary significantly according to fuel prices while enjoying relatively lower capital costs. In terms of the whole

network, efficiency is achieved through a multiple-source approach where coal, hydro and nuclear power supply the base requirements while other more costly sources provide for peaks in demand. This approach is known as the “least-cost merit order”.

Transmission refers to the high-voltage transmission of electricity through the network, and management to maintain voltage and frequency: competition in this area would be inefficient as duplication would be created and costs increased, and thus this function suits a monopoly. Rate-of return regulatory approaches however are suggested by Averch and Johnson (1962) to work against cost-minimisation as there tends to be over-investment in capital. This drawback is an argument against the inclusion of generation in the same monopolistic regulatory framework, even though least-cost merit management of generation suggests this approach. Distribution, which refers to low-voltage distribution, is a natural monopoly for the same reasons as transmission. Supply however is not, comprising marketing, metering and billing of end-customers.

#### **3.8.4 Pay systems in place at the case study companies**

Each of the three case study companies is known to employ a form of pay for performance as part of strategic pay for its workforce. However, the primary sources and information related to the exact workings of each scheme were limited due to confidentiality concerns, as may be expected in any large firm. Documentation obtained is contained within Appendices 1-3, and this section will provide a brief overview of the system in place at each firm, as far as can be ascertained.

##### **Saudi Telecoms Company (STC)**

The pay system employed by STC involved a performance-based element as of the year 2014. Based on the documentation provided (see Appendix 2), the bonus awarded for performance is calculated as a percentage of base pay and ratings are subject to a capped

percentage of employees who can receive this reward. Measurement of performance outcomes is made firstly by the development of a minimum of 4 individually-tailored SMART goals with the line manager, and then by assessment of the fulfilment of these, as well as evaluation of competencies, with each rated according to the following categories: Significantly Exceeds Expectations; Exceeds Expectations; Meets Expectations; Partially Meets Expectations; and Does Not Meet Expectations. The criteria seem to be assessed by the same manager following the performance period, with a requirement for ongoing feedback during this time. A bell-curve is then applied to determine the proportion of employees to receive a bonus. It is assumed from the evidence from interviews that this is applied by someone other than the line managers.

### **Saudi Industrial Development Fund (SIDF)**

In common with the schemes in place at the other two companies, SIDF implements a merit pay scheme which uses a bonus as percentage of base pay, and in which a fixed proportion of employees are awarded a bonus. Assessment is via line managers, who submit an assessment form to the HR Department (see Appendix 1). Criteria from the form on which performance is measured for grades 11-14 are as follows: punctuality; supervision required; acceptance of direction; relations with other employees; knowledge and experience; enthusiasm; productivity and quality of work; general conduct; and physical aptitude. These are rated on a scale including the categories; poor, acceptable, good, very good and outstanding.

Meanwhile, higher grades are rated on criteria grouped in the following categories: job knowledge; job execution; administration; personal characteristics; relationship with others; and supervisory abilities, if applicable. It should be noted here that while these rating criteria have the arguable advantage that they can be applied to all employees across the company notwithstanding their role or department, they do not allow for ratings to reflect particular

objectives of a specific role as it contributes to the company's goals. Equally, the reverse is true of the assessment criteria employed at STC, as described earlier in this section.

### **Saudi Electric Company (SEC)**

In comparison with the other two companies, little could be gleaned from the primary documentation provided by the company regarding the criteria on which performance of workers is assessed (see Appendix 3). However the existence of pay bands with a two-tier system for Saudi and non-Saudi employees and the assessment of employees against expectations set by class level is ascertained. Employees' performance is rated in the following categories: much above expectations; above expectations; achieved all expectations; achieved the least of expectations; and did not achieve expectations. However, prescriptive percentages appear to be allotted to govern the proportion of employees assessed at each level, with 15% in the top category, 20% in the second, 60% in the third and 5% across the bottom two ratings. It is also shown that an employee achieving the second top rating at the same time as being promoted by 1 grade can achieve a bonus of 10%, which is a addition to the salary.

## **3.9 Conclusion**

This chapter has provided a general background to the context for the study, namely, Saudi Arabia. The particular features of the labour market in the Kingdom include a large proportion of foreign labour, skilled and unskilled, with a wage differential between the two as enforced by Saudi law. The labour force is also divided by sector, with the bulk of foreign workers employed in the private sector, whereas the public sector is populated mainly by Saudi nationals, with a preference noted for this sector due to issues of status, pay and skills match. Furthermore, the Saudi workforce presents a notable low proportion of female

workers. High youth unemployment is also a feature of the country, with a rising youth population but skills gaps in terms of jobs for this group.

This chapter also offered introductory information regarding the three case study companies, Saudi Electricity Company, Saudi Telecoms Company and the Saudi Industrial Development Fund. The chapter which follows will present a discussion of the methodology selected for the study.

# CHAPTER FOUR: METHODOLOGY

## 4.1 Introduction

In any given research carried out by an individual or a group, it is necessary to show how results were obtained. The providence of the research methodology not only helps readers who wish to know more about the research, but it also helps the researcher in the process of considering and presenting analysis of the study and its findings. Thus, it is of much importance to provide the full methodology in any research carried out. This chapter therefore describes and justifies the research methodology employed in developing this study on performance related pay and perceptions of such pay in three firms in Saudi Arabia. The study takes a largely social constructionist approach, and relies upon qualitative approaches to data collection for an in-depth analysis of the insights of managers administering the PRP systems in place, as supported by a quantitative approach and questionnaire to gather perceptions from rank and file staff who are subject to the system. A limited number of secondary sources were also obtained and are utilised as part of the study to provide a richer picture of context.

The objectives of this chapter are as follows: firstly, it will identify the gap in the literature review, and reiterate the research question and conceptual framework of the research. Thirdly, it will theoretically describe how the research is designed and conducted, and also, it will illustrate methods through which the data is examined. Lastly, it provides a discussion about the validity and reliability of the samples chosen.

The chapter discusses methodology selection and presents a justification for use of a mixed methods approach utilizing both qualitative and quantitative methods, which has proved to be

more appropriate over other methods. The chapter will also consider the data collection methods chosen for the study, which include both questionnaires and interviews used to engage three sample populations from three different firms. The major sections of this research methodology include the research design and sampling techniques, data collection, questionnaire design and distribution, and interviews. Furthermore, the chapter will assess the ethical impact of the study, as well as evaluate secondary data obtained by looking at company regulations and other documentary sources, in which the research will use a “narrow-angle lens” (Johnson & Christensen, 2010, p. 35), focusing on the motivating system of PRP and its relation to bias and the use of quotas. The chapter will also examine the validity and reliability of the research methodology, and finally, the chapter will undertake a data analysis of the collection of statistical data. For reasons of clarity, the methodology chapter outlines how the interviews are conducted and the procedures for locating the sample population in the three selected firms. However, the first part of this chapter gives a justification for the choice and use of mixed methods instead of the conventional single research methodology.

## **4.2 Research Objectives and research questions:-**

The main aim of this research is to investigate and analyse the role and impact of Performance Related Pay schemes in the Kingdom of Saudi Arabia on performance in Saudi national firms. The main question created for the research is therefore as follows:-

***What is the impact of PRP on employees’ performance in Saudi national firms in Saudi Arabia?***

In order to answer this question, different theories about PRP have been reviewed, with the aim of exploring the impact the PRP system on individual and team performance under the influence of different cultures. Many motivational and sociological theories have been

reviewed, including agency theory, human capital and various compensation theories. Based on this, a number of research variables have been developed as follows:

Performance	Q1: Does the introduction of the PRP system increase employees' performance? Q2: Does the introduction of the PRP system make employees work harder? Q3: Will employees be more highly paid if they work harder?
Team work	Q 4: Has the introduction of PRP helped in encouraging effective work as part of a team? Q 5: Has the introduction of PRP helped in unifying the goals of both parties within industrial relations?
Culture role	Q 6: How has PRP influenced organizational culture?
Fairness	Q 7: How fair is the PRP scheme from the employee's perspective?
Feedback	Q 8: How far are employees satisfied with the PRP system's approaches to the formal and informal feedback which they receive?

These questions are investigated and addressed in the planning and implementation of the research study. However, there are certain complexities to answering these questions, as noted in Chapter Two, which means that the application of investigative methods from the social sciences must be considered limited in its ability to fully resolve the problems raised. For example, the difficulty in how to measure performance in a meaningful way is discussed in Section 2.6, and the further difficulty of translating performance at the individual level to organisational performance is highlighted in Section 2.10.3. This limits the ability to comprehensively address both objective one and the main stated aim of the research. Notwithstanding this and other limitations, the research study hopes to cast light on employee and management perceptions of these issues.

### **4.3 Theoretical Foundation and Philosophical Stance**

Philosophers have been arguing over the relationship between theory, data and knowledge for a long time. Researchers such as Bryman (2006) state that thinking through such philosophical issues is imperative while visualizing the design of studies in management. If this is not done, it is contended that the quality of the research could be seriously compromised. Social constructionism and positivism are two opposite views which indicate how social science research should be carried out. Social constructionism views 'reality' not as exterior and objective, but as socially constructed and made meaningful by people. This view is represented by an inductive research paradigm which includes the notion of the researcher and research process interacting with the area being studied. The positivist position is meanwhile of the opinion that the social world lives externally and that properties should not be evaluated subjectively through sensation, intuition, or reflection, and that objective methods are more appropriate for this purpose. This view of the possibility of detachment and objectivity of positivist research is the deductive paradigm, and makes the preference quite clear that quantitative methodologies are favoured to explain phenomena. Interpretive methods on the other hand are a part of a group of approaches. Social constructionism is also a part of this, and depends mostly on qualitative data analysis. It is more effective in explaining and gaining a better understanding of human action, which stems from the sense that people are influenced by differing circumstances (Bryman, 2006).

The above philosophical positions appear incompatible at first. However, there are several management researchers who feel that a middle ground can be found by taking a mixed methods approach. They suggest that this has been helpful in giving different points of view on the phenomena being explored (Denscombe, 2008; 2010). PRP literature has already developed a number of theories. This thesis intends to investigate the real influence of PRP systems in national firms in Saudi Arabia, whose pay systems have been explored very little. The research objective is concerned with improving insights and understanding through collecting rich, appropriate information from a small sample of cautiously chosen cases. As a result, this research paper has preferred the social constructionist stance although the research design has also incorporated some points from positivist ideas. The subsequent sections will deal with the research design and methodology.

### **4.3.1 Selection of the research methodology:-**

There is no one perfect way to conduct social science research. Surveys, experiments, case studies, and histories are among the more popular approaches, and each present particular benefits and limitations. Three criteria should therefore be kept in mind while selecting the most suitable methods: *“the type of research question posed, the extent of control an investigator has over actual behavioral events, and the degree of focus on contemporary as opposed to historical phenomena”* (Yin, 2003:5)

These three points have been taken into account while determining the research method used in the current study. ‘How,’ has precedence in the form of the research question: *“what is the performance related pay system’s effect on performance in Saudi Arabian national firms?”*

## **4.4 Mixed Approach Research Methodology**

Defining a mixed methods approach is complex, as it has been ascribed many meanings which vary depending on the researchers and their field of research. The mixed methods approach has become more common in the most recent research where, most of the research published within the last 30 years entails the use of both qualitative and quantitative methods. This process usually focuses on research questions for a real-time background understanding of multilevel perceptions and cultural influences while engaging rigorous quantitative studies in evaluating the magnitude and consistency of findings. On the other hand, thorough qualitative research explores the meaning and understanding of these conclusions. According to the European Academic Conference (2006; Tashakkori & Teddlie, 2003, p. 11), a mixed methods research design is defined as an analysis which incorporates

various qualitative and quantitative approaches in a single project which may involve either a qualitative or quantitative theoretical drive.

According to Donald, Jacobs and Sorensen (2009, p. 559), a mixed methods research design combines qualitative and quantitative research techniques in diverse ways, with each of the methods adding value to the understanding of the phenomenon. Academics across many fields now acknowledge the importance of a mixed methods approach and assert that combining many forms of data in a single study is not only legitimate but also more preferable. The primary goal of this technique is not to replace qualitative or quantitative approaches but, instead, to combine methods in constructive ways which utilize the strengths of each other within a single research work. According to Belk (2008, p. 199), the mixed methods approach has become a viable research technique which closes that gap between qualitative and quantitative methodologies. Often, mixed research methods are perceived to be eclectic, pluralistic and as decreasing traditional dualism. Furthermore, this design is said to be pragmatic and led by the research question instead of being controlled by paradigmatic postulations (Belk, 2008, p. 199; Johnson & Onwuegbuzie, 2004). A mixed methods study is closely tied to a pragmatic paradigm which engages other elements to permit a practical choice of sources and methods required to achieve the intended outcome.

## **4.5 Research Design and Sampling Technique**

Yin (2003) has asserted that each single piece of empirical research should have a research design which connects the data which are to be gathered to answer the initial questions of research. Five elements of a research design are of significance for any case study: a) the question, b) its plans, if any, c) its unit(s) of examination, d) the logic relating the data to the plans, and e) the criteria for deducing the findings.

This study has found the descriptive research design to be more feasible than others when conducting the case studies and employing other research techniques for qualitative and quantitative research. According to Monsen and Van (2008, p. 5), descriptive analysis is an efficient way to gather information used in constructing a hypothesis and suggesting relationships between variables. A case study research is descriptive if the data provides the details of a person, place, and time and that all these variables are related. Moreover, a descriptive case study encompasses correlational studies, case series, surveillance systems, case reports, relevant statistics and demographics.

Primary data was restricted to the three selected firms and only covers the period under which the research was scheduled to be conducted, which encompassed December 2013, January 2014 and February 2014 for companies A, B and C. Secondary research entails data that concerns PRP regulations and policies, and in practice were restricted in their content owing to the need for firms to preserve their confidentiality in terms of pay strategy. For clarity, and especially when addressing the research question of this study, case studies will cover three national firms whose operations have been determined to give a good background for the research. Selection of study samples usually creates an aspect of bias in study design. In order to ensure validity of the findings and assist in drawing conclusions, the research overcame this problem by examining companies which have for a long period utilized performance related pay determination systems. However, it is important to recognize that it is difficult to eliminate the weaknesses associated with historical data, since this type of information does not give a typical scenario for the contemporary phenomena.

#### **4.5.1 Number of Cases**

The most favourable number of cases in research design has long been a matter of question. Within this debate, it is frequently considered that single-case designs are mainly suitable for totally original, exploratory investigations (Meredith, 1998). In fact, if the

number of case studies is low, the scope for better quality of gathered data and intensity of observation is increased (Voss et al., 2002). Multiple-case study designs are singled out in cases where most of the phenomenon is in the dark, but at least some information is available (Meredith, 1998). No conclusion has been reached however about the ideal number of cases, as, “*single-case designs are vulnerable if only because you will have put all eggs in one basket*” (Yin, 2003: 53): Thus, multiple case designs are the common choice. Eisenhardt (1991: 622) is of the opinion that the optimal number of cases will be based on how much knowledge already exists and how much new information can be learned from incremental cases.

## **4.6 Sampling**

There are usually significant numbers of potential interviewees who can qualify to take part in a research process. However, only a few people in a large population can usually be considered, which raises issues regarding ensuring validity of the research process, findings and final claims of the study (Denscombe, 2010). Traditionally, a population sample size which is representative of the workers is ideal, although it is problematic to organize the study design to include such a significant number. Moreover, a large group of data includes many errors and might give insignificant conclusions. Since this study involves a mixed method approach, both probabilistic and non-probabilistic techniques were used to identify the sample population. Sampling and sample selection is very complex, although choosing an appropriate sample is core to the success of any research project. Therefore, the sampling method and choice of the sample population should reflect unambiguously the goals of the research project. Most feasible probabilistic sampling methods include stratified and random sampling techniques, which were integrated here to ensure a quality sample was selected for this research.

These sampling techniques were used to obtain both qualitative and quantitative data. The purposive sampling was based on the hierarchical differences between normal personnel

and executives and as to the extent to which they are separately impacted by a change in firm's influence on performance related pay determination systems. Slightly different questionnaires were used in purposive sampling to obtain special information that might not be obtained through examining the study subjects through probabilistic approaches.

Sample selection was carried out in parts, depending on the sampling technique and the target population. First, the participants were grouped into three categories as firm A, B, and C, and the total number of workers in each firm was recorded alongside every category. The three groups of the sampling population are what is described by the method as sampling strata. When a stratified sampling method is used, the study population is usually separated into non-overlapping strata (Bell, 2010). Then, the population samples to be involved in the research are chosen from each stratum independently. After the groups have been selected into the three different strata, random sampling will be used to determine and select specific individuals from each stratum. Although this method is known to be biased in choosing participants for research, it is the most appropriate for this study. Stratifying a sample and then randomly choosing from each stratum usually increases the statistical reliability of the probability-based research techniques. In most cases, strata guarantee that there exist some differences between any sub-sample groups but it maintains similarities within these sub-samples.

Therefore, a sample size of about one hundred from each sampling population was be randomly selected and analyzed in order to obtain data to provide a low confidence interval and high confidence interval. Access to the employees to request their participation was gained through contacts in middle management who had been pre-selected for interview, and was done via internal email with this assistance, representing a limitation in the sampling technique as it included a middle contact. Out of the total number of employees for each of the three firms, only 150 workers from each firm were successfully selected and asked to take

part in this research, once all of the participants examined through interviews and questionnaires are included. Since face-to-face interviews are known to be costly and time consuming, about ten line managers from each firm were interviewed. The small number for interviews was decided for the purpose of keeping the whole process within the estimated budget and ensuring that the interviews did not delay completion of the study exercise. This is common for studies of this type, but may also be regarded as a limitation.

## **4.7 Data Collection**

The quality of the data collected and great caution with regard to ethical issues is what makes for good research (Miller, 2012). The strategy for this research is flexible and able to respond to changes throughout the research and develop new shapes of thoughts with regard to the ‘what’ being observed. The research is qualitative and driven by work on social anthropology focusing on the attachment to people and their actions, what people do and how they do it. At the same time, a structured observation is carried out to measure the frequency of actions. By its nature, the framework for this thesis is based on data about labour markets, hiring trends and fluctuations, and impacts of performance related pay on employee performance in the three selected firms. Hence, the project intends to collect data on performance related pay encompassing attitudes, policies and trends for turnover. Three firms have been identified which utilize performance related pay systems.

### **4.7.1 Primary Data**

The goal of this thesis is to test the extent to which companies use performance related pay determination systems and examine the effect of these on employees’ performance. The researcher therefore selected three national firms which are operating systems of PRP in

order to influence employee performance. The three kinds of technique used in the collection of primary data include observation, questionnaires and interviews. Each method has a process by which it is used to conduct the collection of data, and meet the objectives which are meant to be met, after the process of data collection. For this research, primary data for the organisations selected will be obtained through face-to-face interview and questionnaire methods.

Interview has been deemed to be the most satisfying method as far as the collection of primary data within a qualitative approach is concerned. Therefore, face-to-face interview was adopted for the study, allowing the researcher to record detailed discussion as well as observing facial communication and body language (Moser and Kalton, 1971).

While interviews were conducted with line management to gather their perception of the PRP schemes used in their respective companies, questionnaires were utilised to record the views of front-line staff. Questionnaires represent a systematic approach to data assimilation from a group of participants as a sample of the larger population being studied (Hartley and Barling, 1998). They are formed from a series of question in a written document, and may be completed with or without the researcher's presence. In this study, questionnaires were employed with general staff to investigate the way in which such individuals experienced and perceived the company's PRP scheme. These questionnaires were distributed and received back via the firms' internal email system.

#### **4.7.2 Secondary data collection**

Case study data collection has certain flexibility as it permits the scope to utilize multiple sources of evidence (Yin, 2003: 97). Different methods and multiple resources were put to use for the data collection to accomplish better outcomes from joining lines of

enquiry. Apart from structured interviews and questionnaires, this meant that documentary sources were also explored. Documents can be defined as a coded and physicalized or electronically recorded expression of human perceptions, which may then be replicated, distributed and adapted (Duffy, 2010). While there were limitations of the documentation which could be obtained for this research, due to the concerns of sensitivity and commercial confidentiality among the participating organisations, nonetheless, some important documents relating to the structure and administration of performance related pay within each of the three companies were accessed. This included individual and organizational payment sheets and guidelines for performance assessment.

#### **4.8 Questionnaire design:-**

The questionnaire used was semi-structured, and within it, participants were asked to answer questions targeting major aspects of PRP as identified from the literature review in Chapter Two, and covering areas such as individual performance, team performance, bias and the use of quotas. As part of this, strenuous efforts went into the avoidance of ambiguous or imprecise language (Bell, 2010). During the period spent designing the questionnaires, the preparation phased entailed creating a draft of research questions divided into various sections. First, the questionnaire design had an introductory section aimed at motivating respondents. This section also sought to explain the purpose of the inquiry, and provide instructions and researcher contact information for the participants. In addition, the design included a background information section, which had general questions asking for the background of the participants, including years of experience in their job.

The next section was about the participants' experience with PRP, asking the participant a total of 15 questions regarding the effect of PRP upon performance, teamwork and multitasking. The last section contained open-ended questions about PRP, in which the employees were able to say anything they wanted in relation to the system. As regards the previous sections, the researcher designed a list of questions which call for certain answers on a scale of 1, with the meaning of strongly agree, to 5, meaning strongly disagree. The initial questionnaire was written in English, translated to Arabic and then translated back to English to ensure accuracy: this method is known as the back translation technique.

#### **4.8.1 Questionnaire Deployment**

The study was administered through the deployment of self-completion forms designed to be answered by the workers selected through sampling. These were emailed to participants via internal email, but completion could also be done through a website link which was given via a web provider service (SurveyMonkey). A time extension of one week was allowed to respondents to reflect the fact that they might have tight schedule. The steps considered before deployment included; questionnaire design, conducting a pilot test, revising the questionnaires and designing the final questionnaire. After the above steps, the questionnaires were ready for deployment. Effective distribution procedures were developed before survey deployment, and involved the use of contacts in the middle management tier of the organisation to assist with distribution and collection routes. After the questionnaire was ready, it was emailed to the participants using the internal company network.

The disadvantages of email and online survey include the possibility of a lower response rate than for interview, as well as difficulty in determining consent, and security issues with data sending and storage (Bell, 2010). However, the convenience of distribution

as well as ease of completion for the participant outweighed these disadvantages in the current study, particularly considering constraints of time.

#### **4.7.2 The survey**

The respondents to the survey were assured that their answers would be processed confidentially and that no identifying information would be asked for, in order to secure the protection of their privacy. Additionally, it was communicated to participants that the data provided would be securely stored and not used for any other purpose than the research project described to them. The letter enclosed with the survey questionnaire is included in Appendix 4, and the survey itself is reproduced in Appendix 5.

Out of 856 surveys sent, a total of 494 were returned within the deadline, and this response rate may be viewed as a limitation of the study.

### **4.9 Interviews**

Preparation for interviews is an essential and basic requirement for all researchers using this technique for data gathering, and usually comes after identification of an appropriate research design. This entails developing and phrasing the interview questions. According to Bell (2010), the phrasing of the final questions to be asked in the actual interviews calls for careful attention, with interview questions ideally being simple and succinct. Another consideration when planning open-ended questions is to phrase these in such a way as to engaging help participants feel free to give information about the topic in the manner of their choice (Bryman, 2006). This can be achieved through designing an interview guide which will act as a checklist during the preparation process and before the interviews are administered. Preparation for interviews must consider issues known to occur at this

stage. The first issue requires the researcher to decide how to deal with the interviewees and persuade them to take part in the study willingly, and this happens through the use of an advance letter. The second issue which a researcher needs to consider prior to administering interviews is the preparation of equipment for gathering data. The essential resources which will be relevant here include the interview guide and equipment for recording any audio information. Other issues that demand to be considered by the researcher include the need to establish a relationship with the interviewee and finally the transition process from interviewing to transcription.

Furthermore, the prior interview process requires the researcher to recognize the significance of interviews and the entire process before administering interview and pilot testing. Before conducting the main interviews, the research should undertake pilot interviews, which include a number of interview sessions to test whether the research questions can be addressed through the designed interview questions to provide answers that allow the research to remain close to its objectives. It is important to ensure the survey is tested with a faction of trial participants whose characteristics conform to the actual study. A comprehensive pilot interview process gives researchers extra hands-on experience and even additional familiarity with the project (Bell, 2010). Ideally, understanding the pilot testing process and materials helps in understanding whether interviewees will understand the interview questions. The primary purpose in conducting the pilot interviews, therefore, is to inspect and revise the questions and the order of these questions and also test if the interview content is acceptable. The pilot interviews were carried out with a sample of workers working in different companies other than the three chosen firms, and who were known to the researcher and thus willing to assist in the research process in this way. Afterward, the results indicated that some minor modifications needed to be made prior to the main interviews, and these alterations were carried out accordingly.

Interviews are considered to be time consuming and additionally may be subject to bias: therefore, this research contains interviews with a necessarily limited sample of line managers in each of the three case study companies, with key management staff across the chosen sectors who are in a position to assess employee performance. The selection of managers was restricted by their availability, and the access agreement in place with each company also stipulated that the confidentiality and anonymity of the participants would be carefully respected, in line with the ethical parameters imposed by the University for research. Thus, interviewees have been anonymized and any identifying details not included in the research thesis. The interviews were all carried out between December 2013 and January 2014, and were conducted in the head offices of the respective companies. Purposive and snowball sampling were used, as will be discussed later in the chapter. The table included in Appendix 6 gives details of the final interviews conducted.

Each interview considers the question of assessment in relation to impartiality and bias (if any), as well as eliciting a general description of what is expected on the employee's part. Also, the interviewer enquired about how rating is carried out in order to ensure this knowledge of the topic. The following strengths and weaknesses of interview in gaining appropriate data were also considered:

**Strengths and weaknesses of interview methods:**

Strength	Weakness
Focused on the research question Insightful: able to provide perceived indications.	Bias due to misunderstanding  Bias in responses

The final questions used for the interviews are provided below:

**Interview questions:**

- 1- Do you agree with the idea of linking pay to performance?
- 2- How was the PRP system implemented?
- 3- What were the most difficult aspects of implementing PRP?
- 4- Has the PRP system helped to unite the goals of employees and the firm?
- 5- How is the performance of the employees evaluated under the PRP scheme?
- 6- As a section manager, what do you think of the introduction of the PRP system?
  - A- Can employees improve their performance by working harder?
  - B- If they work harder, will they receive higher pay?
  - C- What do the employees think of the additional pay they can receive through working harder?
- 7- As a section manager, has the introduction of the PRP system helped you to manage the employees?
- 8- Has the introduction of PRP helped you to motivate employees in management positions?
- 9- Has the introduction of the PRP scheme helped to encourage employees to achieve higher performance?
- 10- How important to you is the bonus you receive through the PRP scheme?
- 11- Has the introduction of the PRP system helped to reduce any unwanted behaviour among colleagues in your sector?
- 12- Has the introduction of PRP scheme had any impact on cooperation between different groups of employees in your sector?

- 13- Has the introduction of the PRP scheme had any impact on competition among colleagues in the same section?
- 14- How were you (or any of your employees) involved in PRP's implementation?
- 15- From your point of view, what were the achievements and what were the problems occurring during the introduction of the PRP scheme?
- 16- From your point of view, what effect has the introduction of the PRP scheme had on the employees' performance?
- 17- From your point of view, how can the PRP system in SEC be improved?
- 18- Do you have any further comments?

During interviews, participants were asked follow-up questions where appropriate to prompt further information to be given, and the interviewer allowed participants time to develop their responses or bring in new ideas.

## **4.10 Validity**

The concept of validity is ubiquitous in all research projects and this includes the fields of social science and business management (Denscombe, 2010). Validity in research describes the degree to which the research method and tools used in the project obtain or describe the findings and results that they are supposed to. According to Bell (2010), validity may be somewhat vague and hard to determine, but can be assessed by whether the weight provided by the interpretation of the results is able to be borne by the evidence provided therein. In doing this, it ensures that the research findings provide trustworthiness and credibility with reference to the activities of the study.

Internal validity attains credibility for research by showing the relationship between two or more variables of the project. This relationship may be of a causal manner, asserting the fact that the occurrence of one variable leads to the occurrence of the other. At the beginning of the project, it is only hypothesized that one variable is causative to another, but attainment of internal validity by the findings confirms this hypothesis (Denscombe, 2010). Strategies such as triangulation, or studying the same phenomenon using multiple research methods, member checks to obtain the informants' perspective, prolonged contact, reflexivity, which enables chronological attention to contexts of knowledge construction in the research, and saturation are employed and described to assure internal validity. There are several threats that can distort internal validity, leading to untrustworthiness of the findings. These include: history effects in terms of independent events which affect the credibility of the findings, maturation in cases where the study is based on factors which are subject to temporal change, instrumentation where the tools of research are distorted, experimental mortality when participants drop out of the study due to one reason or another and causal time order which can make it difficult to ascertain whether the independent variable caused the dependent variable or the dependent variable caused the independent variable (Denscombe, 2010).

External validity is also a crucial concept which many research projects seek to attain. This is because it enables the application of the findings of the research in other fields that are not necessarily equal to the ones in which the study was conducted (Yin, 2011). This helps in the transferability and generalization of the findings of the research. This generalization can be generalization within the population, in which case the findings are applied to the immediate population which bears similar qualities and characteristics, such as age and level of education as the population of the study. The generalization can also be applied across populations in which the population differs from the study population in terms of structure

and composition, across contexts and settings which may include geographical locations, cultures and industries, across treatments in which case the populations differ in terms of the conditions and circumstances in which they are put in and across time in which there is temporal difference between the study findings and the application of the findings in the new population (Bryman, 2006). There are a number of threats to making a research externally valid which include: selection bias, history effects and maturation highlighted above and constructs, methods and confounding factors which limit the extent to which the research can be projected to other particular groups. In light of these considerations, it is generally accepted that although the case study approach can provide rich information with which to support and extend theory, external validity is necessarily limited in this approach and generalizations are often employed here to support or expand theory rather than to a particular broader population (Yin, 2013).

## 4.11 Reliability

Reliability is an important element of confidence in the findings of a research project, and is mandatory if the findings are to be applied more widely outside the immediate confines of the study. Reliability is described as the degree to which a study method or tool used in research provides similar outcomes under different conditions (Bell, 2010). This concept is a prerequisite for the validity described above, such that a research work must be reliable in order to be termed valid, but reliable research is not necessarily valid (Denscombe, 2008). The two concurrently lead to an increase in transparency and minimize the chance of bias in a research project (Singh, 2014).

Any data collected, as in the current study through the questionnaire and interview, must be critically evaluated and the reliability of that data robustly examined for (Moser and Kalton, 1971). For any measurement procedure used in research there is a degree to which the measured score varies from the actual score. This variance is due to the error component of the used measurement procedure which can be positive or negative and widely varies among various procedures. Depending on the approach used, one method may emerge as more reliable than another with a larger component of error (Denscombe, 2008).

The reliability of a research project is faced by many threats which can affect consistency of the findings by contributing to the error component of the result. This affects the consistency of the values obtained by a particular research method. The threats can be from the researcher or observer, environmental changes and participant changes (Yin, 2011). The researcher contributes to the error when the personal influence of the researcher or observer leads to different values obtained by the same research method. .

## 4.12 Bias

Research work in most cases contains bias in the information or conclusion drawn from the findings of the research (Bell, 2010). According to Creswell (2014), this occurrence may be with the researcher's knowledge but in most cases it occurs without the researcher's knowledge or willingness. Its description in the context of research can be said to be the exertion of a researcher's influence on the project in order to influence the desired outcome. This is usually due to a prejudiced approach to the research such that it leads to a distortion of judgment and thereafter an unfair result. The fairness of the result can be difficult to assess as what may be deemed fair from the researcher's point of view may be seen as unfair from another party's view point. A research may be subject to a higher degree of bias if the researcher has a strong feeling or conviction of a particular topic they are conducting the research in (Bryman, 2006).

Among the bias types is design bias, which can be introduced into a research work when the researcher fails to take into consideration bias which is inherent to a project. It may not be possible to completely eliminate bias from a research project but this inherent bias must be taken into consideration by the researcher. Bias can also occur when during the analysis of the research findings, the researcher does not factor in the initial counter thoughts which he/she had at the beginning of the project (Shuttleworth, 2015). Sampling bias occurs during the selection of the informants with which the research is to be conducted. It can be an omission bias in which case the bias is introduced by omission of a particular group due to inferiority of the overall population size which leads to unfair representation of the population. In most research projects, omission bias is not easy to avoid and must therefore be taken into account when analyzing samples. Sampling bias can also be inclusive bias, which happens when samples are selected for convenience, in which case the researcher picks samples that he/she feels will give an outcome which is in line with their opinion and line of

thought. Other types of bias include: procedural bias, which occurs when time constraints pushes the researcher to make conclusions on the research; measurement bias, which arises when there is distortion of judgment during data collection; interviewer bias, which occurs due to influence of the interviewer or interviewee on the research findings; response bias, in which the informant gives information which they think the researcher wants; and reporting bias, which occurs when the researcher express their influence during the dissemination of the findings in the literature (Shuttleworth, 2015).

Although bias in research in most cases occurs unconsciously, the researcher ensures that it is avoided as much as possible and the inherent bias taken into consideration when putting down the findings of the research (Creswell, 2014).

#### **4.13 Ethical Impact of the Research**

In order to accomplish the intended study objectives, it is necessary for this research project to recognize the moral impact that the final study might have on the ethical rights of the participants. According to Bell (2010), the regulation of disclosure of personal information obtained during the final research is also imperative for this type of study project. Furthermore, assessment of risks and benefits can also play a role in maintaining the ethical standards for the research and its participants. Ethical considerations also entail careful evaluation of risks and benefits, and attention to the well-being of the subjects participating in the study (Miller et al., 2012). According to Miller et al. (2012), ethically responsible research calls for the researcher to set out different levels of involvement in the study, especially at beginning of the project. If not well addressed for its ethical ramifications, even well-stated research may result in harm to its subjects (Bell, 2010). Hence, many incidences show a choice between the integrity of a study and ethical obligations of the research, but it is advisable for researchers always to follow ethical obligations with human subject-oriented

research. Furthermore, the rapport of researchers also helps in familiarizing them with the field of study and participants as a way of solving the concern of invading the privacy of the participants and their culture. Therefore, this research has taken great care regarding this issue: it has tried to make employees at lower levels anonymous by not requiring any information which might cover their identity, and the researcher has taken the necessary measures to prevent unethical use of the research, in line with the regulations and policies of the University of Wolverhampton's ethical approval committee.

#### **4.14 Research Limitations**

Overall, the research methodology can be said to have been carefully planned, and has been justified in the preceding sections of this chapter. However, as with any research study, the methodology encountered certain limitations in planning and implementation. First, as discussed in Section 4.2, the literature lacks an accepted format for measuring employee performance, and as detailed in Section 3.8.4, the companies which form the cases for investigation take different approaches to performance assessment, and this renders it difficult to address the first objective of the research, which asks whether the introduction of the PRP system increases employees' performance. Further, as previously documented, difficulties were encountered in obtaining a clear picture of the PRP scheme in place at each organisation, due to commercial sensitivity and confidentiality considerations. The access agreements reached with the firms also limited the ways in which the researcher could make contact with employees, as this was done through line managers, which might introduce bias through the influence of these managers or through self-selection bias if employees chose not to respond due to trust issues. In fact, the response rate in the survey may be considered a limitation of the study, although it is common for the distribution methods used (email and online survey) to attract a low response rate, and in this context the rate of return may be

viewed as reasonable. Access to such a large number of employees and interviews with line managers in three sizeable organisations may be considered as a strength of the study, and was achieved through development of contacts within the firms and the kind co-operation of the organisations involved.

## **4.15 Conclusion**

This chapter has set out the research methodology used in gathering and analyzing the primary data for this study. An inductive approach was followed for the study, in which socially constructed realities are accepted. This choice flows from the nature of the research problem, which presents a little-explored area in terms of pay systems in Saudi Arabia, and in which a detailed picture of the case study cases was preferred to yield maximum relevant data. Having said this, a pragmatic perspective was also adopted, allowing for elements of positivism also to be reflected through the incorporation of quantitative approaches also.

The research tools were described in this chapter, with a discussion of the questionnaire and interview designed for the study. Detailed consideration was also given to sampling approaches, validity, reliability, bias and ethical impact for this research. The chapter which follows will present and discuss the findings collected from the three case study companies, with reference to the discussion of the literature chapter.

# CHAPTER FIVE: FINDINGS AND ANALYSIS

## 5.1 Introduction

This chapter will present and analyse the findings from original research carried within three case study companies in Saudi Arabia, Saudi Industrial Development Fund (SIDF), Saudi Telecoms Company (STC) and Saudi Electricity Company (SEC). The research consisted of a mixed methods approach combining interviews with line management responsible for administering the PRP system with their subordinates, and a survey questionnaire distributed to lower level employees whose pay was affected by the system. This was conducted in each case with the aim of evaluating how far the PRP scheme was successful in each of the organisations under study. All of the research was carried out in 2014.

This chapter is divided into sections by theme or section of the survey distributed. The themes selected, as identified from the relevant literature reviewed in Chapter Two. These firstly include **the pay performance link**, encompassing views on the power of monetary reward as a motivational force in the workplace, perceptions of a link between pay and performance, and the effects perceived from the application of PRP on the individual behaviours and performance of the workers. This is intended to test the premise of the power of extrinsic motivations to affect performance as per expectancy theory and also the ability to translate this into practical-level success in the given contexts. The second theme relates to **perceptions of fairness and transparency**, at system-wide level in terms of general application and appeals process, as well as in relation to favouritism by those implementing the scheme; **teamwork**, and PRP's impact on colleague relations. Fairness or perceptions of such has been given a prominent place in the literature on PRP as a clear and debatably difficult to achieve basis for positive impacts to be made to greater extent than harmful effects (Belfield & Marsden, 2003; Kang & Yanadori, 2011). The next theme to be considered is **organisation of work**, as well as clear transmission of objectives and roles, which is both considered in the literature as a potential direct objective for PRP and has relevance for its feed-in to performance alignment. Fourthly, primary evidence was gathered on **feedback and recognition** for employees, in terms of both its implication for directing employee motivation and effort and in ensuring that PRP is perceived as bringing recognition

based on actual work. Fifth, the study investigates data on the theme of the **amount of performance-based** reward as a proportion of pay, as discussed in the literature as critical to impact; and finally, **overall satisfaction** is considered, drawing both a broad picture of the effects of the scheme from the employee's point of view as well as a rich commentary on various aspects of implementation as well as an evaluation of the PRP approach in general from managers.

For each of the companies with whom the research was undertaken, the results of the survey are presented alongside information from the interviews, and the findings are also considered in light of relevant concepts and viewpoints from the literature review presented in Chapter Three. Salient points from literature are not repeated in each case: rather they are made where it is felt to be most relevant and summarised later in the concluding sections of the chapter.

## **5.2 Data Collection**

The research at SIDF was carried out during January and February 2014, at the main headquarters of the firm in Riyadh, Saudi Arabia. Survey questionnaire was sent out to lower level employees by email via the HR department, while interviews for the research were conducted with line managers in their workplace, with the scheduling arrangements facilitated by the HR manager. The research at STC was carried out during January and February, 2014, at Riyadh, Saudi Arabia. Survey questionnaire was sent out to lower level employees directly to their e-mail, while interviews for the research were conducted with line managers within the firm regional headquarter. The findings are presented below and analysed in conjunction with relevant literature. The results of the SEC survey and interviews are presented in this section. The research at SEC was carried out during December, January and February 2014, at company headquarters, Saudi Arabia. Survey questionnaire was sent out to lower level employees via e-mail, while interviews for the research were conducted with line managers at their offices and the time was fixed by the quality management.

The context of each of the three organisations is unique, and therefore each presents a different environment for the application of the PRP schemes, which also differ in important respects: Kessler (1994) and Wilkinson and Dundon (2006) advocate the tailoring of payment

schemes to suit the organisation, although it is unclear in these instances how the designs of the schemes were arrived at. According to Armstrong and Murliss (2007), political will also plays a part in PRP implementation, Saudi Arabia is likely no exception to this. Overall, although the cases differ, similarities emerge in the results across them, and this may be attributed to commonalities, whether universal or resulting from the national context and culture. In particular, money is seen as a central motivational force, and reward is perceived to enhance performance, but the validity of the connection between assessment and actual performance is not supported. The findings are presented in sections by theme and analysed in conjunction with relevant literature.

### **5.3 Pay-Performance Link**

This section will examine the responses of the survey sample for each company regarding the link between pay and performance, and will encompass findings from the first three questions included in the survey. Relevant findings from interviews will also be considered here.

#### **5.3.1 Money as the most important motivator to work**

The first statement presented to respondents regards the importance of money as a motivator for work. Participants were asked how far they agreed or disagreed with the statement that money was the most important motivational factor for work. The SIDF sample responds positively to this statement, as set out in the table below.

**Table 5.1 SIDF: Money as a motivator**

<b>The most important motivator to work is money</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
52	88	0	18	3
32.30%	54.66%	0%	11.18%	1.86%

The findings related to the first statement in the survey reveal that a strong majority of respondents strongly agree or agree that money is the most important motivational factor in the workplace, with 140 individuals choosing one of those two options. Meanwhile, only a small minority, at 21 respondents, disagrees or strongly disagrees. There are no responses for 'don't know', indicating a certainty of opinion on this question. The responses of the sample would seem to support the company's intention to utilize financial reward as a lever to increase motivation, although the perception that money motivates does not in itself assist in evaluating the effectiveness of attempts to do this through PRP. The perception of money as the prime motive force in work seems to reflect a view as seen in PRP literature that reward affects behaviour or individual performance in a way which is meaningful for organisational performance (Gerhart & Rynes, 2003; Pfeffer, 1998; Rigby, 2001). This view is however at odds with the notion held by the humanist school that pay cannot influence motivation, as supported partially by the work of Yuan et al. (2013). However, the views expressed by the sample at the least suggest that employees would be receptive to schemes attempting to motivate through pay.

Information was also gathered from interviews which falls under the theme of money as a motivator. Respondents' views as given in the interview seem to also support the key importance of money in motivating employees, as exemplified by respondent 1, who states, *"Yes more, the goal is money... the most important one at least"*. This respondent therefore implies the existence of other motivational factors, but places money as the primary one. This is confirmed by respondent 11, who cites money as *"a motivator for an employee"*. Respondent 3 emphasizes this view, saying, *"definitely, anyone says otherwise isn't telling you the truth"*, while respondent 9 elaborates that money is *"the most important aspect for the employees and us the management and everyone I believe"*. However, respondent 3 adds a qualification here in the case of the pay for performance scheme: *"in general yes, but as you told me earlier that your research is about bonus schemes, I think it makes more trouble for the employees rather than making them perform better."* Here, the respondent appears to

doubt the ability of PRP as a lever to influence performance in the way employers might wish.

The findings from the question regarding the importance of money as a motivator for work showed strong support for this. Participants were asked how far they agreed or disagreed with the statement that money was the most important motivational factor for work. The responses of the STC sample are set out in the table below.

**Table 5.2 STC: Money as a motivator**

<b>The most important motivator to work is money</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
69	82	3	20	11
37.30%	44.28%	1.62%	10.8%	5.94%

The table above shows that a clear majority of respondents agree or strongly agree that the most important motivator to work is money, with 82 and 69 respectively. In comparison, only 20 disagree and 11 strongly disagree, while just 3 do not know. As with SIDF, the results here appear to underscore the importance of money as a motivator, and do not reflect theories of the importance or existence of intrinsic motivation, although the nature of the research approach in the questionnaire does not allow for more detailed comment or justification of answers from the employees.

Information was also sought from management interviewees regarding money as a motivator. While there is general agreement in the interviews with management on this also, for example with respondent 12 stating that money is *“one of the motivators for employees and that’s the goal behind a performance related pay system”*, one respondent posits an alternative view for motivational reward, suggesting that *“it is easier to find another method to reward employees better than money... you pay them holidays, employees love to have holidays so this could be a better way for it”* (respondent 4). This appears to correspond with the ‘gift’ approach to reward as proposed by Frey, Homberg and Osterloh (2012) as avoiding negative impact on intrinsic motivation seen in traditional PRP, and endorsed by Bryson and Freeman (2014) as a link to performance. While this may be a viable alternative to the PRP system in place, no example of such an approach is contained within this study for comparison. Meanwhile, another respondent highlights family example and social obligation

as being equally valid bases for working motivation, considering that “*everyone has his own motive that makes him come to work, I can’t speak about others but for me I am here for money and for other reasons. A man without work is nothing, so it’s important that you set an example to your sons and to other young people*” (respondent 2). Others however underscore the key place which money occupies: “*If you have a better incentive please let us know about it, but from what I know, money is the most important incentive*” (respondent 7), and this view appears to chime with the results of the questionnaire.

The findings from SEC on the first question are shown in the table below:

**Table 5.3 SEC: Money as a motivator**

<b>The most important motivator to work is money</b>				
Strongly agree	Agree	Don’t know	Disagree	Strongly disagree
76	56	0	12	4
51.35%	37.84%	0%	8.11%	2.7%

As shown in the table, a clear majority of respondents agree or strongly agree that the most important motivator to work is money, with 56 and 76 respectively, and a combined total of 132 out of 148. Meanwhile, only 12 disagree and 4 strongly disagree: just over 10% of respondents. This tallies with the responses of the other two case studies and support the company’s aims in using financial reward as a lever to increase motivation, although the perception that money motivates does not in itself endorse the role of PRP in doing so. The perception of money as the central motivator in work seems to reflect a view as seen in PRP literature that reward affects behaviour or individual performance in a way which is meaningful for organisational performance (Gerhart & Rynes, 2003; Pfeffer, 1998; Rigby, 2001). This view is disputed by the humanist school which holds that pay cannot influence motivation, and ignores intrinsic motivation, as supported partially by the work of Yuan et al. (2013). However, the views expressed by the sample at the least suggest that employees would be receptive to schemes attempting to motivate through pay.

Management interviews held at SEC also explored the role of financial reward as a potential motivational tool. In relation to this and implementation of PRP at SEC, a management participant in the interviews considers that significant difference in monetary reward between grades at the company, “*makes competition between the employees because everyone wants*

it” (respondent 6). This suggests that money is generally seen as a strong motivator. Respondent 10 reinforces this view of financial reward as fundamental, feeling that “*money attribution is very important in securing employees’ motivation to work harder. Money is why employees are here in the first place: with no money, no one will work*”. Respondent 11 is also unequivocal that “*there is no comparison, since the establishment of the system everyone competes to get the bonus*”. However, Respondent 8 places monetary reward in a wider context of conditions for employees to feel valued:

*“Yes, I think [that money is important], but more than money, there are things which need to be given to the employees to make them feel important to the company. For example, recognition of their achievements and rewarding them with vacations. Some employees that we have prefer the vacations over money. I’m not saying that money is not important, of course, but there are more motivational things can be given to the employees who may be more successful in ensuring the employees’ motivation for work and to come to work motivated”.*

Respondent 7 meanwhile places emphasis on working conditions, stating that money is important “*along with other things...such as if you’re talking about a desk job money is important, but we also have electricians who go to fix large electricity generators, so other things are important such as providing them with safety equipment as well training them to avoid danger*”.

One respondent however is unsure about the primary power of monetary reward to impact upon motivation, stating that “*even with the money we pay to the employees we have, you can see that many of employees are not motivated to work*” (respondent 2). It may be taken from this that in the view of the respondent, without intrinsic motivation, extrinsic motivation cannot be effectively applied (Beer and Katz, 2002).

Thus, the responses from each company broadly concur in identifying money as a prime motivator in work, albeit with the caveat that this may not work for everyone. The general perception is in line with the use of expectancy theory to support PRP. Also, no mention is made of issues such as misalignment of goals to achieve reward, as considered by Bellfield and Marsden (2003).

### 5.3.2 Perception of a link between pay and performance

The second statement presented to respondents sought to identify whether there existed a perception of a link between pay and performance. While each organisation operates a PRP scheme, the extent of the linkage of reward to performance cannot be assumed. Participants were asked to agree or disagree that pay was linked to performance in the company. The responses of the SIDF sample mainly agree with this statement, as set out in the table below.

**Table 5.4 SIDF: Pay-performance link**

<b>Pay is linked to performance:</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
74	71	3	8	5
45.96%	44.02%	1.86%	4.96%	3.1%

In terms of the connection between pay and performance, 74 respondents strongly agree and 71 agree that pay is linked to performance. A far smaller number, 8 and 5 respondents respectively, disagree or strongly disagree. An overwhelming majority of survey respondents therefore view performance and pay as being linked. Thus, the sample seems to support the basic premise that performance is linked to pay, although this type of information does not include reasons for views.

Information was gathered from interviews regarding the pay for performance link also. However, the results herein are far more mixed than for those of the survey questionnaire conducted with employees. In fact, there is some ambiguity on this issue when considered by the SIDF interviewees. On the face of it, many of the respondents seem to agree with the notion of a clear and logical link, with statements being made such as: *“Yes, the only way to motivate employees... you work more, you get tired, so your reward becomes more”* (respondent 8), which appear to link greater effort on the part of the employees to greater reward as a part of the scheme, while not directly addressing the performance factor in terms of output but rather looking at input. This is seen also in another respondent’s perception of this link, which he describes as occurring, *“because it make employees work harder and it gives the employees a motivator”* (respondent 5).

One of the interviewees goes further, in asserting that the actual practices of SIDF with regard to pay determination upholds this linkage, stating that the system within the company “*works based on two features: performance and linking the work throughout the year*” (respondent 4). However, several of the interviewees cast doubt on the extent to which the notional link between pay and performance as presented in policy is actually implemented within SIDF, with one individual commenting as follows: “*That’s in theory, but in practice and from experience it does not have a direct link to performance*” (respondent 2). This response brings to mind the criticism of expectancy theory, which generally underlies assumptions of the performance- pay link, by Kang and Yanadori (2011) in that there is not theoretical relation between this theory and actual practice in terms of how PRP can be implemented so as to harness reward as a lever for performance.

Further, when considering decisions taken by managers regarding bonus payments, the link also appears to be weak or even non-existent: “*The determination of the bonus is not set by the direct manager and on unknown bases*” (respondent 2). This casts doubt on the practical steps taken by the company to set up and maintain a performance-pay link. Meanwhile, another respondent considers that the pay-performance link is present but is not effective in distinguishing between levels of performance which fall in the middle of the spectrum, commenting that “*the system can recognise the difference between the very bad and the very good but leaves most of the employees in a grey area*” (respondent 8). Another interviewee expresses confusion with the workings of the system and asserts that the performance assessments do not appear to influence pay outcomes: “*I don’t know how it works, and when I rate my employees the rating does not mean anything because they have different compensation*” (respondent 6).

From the above, an interesting picture emerges, in that the employees, as represented by the survey sample, express a belief that their pay is linked to performance, and indeed the pay system contains within it a process of performance measurement, and yet managers reveal that the system may not actually be used in a way that creates a genuine link between bonus payments and performance ratings. This is worrying in the light of Belfield and Marsden’s (2003) view that only accurate evaluation of and fitting reward for performance will result in enhancing employee performance and organisational performance as a whole. They further state that where this is not in place, pay based on input is more beneficial.

Meanwhile, respondent 7 seems to reject the pay-performance link as it does not encompass effort, and sees no link with effort and pay under the pay scheme, “*because linking the hard work of the employees to a financial fee is not the overall goal unless every one rewarded as the same but if you link money to some and ignore others then you’ll have a problem as the what we have at the end of each year*”. This suggests that expectancy theory’s conditions of linking effort to performance and performance on to pay, as described by Lunenberg (2011), are not linked as the theory would expect at some point in the chain. Conversely however, respondent 9 puts forward a belief in the operationality of the system, stating that, “*if you link the pay the employees get to their achievements in work then you’ll see competition as to who works better because everyone wants to get paid better*”.

**Table 5.6 The responses of the STC sample to the statement on whether a link is perceived between pay and performance are set out in the table below: Table 5 STC: Pay-performance link**

<b>Pay is linked to performance:</b>				
Strongly agree	Agree	Don’t know	Disagree	Strongly disagree
56	72	7	40	10
30.27%	38.88%	3.78%	21.6%	5.4%

From the STC sample, 56 respondents strongly agree and 72 agree that pay is linked to performance. However, 40 disagree and 10 strongly disagree, creating a larger proportion who disagree compared with the SEC and SIDF samples. Only 7 respondents out of the 185 surveyed do not know. Although it is not possible to follow up this result due to the nature of the research approach followed with employees in this study, this finding suggests that PRP is not an element in the conditions of the workforce as a whole, or that if it is, it is not widely publicised as such. Clearly, where pay is not considered by workers to be linked to performance, the scheme in such cases cannot be considered to achieve motivational or other aims.

Information was also collected from management interviewees regarding the link between pay and performance as established at the company. A description of the system of reward in place at STC is provided by an interview respondent as follows:

“Well, the system we adopt in the company is what known as the bells system, in which you have a percentage of each classification of the employees, for example, 5% 15% 6% and the like and then depending on their rating they have their bonus which is different to the end of the year rise in salary” (respondent 1). While the scheme outlined appears to include an element of reward for performance, the use of this approach in practice has doubt cast upon it by some interviewees however. For example, respondent 1 comments on the system’s ability to reward performance thus:

“Well it’s supposed to be but you know you Arabian fellows, they don’t abide by the system”.

This comment implies that the cultural context of the organisation does not allow for effective implementation of PRP, as it is perhaps not aligned with cultural preferences for ways of working within that context. Another respondent is more direct about the linking of pay to performance in the company: “Unfortunately, it’s not true” (respondent 4), while respondent 8 states that “it’s not always the case because the system is making more difficult decisions and makes the job more difficult for me”. This dissatisfaction with the system may also imply that adjustment to this approach over traditional relations and approaches presents difficulties for managers and staff. The doubts expressed here may also explain why over one quarter of the survey sample do not perceive a link between pay and performance.

The results on perceptions of the pay-performance link for SEC are set out in the table below:

**Table 5.7 SEC: Pay-performance link**

<b>Pay is linked to performance:</b>				
Strongly agree	Agree	Don’t know	Disagree	Strongly disagree
44	84	0	8	12
29.73%	56.76%	0%	5.4%	8.11%

The link between pay and performance is made by 128 of the 158 respondents. From the SEC sample, just 8 disagree and 12 strongly disagree that such a link exists. Thus, it appears that the company has communicated effectively the link which it is seeking to establish between

pay and performance, to a greater extent than the other two companies in the case study. While the reason for this finding cannot be established with certainty, speculatively, it may be a partial effect of the higher percentage reward at SEC.

The picture which emerges from interviews with management at the company in the main supports this finding, with comments such as, “*if the employee works hard then he will get more bonus and more rewards*” (respondent 2) and a comment that the system of reward in place at the firm “*increases the performance of the employees and tries to give them a motive to compete between each other and tries to establish a link to increase performance*” (respondent 6). However, while these comments seem to indicate a clear link in practice between performance and pay at SEC, the response of one interviewee conflicts with this, and suggests that performance is not linked to reward uniformly by all those responsible for implementing the PRP system. He describes his application of the reward scheme as follows: “*every year I give the bonus to some people and then next year I give it to the other guys so it’s equally divided. All employees know about it*” (respondent 3). This manager is seeking balance in the payments made, rather than the goal of reward for performance. His reasons for this are not elaborated. However, the difficulties highlighted by Belfield and Marsden (2003) in rewarding performance accurately, and deficiencies highlighted elsewhere in the interview discussions in relation to the scheme’s fairness may inform managerial attitudes to implementation. Further, Kang and Yanadori (2011) suggest that implementation of management innovations from a Western context may be ineffectively applied in other contexts due to their mismatch with and lack of natural evolution from previous approaches and prevailing organizational culture.

Respondent 1 casts doubt on the link between pay and performance, citing the ineffectiveness of the comparatively high salary offered to improve performance: “*even now, our employees have relatively high salaries compared to other companies, but even though [that is the case]. There is no change in the performance, it’s true that they don’t leave the company and everybody wants to work with us. For example if you compare just employees, an electrical engineer with us he will be given 13,000 thousand riyal (2000 pounds), which is very high compared to other companies, but as I said that does not make them perform better, what I really think is if there were very intensive training programmes such as teaching the employee how to become more productive...*” Thus, this respondent emphasizes knowledge and training over pay as an input to produce better quality output or performance.

Other respondents describe the nature of the pay-performance link as they see its operation within the company. For example, respondent 10 makes a simple link to quantity of output:

*“So we have an electronic system called the management performance system which is linked to me, when I access this system all my employees will appear and then I set tasks for each employee, general tasks but they are linked to a number of units or days and so I set a number of tasks and say for example I have a surveyor and I say, if you finish ten a week you’ll be excellent, if you finish five you’ll be very good, if you finish 3 you be good and less than that you’ll be below expectations and then he’ll not have any rise and he’ll not have a promotion for the same year and like that”.*

Respondent 5 meanwhile seems to raise the possibility that employees may be graded based on percentage quotas rather than strictly on performance, stating that *“there are some employees who have the category of below expectations, I must have or they will say how come you don’t have anyone!”*

Overall, there is a strong indication from the survey results from each organisation that a link is perceived between pay and performance. However, management comments also cast doubt on the reliability of the ink, suggesting that a stronger assessment protocol might be needed to strengthen this link, if such a protocol is practicable.

### 5.3.3 Perceived effect of PRP system on performance

The third statement presented to respondents regards the effect of the system of pay for performance within the company on individual performance at work. Participants were asked how far they agreed or disagreed with the statement that the PRP system did not change their performance. The responses of the SIDF sample are set out in the table below.

**Table 5.8 SIDF: PRP does not change performance**

<b>The PRP system does not change my performance</b>				
Strongly agree	Agree	Don’t know	Disagree	Strongly disagree
9	33	9	68	42
5.59%	20.42%	5.59%	42.16%	26.04%

Interestingly, the clear majority of survey respondents disagree that PRP does not impact on their individual performance, supporting a definite impact of implementation of this reward system, even considering that the link of performance and pay may not in fact be fully implemented, as suggested by the interview findings in relation to the previous statement. Fernie and Metcalf's (1999) study suggests a strong link between performance contingent pay and better results, although in their study the proportion of performance-related pay is far more significant than for the employees in any of the case studies analysed here. Also, Beer and Katz (2013) question the effect on psychological factors in performance. Notwithstanding, the numbers of survey respondents agreeing or strongly agreeing that PRP does not impact their performance total 42, which is over one quarter of the responses. This seems to indicate that PRP is by no means impacting upon all employees.

Information was also collected from interviews with management on the effect of the pay for performance system on the performance of employees. There is some division among the interview subjects on this point, as some respondents report a noticeable impact of PRP on performance as *"the only way to motivate employees"* (respondent 8). This would appear to support the role of extrinsic motivation as important for effective control of performance, running counter to the argument of the humanist school that intrinsic factors are more influential. Meanwhile, other managers do not consider the scheme to have affected performance, with one respondent stating that *"performance does not change and the bonus is steady"* (respondent 2). This is also supported by another, who states that *"the average production for the department does not change"* (respondent 4). If this is the case, then the PRP scheme in place at SIDF does not form an effective lever in linking pay and performance, and also does not fulfil the rationale of effecting change within the company, as another key aim of PRP as cited in the literature (Yuan et al., 2013).

An interesting point is raised by respondent 9, who describes a situation in which, *"The changes in the employees are not long lasting, like two weeks after receiving the rise they would change but after that the normal performance comes back. And so I think the best employees do not need financial performance as much as recognition because the good employee will always be good and other employees are normal employees, so that does not change much in terms of performance."*

The respondent seems to be saying here that performance increases effected by the scheme are only temporary, and also that these differences are seen in those receiving the bonus. The temporary nature of changes seems to echo the effect of ‘gift’ pay as critiqued by Hennig-Schmidt et al. (2010) and Gneezy (2006). It also chimes with Nunn and Devins’ (2012) assessment of performance management changes being temporary in their effects. Thus, the PRP scheme may not be creating value for the company if its effects are quickly neutralized and do not persist over the longer term, and this may pose a problem for SIDF.

The responses of the STC sample regarding the third statement are set out in the table below.

**Table 5.9 STC: PRP does not change performance**

<b>The PRP system does not change my performance</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
32	39	3	91	20
17.3%	21.06%	1.62%	49.14%	10.8%

More than half of the STC sample disagree that the PRP system does not change their performance, although most of those disagree rather than strongly disagree, with 91 as opposed to 20. However, 39 of the sample agree and 32 strongly agree with this statement, meaning that over a third of the sample do not perceive any impact on their performance from the PRP system in place at STC. This appears to link with the findings for the previous statement, with a sizeable minority seemingly untouched by a pay-performance link.

Turning to the interview findings here, the impact of pay on performance is supported by several respondents. One comments that, *“I think it has increased the performance of the employees because when they perform more they get better pay, that’s it”* (respondent 3). Another concurs, but allows for exceptions to this situation, stating that *“I think it does in normal cases increase the performance of the employees and it gives them more incentive to work harder”* (respondent 2). However, another respondent finds that while PRP may impact upon employee performance, by its nature it excludes many employees and he finds this counterproductive:

*“Even if it does, this implies bad relations with your employees and as you know I can’t give it to everybody so it’s time and effort consuming more than just the basic introduction of it”* (respondent 4). It is unclear whether this respondent means that bad relations are implied because managers ought to be able to manage performance through relations alone or that he means that the reward scheme causes employee-manager conflict. Notwithstanding however, Kessler (1994) views managerial support as a necessity for the successful implementation of

any PRP scheme, whereas it is clear from this comment and from many others across the three case studies that a numbers of managers feel disquiet about the scheme, whether in its basic principles, particular set-up, or implementation. Further, this respondent's view that the scheme is time and effort-consuming is reflected in the literature, and extended to company level, wherein Belfield and Marsden (2003) highlight the expensive and time-consuming nature of the task of successfully enabling pay to reflect value to the organisation, as compared with provision of fixed pay.

Further, respondent 7 questions the direction in which behaviours are altered as a result of the scheme, suggesting that this is not uniformly positive: *"It does [change performance], but not always to a better performance. Sometimes it has a negative impact on the employees and establishes habits that we are in less favour of. Without mentioning them, but you know one or two colleagues work together but then don't get the same rise. that's not looking very good in the eyes of the one who does not get the full rise, and believe me no one will be able to convince them otherwise"*. Likewise, respondent 11 reports a negative effect on working motivation for those not awarded the bonus but who feel they have worked over and above their obligations, giving the following example: *"the employee who doesn't receive the bonus feels failed to be honest with you, and I have a case in which one employee came to me and said 'I thought that I'd be taking the bonus for a year and now it's this: don't give me any extra work anymore, just let me be like the others'"*. This is interesting as it is in accord with a view stated in the literature that higher effort above a certain threshold brings forth negative feelings from employees, as well as highlighting negative impacts on those who do not receive a bonus, and a perception of being above average on the part of many employees.

The same question was answered by SEC participants, and the findings regarding this are presented in the table below:

**Table 5.10 SEC: PRP does not change performance**

<b>The PRP system does not change my performance</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
16	28	16	44	44
10.81%	18.92%	10.81%	29.73%	29.73%

It is clear from the SEC survey that over half of respondents feel that PRP has an impact on their performance, with 88 of the sample disagreeing that it does not. A further 44 do not feel that the system affects their performance however, in line with the results seen for SIDF.

Information is also sought from management interviews regarding the impact of the pay for performance scheme on employee performance. Again, looking at the findings from interviews, a range of views is uncovered amongst managers. Some respondents accept as a given that the system used is capable of affecting the performance of employees in an effective manner, for example in contending that *“If it's not increasing the performance you wouldn't see all these companies applying the system”* (respondent 6). This is not necessarily supported by recent literature however, which tends to lean more towards team-based reward as the emerging standard for PRP (Larkin, Pierce and Gino, 2012). Another concurs, stating that *“if the employee works hard then he will get more bonus and more rewards and that's what the company is trying to achieve with its employees, employee .....I think employees can improve through this system”* (respondent 2). Support is given by respondent 2, but in less comprehensive terms, qualifying the effects of the system to apply only to some employees:

*“I think yes it does improve employees' performance and it makes them work harder and compete with each other, it give them a target to achieve... so yes I think it's improving performance for some employees”*.

For respondent 4, the scheme is only partially effective in terms of altering employee behaviour, as *“It depends on the employee himself, some of them yes it does increase their performance, especially some employees who are young and enthusiastic and it gives them the opportunity to prove themselves”*. Further, one participant in interviews with management

notes an effect on employees which is negative rather than positive, suggesting that the system is self-defeating:

*“the employees who do not receive the bonus usually decline for the next year because they feel disappointed and when this is tackled (percentage) then I think the system will work more effectively”* (respondent 7). This links to equity theory, as discussed in Chapter Two.

Another interviewee points to a possible cultural mismatch between the PRP system, the organisation and the wider cultural context. He comments as follows:

*“This system is brought to the company as a part of what they see as bench marking with American companies... but it’s not always necessarily true that if the system works there then it must work here.... everything is different, the culture is different and you can’t apply some of the methods used there here”* (respondent 1).

Overall, between a quarter and a third of each of the study samples were unsure or did not perceive an effect on their performance from the PRP system, suggesting that each system is failing to motivate a substantial minority of respondents. In addition, some management respondents perceived a negative effect on those not rewarded, or questioned the applicability of the system.

### 5.3.4 Perceived effect of pay system on working behaviour

The next statement concerns the way in which the pay for performance system affects employees in conducting their role. Participants were asked how far they agreed with the statement that *“there has been no impact from PRP on the way I do my job”*. The results from the SIDF sample are shown in the table below.

**Table 5.11 SIDF: No impact from PRP**

<b>There has been no impact from PRP on the way I do my job</b>				
Strongly agree	Agree	Don’t know	Disagree	Strongly disagree
12	42	15	62	17
8.1%	28.56%	10.2%	42.16%	11.56%

The number of respondents who agree or strongly agree that PRP has not impacted the way in which they do their job is 54, and thus is similar to those who agree with the previous

question. However, a larger number disagree or strongly disagree with the statement, with 79 individuals responding in this way: almost half of the sample.

Information was also gathered from management interviewees concerning the impact of PRP on the way in which employees carry out their job role and the tasks involved in it. Considering the interviews, the managers are not united on this issue either, with one for example suggesting an impact on at least some employees in that “...*the new employee fights to prove himself and that reflects on his performance*” (respondent 5), a view which suggests greater efficacy for recent employees rather than longstanding ones. This contrasts with Forth, Bryson and Stokes’ (2014) proposal that PRP can reward long-standing employees who perform well, but raises questions for the effectiveness of the scheme in a culture where long service within organisations is the norm. Meanwhile, another respondent does not consider the system to be effective in influencing working practice, stating that “...*the system is not working and it is not doing what it is supposed to be doing*” (respondent 6). It is clear then that far from all employees and management perceive the intended impact of PRP as taking place within SIDF. However, this finds a parallel in the literature perhaps with the finding of Kessler (1994) in investigating the implementation and outcomes of the PRP scheme at Newsco, that PRP was cautiously introduced and played a minor rather than leading role in organisational change in that instance. Beer et al. (1984) also suggest a modest approach to cultural change or influence from PRP. Respondent 10 seems to agree with this, as he does not feel that the system can affect those who are already established in their role, unless reward were to be greater: “*if you are old on the job there will be no impact of this whatsoever because everything has changed and you have children and this system will be the least of your worries because you’re not looking to prove yourself, but if the amount of money was greater than what it is now there would maybe be some kind of competition*”.

Concerning the statement that “there has been no impact from PRP on the way I do my job”, the results from the STC sample are shown in the table below.

**Table 5.12 STC: No impact of PRP**

<b>There has been no impact from PRP on the way I do my job</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
13	72	8	66	22
7.18%	39.6%	4.4%	36.3%	12.1%

The responses to the statement: “there has been no impact from PRP on the way I do my job” from the STC sample are divided. While 72 respondents agree and 13 strongly agree, slightly more respondents disagree or strongly disagree, at 66 and 22 respectively. Thus, the results lean only slightly toward disagreement with the statement. Kang and Yanadori (2011) point to an emerging situation wherein socially legitimized business practices are introduced in contexts where they may be challenging or not compatible, but in such a way that they do not materially alter the current organizational culture or operations, while being employed in an ineffective manner. In this analysis, the effects of introductions such as pay for performance may be slight due to their incompatibility with their context.

The ambiguity in the findings of the survey on this point is reflected in the management viewpoint on the impact of the scheme on performance as given through interview, as one respondent claims that “*the good workers will always be hardworking and the lazy will always be lazy*” (respondent 1), presenting a fatalistic view of performance potential, while more respondents see a benefit here in that the system can “*increase the performance of the employees*”. These two opposing views are difficult to reconcile. Also, they do not appear to hinge on the particular implementation of PRP in this company, but rather are framed as more fundamental differences. Respondent 9 notes the difficulty in judging the impact of the scheme, and advocates a non-monetary approach to additional reward for performance: “*I*

*can see an impact but I can't judge whether it's good for the organization as whole or not. The way it should be is a reward with more nonofficial gifts like holidays or recognition and the possibility of promotion".* This coincides with the recommendations of Frey, Homberg and Osterloh (2012) for such an approach as minimising negative effects for intrinsic motivation.

The results from the SEC sample concerning the same statement as above are shown in the table below.

**Table 5.13 SEC: No impact from PRP**

<b>There has been no impact from PRP on the way I do my job</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
20	39	10	59	20
13.6%	26.52%	6.8%	40.12%	13.6%

The number of respondents who agree or strongly agree that PRP has not impacted the way in which they do their job is 59, while those who disagree or strongly disagree total 79, and just 10 do not know. This pattern is very similar to the results of the SIDF survey on this point, and therefore in both companies, more respondents perceive an impact from PRP than those who do not. However, this finding may be seen as somewhat disappointing in that more do not feel that they have been influenced by the scheme.

Management were also asked about the impact of the PRP scheme on working practice. The interviews with management at SEC also reveal a division of opinion here among the sample, ranging from the view that *"it does improve employees' performance and it makes them work harder and compete with each other"* (respondent 2) to the point that for *"some of the employees, the system does not work on them"* (respondent 5). Respondent 11 supports this view of a partial positive impact, stating that *"it has an effect on the employees' performance but the problem is with employees as a whole. Some of them will perform well because they have a good rise, others will perform badly as a retaliation against you or the system and even if you set a task they will still do it but not the way you want"*. As discussed in the section concerning SIDF results, a modest of impact from PRP on the way in which employees conduct their tasks is seen in Kessler's (1994) case study, and supported by Beer

et al. (1984) as a reasonable aim from implementing PRP. However, it should be noted here that the result in SEC is similar to that of SIDF despite a considerable difference in the possible pay differential achievable through the bonus system. A further difference between the findings here and those of Kessler (1994) however is that the scheme at the organisation investigated by Kessler was reported as not causing major conflict, and the same cannot be said from the findings here.

These findings again show commonality among the case study companies, with only a slight majority perceiving an impact upon the way they do their job from the pay for performance scheme. This should inform assessments of the costs versus benefits of implementing PRP, if the intention is to have impact across the workforce, especially bearing in mind the evidence from interviews that PRP is having unwanted consequences also.

## 5.4 Perceptions of Fairness and Transparency

Several questions addressed perceptions of fairness of the system, both in its design and implementation. The results from the questionnaires and interviews regarding this aspect of the pay systems will be discussed here.

### 5.4.1 Fairness of the system

The fourth statement presented to respondents regards perceptions of fairness or unfairness within the pay for performance system in the company. Participants were asked to agree or disagree with the statement that the PRP system was not fair. The responses of the SIDF sample are set out in the table below.

Table 5.14 SIDF: PRP system is not fair

<b>The PRP system is not fair</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
27	35	34	39	26
16.77%	21.74%	21.08%	24.18%	16.12%

In contrast with views on the impact of PRP on performance, the question of whether or not the PRP system is fair or not appears to divide opinion evenly at SIDF. While 27 strongly agree, one more than strongly disagrees, 39 disagree, while only 35 agree, meaning that there is a slight majority who disagree that the system is not fair. Uncertainty on this issue is reflected in the fact that 34 of the respondents do not know. This is highly problematic in

terms of the prescription in the literature that in order to be effective, any pay for performance system must be perceived as fair (Kang and Yanadori, 2011). The prevailing view here may therefore signal a major issue for SIDF in terms of harm done by the PRP scheme.

Information was also gathered from management interviews which related to the topic of fairness within the PRP scheme. In respect of this point, interview subjects comment on problems with the way in which the system is seen and understood, for example in stating the view that *“the system lacks transparency”* (respondent 3) or *“is not clear”* (respondent 8). This again is problematic in terms of Kang and Yanadori’s (2011) prescription for effectively implementing PRP, as requiring both transparency and fairness. Another respondent highlights the perception of unfairness which he cites as inevitably resulting from the set-up of the system and the self-perception of the employees: *“everyone thinks he worked hard and has not been fully appreciated. I can’t make everybody above average, the system does not allow me. For me sometimes I make my employees evaluate themselves so I avoid disappointments* (respondent 3). This links with Woodfield and Kennie’s (2008) contention that most employees rate their performance as above average, and the respondent seems to echo Lewis’s (1997) suggestion based on Cannell and Wood (1992) that this forms a barrier to success in gaining from the scheme in terms of motivation of the majority. This may signal a damaging effect for SIDF from the scheme if many employees will inevitably sense unfairness as a result of the workings of the system.

Other interviewees go further, associating the way in which aspects of the system work as opaque and unfair: for example criticising the use of a quota for performance bonuses by stating that, *“I don’t support the use of the percentage because it is not just and I can’t make a judgment on all employees freely because of the use of the percentage”* (respondent 10). This percentage is also seen as a hindrance by respondent 8: *“the use of percentage limits my ability and I don’t make the final judgment”* (respondent 8). Marsden and Richardson’s (1992) study concluded that feelings of unfairness and a more negative attitude to performance appraisal were engendered where employees thought that a quota had been allocated to the various gradings in the assessment.

Meanwhile, respondent 2 goes further in criticising the lack of clarity and inability of the manager to contribute in the process, commenting that, *“the determination of the bonus is not set by the direct manager and on unknown bases”*. Respondent 2 supports this, stating that *“it’s not our fault, the percentage I’m given is limited by 15%, that the only people who*

would have the full rise and the reset are distributed among the employees every one and his work". A more detailed description of the percentages used is given by respondent 9, who also feels that responsibility for awards is not squarely in the hands of the awarding managers:

*"The system has many faults which makes it to someone's perspective not fair at the first look. First you have the percentage, which I'm given; 15%, 20%, 40% and then sometimes no-one falls under the last category, unless they don't do anything at all or they are late every day, so the use of the percentage determines my judgment and even though sometimes I give a high rating to an employee, I discover that the employee is complaining to me because he didn't get the full rise and then I show him my assessment to show him that it's not my fault. So no one knows how this exactly works."*

As detailed in the literature review, Marsden (2004, in Bryson and Forth, 2006) warns that flawed performance measurement tools and lack of staff consultation over measurement criteria are major factors in leading PRP to be seen as unfair, and from the management responses, these two factors may fairly be considered to be at play within SIDF.

A different point is made by another interviewee concerning the perceived difficulty in applying a single system in a balanced way across a large company: *"There is a problem in the system because there are 8 departments on the company and each one has its own work so one form of assessment is not going on, well no one has the same job"* (respondent 11). This also echoes Marsden and Richardson's (1992) study, in which respondents perceived the application of PRP as not suiting certain job roles.

Another respondent (11) considers that introducing a pay-performance link is *"not necessary. The system we have has existed in other national companies but I think that linking pay to performance is big mistake, because it puts the manager under the pressure of assessing his colleagues, which actually is a bit difficult knowing that some of them are your friends some of them relatives and so on. So it's hard, it's hard"*. This indicates the possibility of internal conflict arising in managers when being asked to implement the system, which could be taken to imply that decisions taken may not at all times be guided by assessments of performance. This is dangerous for the effectiveness of the scheme and for the limitation of

any damaging impacts it may have: particularly in light of the prescription in the literature for PRP schemes to be seen to be fair if they are to work.

The responses of the STC sample with regard to the fourth question are set out in the table below.

**Table 5.15 STC: PRP system is not fair**

<b>The PRP system is not fair</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
44	33	42	51	14
23.76%	17.82%	22.68%	27.54%	7.56%

Unfairness within the PRP system is perceived by almost half of the STC sample, with 77 in agreement that the system is not fair, and over half of those strongly disagreeing. Meanwhile, 65 respondents show disagreement, and only 14 of those strongly disagree. It is notable that this statement draws 42 ‘don’t know’ responses: far more than for any other questions, and over one quarter of the sample. The reasons for this are unclear, whether indicating a reluctance to answer or a lack of clarity in terms of how the system works. Kang and Yanadori (2011) highlight the necessity of employee perceptions of fairness and transparency in pay for performance systems if they are to work effectively to achieve the results expected, and on this basis it can be said that the results of this questions are highly problematic for STC.

Information was also sought from managers regarding the fairness of the system in operation at STC. The responses of management interviewees on this topic are mixed, with some respondents dismissing the idea of any inequity in the implementation of the PRP system: “rest assured that this place has no bias, and everything is done according to the regulations” (respondent 3). This may not necessarily conflict with the findings from the questionnaire, if perceptions of unfairness arise from some feature of the system which is inherent to its design

rather than introduced during its implementation. Meanwhile, another respondent comments that “*some people see that there is no fairness between the departments as some departments are given more than others*”. One respondent relates unfairness to the problems of applying one system across various departments in a ‘one-size-fits-all’ approach: “*there is a problem here because some departments have different work than others: for example technical support is different from maintenance but the form of assessment is the same*” (respondent 2). This view was also put forward in the interviews carried out at SIDF, therefore highlighting an issue common to PRP practices across the two organisations. Cumming (1988) also criticises performance related pay on the basis of the problem of setting goals which were equally possible to achieve across a wide range of jobs.

A further view is put forward in interview which illuminates the concerns of the manager in administering the system:

*“Well it’s problematic here, for example some managers complain that they can’t rate a new chap who is better working than his colleague who he’s known him for ten years and he knows that he has a debt to the bank and this difference in ratings will make a big difference to him and his family while the new employee does not care and he wants more bonus anyway... it’s difficult it really is... you may lose some friends because of a system which is not designed for us”* (respondent 1).

The respondent here highlights the importance of maintaining personal relationships with long-serving staff as balanced against performance considerations, and clearly places a higher value on the former. His view of “a system which is not designed for us” emphasises a perception of cultural disjoint, although whether this is between the PRP system and the company culture, the PRP system and the wider cultural context, or both, is not made clear. Kang and Yanadori (2011) highlight the point that in Eastern cultures, PRP does not

represent an evolution of existing practice but a replacement of a different system, and thus may face various problems of acceptance and/or applicability not considered in its original setting.

In any case, the comment above suggests a certain amount of disregard for the aims of the system, and the widespread perception of unfairness seen in the survey findings may reflect this, as well as aspects of the system itself. It is obvious that any performance assessment scheme places responsibilities on the assessing manager in terms of workload and working practice (ACAS, 2015), and further, Storey and Sisson (1993) view managers as taking an essential role in relation to such schemes, through the tasks of communication, allocation of requirements and in performing the assessment itself (Storey & Sisson, 2000). Evidence from previous research is not comprehensive, but suggests that the manager's role is indeed crucial (Gerhard & Rynes, 2003).

Here, respondent 10 however complains of an impossible situation which is out of the hands of the manager, due to the imposition of quotas for gradings and the inability to act fairly in this circumstance: *"it has nothing of justice, sometimes you find four who fit the same category but you are only allowed to take two"*. As presented in the literature review, Marsden (2004, in Bryson and Forth, 2006) state that poorly designed performance measurement tools form a major factor in leading PRP to be seen as unfair, and from the management responses, this factor may be considered to be present within STC. Respondent 5 on the other hand suggests that managers are able to 'play' the system to enable their own preferences, through setting irrelevant tasks as highly important: *"there are some people who set a very ridiculous task so they can just reward the employees without doing anything and there are those who set reasonable tasks, so there must be follow up by the management to monitor the direct manager's tasks they provide"*. Therefore, conflicting views are seen from

management, with some not identifying fairness as an issue, some placing the blame for unfairness on the system itself, and others suggesting that managers do not act impartially, whether for altruistic reasons from loyalty to staff and conflict of the scheme with cultural values, or for other reasons.

Stronger perceptions of unfairness were noted from the SEC sample in response to the same question, as presented in the table below:

**Table 5.16 SEC: PRP system is not fair**

<b>The PRP system is not fair</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
75	27	12	27	7
51%	18.36%	8.16%	18.36%	4.76%

In a more critical response than for the SIDF and STC surveys, 102 of 148 respondents in the SEC sample, just under two thirds of respondents, express the view that there is unfairness within the PRP system at the company. Further, 75 of those 102 strongly disagree, indicating a strength of feeling on the subject. In contrast, only 7 strongly disagree, while 27 disagree and 12 do not know. Whatever the individual conditions within the firm which may exacerbate this, there is an argument in the literature that this is a direct result of PRP type schemes, as colleagues naturally make comparisons terms of reward received, and may become dissatisfied with their pay as a result (Brickley et al., 2009). While Brickley et al. (2009) view the alternative approach of providing equal pay among colleagues regardless of performance outcomes as wasteful and demotivating to high performers, and thus outweighing the harmful consequences of this comparison. However, it is clear in this case that the perception of unfairness is considerable, and thus if harm is connected to this, this might also be considerable.

The responses of the interviewees on the issue of fairness also appear to indicate acknowledgement of issues in this regard, whether as a result of employee perceptions, as, *“problems occur every year with the rating...I really get tired each year, if I give it to someone then some else will be thinking something”* (respondent 1) or as a direct result of the structure of the system or even the very concept of PRP: *“you can't satisfy everyone..... the system does not allow it”* (respondent 1). In terms of systemic unfairness, this respondent

explains further that “I can’t give all my employees ‘above expectation’ because the system does not allow more than 5% of my employees to have this rating” (respondent 1). As seen in the literature review, Lewis (1997) recognises just such a problem, considering that adopting a normal distribution curve which does not fit patterns of workforce performance is a common failing, and means that while many employees perform well, half of employees gain a below-average rating. In the case of SEC, the limited possibility of awarding ‘above expectation’ as reported here may gravitate against fairness, and certainly conflicts with employees’ self-perception, in line with Woodfield and Kennie (2008), who report that over 50% of employees would grade themselves above the average.

This would suggest a conflict between the requirement placed upon managers to assess a fixed number of employees as performing to each level, and the rating of employee performance according to fixed standards or criteria. Respondent 2 does not mention such a mismatch, but appears to confirm that the application of set standards is involved in the process: *“at the end of each year the direct manager assesses his employees based on standards and his manager assesses him and it goes on like that”* (respondent 2).

In the literature, Bregn (2013) points to the grading given by managers as helping shape employee attitudes to management, change within the organisation and to the performance assessment process, and that lower grades were linked to more negative attitudes. If so, this has implications for the scheme in place at SEC, given the management comments above. However, feelings of the unfairness of the system is not universal among the managers interviewed, with respondent 3 providing the following defence of the scheme: *“no one can say that because we have appeal system and through this appeal system, any employee can complain about his rise and ultimately they will take their right rise back, so no it’s fair and if it’s not as I told we have an appeal system”*. Others highlight the use of the percentage again as behind the unfairness: *“it’s fair if it applied without the use of percentage then it will be a correct system. Let me have the option of giving all my employees the excellent or acceptable”* (respondent 8). Respondent 11 also refers to the appeals procedures in place: *“there is an electronic system now which is a new addition which, it’s called the grievances, anyone can access this system but everyone can see that, which is not a normal thing, but we also have another system called hotline, in which you can complain to your superior, whether because of mistreatment or misjustification or ethical complaint, and this is confidential and serious, and this could include the PRP system as well.*

Overall, while large numbers of staff perceive unfairness in the PRP system in place, there is a distinct difference when it comes to the results for SEC, in that a clear majority reort unfairness in the system. While factors unique to the company may contribute to this, one possible reason is the larger proportion of pay given over to incentive pay: reviewing the literature, it is proposed that the extent of the incentive being large enough to motivate may unintentionally result in an intervention which is also large enough to cause discontent.

#### 5.4.2 Perceptions of favouritism in pay system implementation

Respondents and interviewees were also asked about favouritism in the running of the pay for performance schemes. Participants were asked how far they agreed or disagreed that supervisors use PRP to reward their subordinates and ignore those employees who are not favoured by them. The responses of the SIDF sample are shown in the table below:

Table 5.17 SIDF: favouritism

<b>Supervisors use PRP to reward their subordinates and ignore those employees who are not favoured by them</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
24	32	44	37	24
14.88%	19.84%	27.28%	22.94%	14.88%

The table above shows that respondents from SIDF are split on the question of whether supervisors use PRP to reward some employees while ignoring less favoured employees. One quarter of respondents state that they do not know whether this is the case. From the remainder, only 5 more respondents disagree or strongly disagree than agree or strongly agree, at 61 and 56 individuals respectively. While more respondents therefore do not identify favouritism among supervisors than identify this bias, only a minority of the overall sample deny that PRP is used in this manner.

While data was sought from management regarding favouritism within the implementation of the pay for performance system at SIDF, none of the management interviewees comment

directly on this issue. However, respondent 10 appears to acknowledge the existence of a problem here, warning, “*don’t unleash the direct managers alone when it comes to assessment*”. This implies that left to themselves, managers may either apply favouritism or discrimination on the basis of personal like/dislike. Meanwhile, respondent 5 views this as simply not possible: “*This can’t happen, because it’s not up to the direct manager to give, it’s partly but at the end of the day there is an appeal system and this manager has a manager too, so it’s not that easy*”. This view seems to imply that direct managers, while carrying out assessments, do not have sufficient power within the PRP system to abuse it by applying favouritism.

An alternative view, but also one which is indicative of the lack of control of managers over assessment, is put forward by respondent 6, who states that, “*at the end of the year they come to me asking about why the bonus is not right and I don’t know what to say to them*” (respondent 6). This suggests that perceptions of favouritism may be fuelled by the arbitrary or opaque nature of the results of the system, as experienced by both employees and line managers.

The responses of the STC sample to the statement on favouritism are shown in the table below:

**Table 5.18 STC: favouritism**

<b>Supervisors use PRP to reward their subordinates and ignore those employees who are not favoured by them</b>				
Strongly agree	Agree	Don’t know	Disagree	Strongly disagree
48	69	17	39	12
25.92%	37.26%	9.18%	21.06%	6.48%

From the sample, 117 STC employees agreed that supervisors use PRP to reward some employees while ignoring others, and 48 of those strongly agreed with the statement. Meanwhile, 39 disagreed and just 12 strongly disagreed. The results therefore suggest that

perceptions of favouritism are common at STC. This tallies with the previous finding that the system is unfair, and also echoes the findings on this in the other two case study companies. Beer and Cannon's (2004) case studies found that newly-implemented PRP systems led to a loss of the trust and commitment which firms have historically relied upon to succeed, and in light of this, the findings with regard to favouritism and unfairness should be viewed with concern.

Information was also sought from management interviews with regard to favouritism within the PRP scheme's implementation at STC. Perhaps unsurprisingly, management interviewees on the whole claim that favouritism does not occur, stating that "*this place has no bias, and everything is done according to the regulations*" (respondent 3). Respondent 9, while conceding that this does take place, states that the repercussions are too serious for such practices to be widespread, stating that "*some supervisors do that, but if you do it everyone will know that and the general view that people see you as a supervisor wouldn't look that good and that could affect the supervisor's promotions as well*". Further comments include that, "*there are basic standards to assess the employees based upon it, it's not up to me or anyone else to assess the employees as they please*" (respondent 2). However, another confirms suspicions of favouritism, stating that "*there is some favouritism from some of the managers and that's what most of the employees complain about*" (respondent 4). Further, and as echoed by one interviewee at SIDF, one respondent highlights a lack of monitoring of managers within the system, stating that, "*the use of this system could be better if there was a better supervision over the manager assessment but this is impossible to apply, you have to look at the manager throughout the year*" (respondent 12). Thus, perceptions of unfairness on the part of employees seem to be confirmed in this manager's view. One respondent however presents a different view: "*but you know you Arabian fellows, they don't abide by the system*"

(respondent 1), and as quoted earlier highlights the difficulty for managers in not treating long-serving employees according to their personal need. This suggests, as found in the SIDF results, that difficulties beset implementation of the PRP system as an approach designed within a different cultural context from that of Saudi Arabia, and throws up further doubt on the possibility of implementing it as intended. Kang and Yanadori (2011) suggest that where imported practices are not compatible with a culture, they are not always introduced in an effective manner, and this may be a relevant point here. In terms of favouritism, respondent 3 also agrees that *“this is among the problems we face”*, while respondent 9 blames insufficient monitoring for this possibility, stating that *“there are interests which come into it because no one to monitors, [there is] no one to follow up”*.

The responses of the SEC sample regarding the presence of management favouritism are shown in the table below:

**Table 5.19 SEC: favouritism**

<b>Supervisors use PRP to reward their subordinates and ignore those employees who are not favoured by them</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
32	52	40	16	8
21.76%	35.36%	27.2%	10.88%	5.44%

The perception that supervisors use PRP to reward their subordinates and ignore those not favoured by them draws a different response from the SEC sample than for that of SIDF, suggesting that implementation of PRP also differs. While slightly more SIDF respondents disagreed than agreed, the majority of the SEC sample agreed or strongly agreed, at 84 responses. Meanwhile, 40 respondents did not know. This was more than those showing disagreement, who totaled only 24 from 148 respondents in the sample. This result seems clearly to indicate a widespread perception of bias in implementation of the reward system at SEC. Beer and Cannon (2004) find that loss of trust and commitment can be introduced when PRP is implemented, and that this may counteract the positive effects of the system. In light of these results, this is something which SEC should consider, as such a high perception of favouritism is likely to impact negatively on trust.

Management views were also sought on this topic, and here they fall across a wide spectrum, with, at one end of the debate, a direct denial that bias exists within the company, or that it is likely to be a factor in such systems:

*“everyone knows his work and the ones at the top can assess the performance of the employee through standards, in which you can’t make mistakes even if you want to, so don’t worry these things do not happen in this company, and in most other companies because, let me tell you something, most of the employees will complain about the system if they didn’t get the rating they want”* (respondent 6). This statement does not however tally with the majority of survey responses.

Others appear to acknowledge that favouritism has the potential to be a factor, with one interviewee stating that, *“that depends then on each manager and his conscience”* (respondent 2). Other managers who are interviewed appear to admit that they do not assign the reward purely on the basis of merit, although their characterisation of their approach is far removed from the idea of favouritism, appearing to indicate an unwillingness to be seen to favour any employee, even on the basis of performance. For example, respondent 4 states that *“if my judgment is not accurate I’ll be ruining someone’s life so I just divide it equally and spare the regret”* (respondent 4), while respondent 3 has similar concerns: *“if someone actually takes it every year and his colleagues do not then in five years the salary of the first person will be double the second employee, which will make a huge problem to be honest”*. Marsden and Richardson’s (1992) study also highlighted the point that favouritism was suspected by employees in implementation of the PRP scheme, and that these perceptions could be linked to suspicion of the existence of a quota system. Further, in the context of countries such as Saudi Arabia, in which PRP was introduced rather than developed, Kang and Yanadori suggest that implementation may not be effective as management and staff adapt systems to align with previous conditions rather than changing in response to these introductions.

Respondent 11 provides a hypothetical dilemma facing the manager, suggesting that this type of scheme will always be subject to manipulation or adaption by managers due to the social obligations and values which bind them:

*“This is difficult, let me tell you, imagine you have an employee who’s been your friend for ten years and there is another new employee who works better than other employees. Now,*

*you know that your friend needs this rise because he has a debt to the bank and his son needs a car, so you know that this bonus, even though it might only be 700 SR (116 Pounds), but will change his life in a big way, but on the other side the new employee does not care about this and wants the rise anyway. Who would you give it to? To your friend or to the kid? You tell me? And let's say I give it to the one who works better, do you think that I'll be forgiven? So it's difficult, but anyway we in our department sort this peacefully and each year a group of employees will take the full rise in a row each group will have the rise so no one complains about this, not only us who do this but a lot of the other departments do the same".*

In summary, the STC and SEC samples both show a considerable number more respondents agreeing than disagreeing that they perceive favouritism, while at SIDF, while the balance is more equal, the large proportion of respondents answering 'don't know' is notable. Beer and Cannon (2004) suggest that the perception of favouritism may lead to negative impacts. The interview responses also supports the contention that the ingrained cultural conditions may conflict with the aims of the scheme.

### 5.4.3 Appeals Process

The next statement explores the fairness of the system for lodging appeals against assessment as part of the pay for performance scheme, and forms part of the picture of the overall fairness and transparency of the schemes in place at each company. The responses of the SIDF sample on this topic are given in the table below.

**Table 5.20 SIDF: appeals system is fair**

<b>The appeal system against supervisor assessment is fair</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
2	20	70	28	37
1.24%	12.4%	43.4%	17.36%	22.94%

The statement regarding the fairness of the appeal system against supervisor assessment received 70 'don't know' responses, and 65 disagreed or strongly disagreed. This is

significant compared to just 22 responses showing agreement, and suggests that perceptions of the appeal system are not generally positive.

Information was also sought from management interviewees on the question of whether the appeals system was effective for employees. Interviewees' opinions on this matter vary, with some being generally supportive of the appeals system (respondent 8), "*the appeal system we have involves more than my direct manager and it could go even further up. I myself, one of my employees was not happy with his rise and he made an appeal and we changed his rise after we considered his argument*". This suggests that the appeals system does indeed offer an avenue for employees who are not happy with their appraisal or grading to seek redress. On the other hand, respondent 2, while considering that "*you can't say it's absolute fairness, but we try our best to make the system as fair as possible*", also states that problems come from a possible inherent lack of fairness: "*many complaints are arise not because of us but because of the system itself, so if there is an unfairness in this it might be the system*". Within such a situation, any appeals system is rendered ineffective as appeals can only be heard within the terms of the system. Alternatively, considering the lack of accountability and transparency in the workings of the system, this may lead to the prospect of appraisals not standing up to scrutiny and being changed on appeal while the system continues to bring forward more such results.

For the statement exploring the fairness of the system for lodging appeals against assessment as part of the pay for performance scheme, the responses of the STC sample are given in the table below.

Table 5.21 STC: appeals system is fair

<b>The appeal system against supervisor assessment is fair</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
26	16	18	52	72
14.04%	8.64%	9.72%	28.08%	38.88%

The responses to the statement “the appeal system against supervisor assessment is fair” were similar in the STC sample to those found at SEC. A total of 124 respondents disagreed or strongly disagreed that the appeal system was fair, compared to only 42 who felt that the system was fair. This is problematic in terms of views of fairness within all aspects of the system.

Information was also sought from management interviewees on the fairness of the appeals system. Here, the indictment of the system shown in the survey results was not echoed specifically by those managers who were interviewed however, and comments gained mainly related to the theoretical workings of the appeal mechanism rather than any reference to its functioning and outcomes in practice: *“Employees are aware of the fact that the system has an appeal mechanism so if someone wanted to he can raise this to the management and they decide then”* (respondent 3). Another respondent suggested that there was no negative impact for employees of using the appeals system, stating that *“all of the employees have the means to challenge the supervisor’s assessment and that won’t make any change in the relation between us”*. Further, one respondent stated that *“many of our employees complain at the end of the year because of the rating given by the managers and this creates a bad environment even after the problem is solved because once you file a complaint, it’s hard to get the relationship between the manager and their employees back again to what it was”*. No reference was made here to the prospect of success for such appeals, but this respondent

makes the concern clear that the need for so many appeals creates disharmony in the relations between management and staff.

The responses of the SEC sample regarding the fairness of appeals procedures are given in the table below.

**Table 5.22 SEC: appeals system is fair**

<b>The appeal system against supervisor assessment is fair</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
22	5	26	56	39
14.96%	3.4%	17.68%	38.08%	26.52%

A majority of the sample, at 95 individuals, either disagreed or strongly disagreed with the statement: “The appeal system against supervisor assessment is fair”. 26 individuals chose the response “don’t know”, which was more than for any other statement except for that about supervisor favouritism in allocating reward. Meanwhile, only 5 agreed and 22 strongly agreed that the appeal against supervisor assessment was fair.

Interestingly, the responses of the management sample interviewed for the study do not appear to support the majority view, as the appeals system is presented as offering a chance for dissatisfied employees to take effective action. This is seen by the following statements: “*there is an appeal mechanism against the manager assessment...it has been successful a number of times*” (respondent 2); “*if he does not like this [the assessment result] he could appeal against it*” (respondent 4); and “*if the employee doesn't get a bonus then he can apply through the appeal system*” (respondent 7).

#### **5.4.4 Clarity and transparency of the pay system**

As discussed in Chapter Two, prescriptive accounts in the literature suggest that clarity and transparency are important qualities in the effectiveness of any reward for performance system. Hence, respondents were asked whether the system in place at their company was complex to understand. The responses of the SIDF survey sample are given below:

**Table 5.23 SIDF: system cannot be understood**

<b>The way the PRP system works cannot be understood</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
61	64	11	20	5
37.89%	39.68%	6.82%	12.4%	3.1%

The results for the statement that the way the PRP system works cannot be understood are telling for the implementation of the scheme, with the vast majority of responses, 125 out of 161, agreeing or strongly agreeing with this. This is worrying in light of Kang and Yanadori's (2011) appraisal that transparency is a key element of effective pay systems. The results of the survey however by their nature cannot reveal the reasoning behind answers to questions, and it is unclear from this whether the employees who feel that the scheme cannot be understood would attribute this to a lack of adequate explanation of the pay for performance scheme, or to the complexity of its workings. Both factors however are warned against by Kang and Yanadori (2011) as obstacles to effective implementation of pay for performance, as outlined in Chapter Two.

Information was also gathered from management interviewees regarding the extent to which the PRP system could be understood. The picture painted by the survey questionnaire in this regard is echoed strongly in management interviews, as shown in respondent 7's assessment that *"the main problem with the system, it's vague and there is no actual clear instruction for it. For us yes, but the people who work in the human resource department know how it works"*. This indicates that this manager feels that those implementing the scheme at this level do not have access to the full information about how the scheme works, and that it is for this reason that the scheme lacks transparency. Another respondent qualifies the picture by explaining what exactly is confusing in the system: *"the main themes of the system are understandable but how to get the employees' rating fair is not set by the task setting and if that actually exists, it does not cover everything precisely."* This comment is interesting as it implies doubt that there is a full underlying and logical system in place, but to which this respondent is not privy. Respondent 5 further considers that the scheme is confusing, and expresses his frustration:

*"It can't be understood because we can't clearly set every task of it in the assessment and since you're here go and ask the HR department for the system rewards and how they intend to improve it because it's not doing anything with the goals they set. And we in the*

information technology department want to know more about the system”. Thus, it seems clear that neither administering management nor employees find the system transparent, and accountability seems low, with uncertainty as to who in fact set up the system, as expressed by respondent 3:

*“The system of Performance Linked Pay that exists in the company is not known. I challenge you to find someone who knows how this system works or who brought it to the company: even HR department, they don’t actually say that they are the people who recommended this system to be brought to the company, even when you ask them they say it’s not up to us but people in the higher management know it”.* From this, it can be taken that the management who implement the scheme directly with employees, as represented by the interview sample, do not understand fully how the system works, and further that it is not clear whether, the system is fully expounded at any level. This has worrying implications for SIDF when compared to prescriptions in the literature for effective implementation of PRP, and lack of trust in the systems of pay may have negative influence at many levels.

The responses of the STC sample are given in the table below:

**Table 5.24 STC: system cannot be understood**

<b>The way the PRP system works cannot be understood</b>				
Strongly agree	Agree	Don’t know	Disagree	Strongly disagree
75	49	8	31	22
40.5%	26.46%	4.32%	16.74%	11.88%

The majority of the STC sample, 124 individuals, identify difficulty in understanding the way in which the PRP system works. Strength of feeling on this point is suggested by the fact that 75 strongly agree. By contrast, of the 53 who disagree, only 22 of those strongly disagree. Just 8 of the sample did not know. This suggests a problem with either the system or its communication to staff, and this is problematic in light of Kang and Yanadori’s (2011) prescription for clear communication of the PRP system’s features and workings.

The information collected from interviews also includes statements related to the theme of clarity in the pay for performance system at STC. Here, the overall findings from the questionnaire statement are supported by interviews, in which one respondent complains, “*I get tired over something your employees can’t understand*” (respondent 4). Clarity in communicating the aims of a pay for performance scheme, as well as the processes involved in it, is viewed as essential if a PRP scheme is to succeed in achieving its goals, and this is seen as especially true in cases where part of the intention is to bring in cultural change (Armstrong & Murlis, 2007). The adoption of PRP in the case of STC may be seen in the context of wider changes in approach within organisations across Saudi as practices are imported from the west, and thus the scheme in this case would seem to fall into this category, as Kang and Yanadori (2011) highlight the point that in Eastern cultures, PRP does not represent an evolution of existing practice but a replacement of a different system. Therefore, the lack of clarity among employees, as recognised by the managers, may be seen as a major issue. Further, Kessler (1994) also emphasises the need for employees to be involved in setting up such schemes in their future success.

In a different view, respondent 9 refers misunderstanding of the scheme to problems in its fairness, which lead individuals to believe that they have not understood properly, stating that, “*even if you tried to understand it, it’s not going to be fair and that’s the main element of the system that makes you try over and over to understand it*”. Respondent 7 also refers to this point: “the system as a whole is understood but you need someone to tell the higher management to improve it, to make it better or to cancel it so no one will complain about it”. Thus, these interviewees appear to critique the design of the system, and imply that expectations of it are different to what it is in reality, leading employees to feel that they must not have understood it. This view presents a major problem for STC, as PRP schemes must be carefully designed to be effective (Kang and Yanadori, 2011).

In SEC, there also appears to be confusion over the workings of the pay system, as shown in the table below:

**Table 5.25 SEC: system cannot be understood**

<b>The way the PRP system works cannot be understood</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
31	48	9	40	20
21.08%	32.64%	6.12%	27.2%	13.6%

Inherent difficulty in understanding the PRP system at work in SEC is claimed by the clear majority, with 79 respondents. However, when compared with 60 disagreeing or strongly disagreeing it can be seen that opinion is also fairly divided on this issue. It appears from this that there is some confusion as to the system among employees, although perhaps not to the extent that this is seen in the SIDF survey.

In terms of the management interview findings on this point, respondent 7 expresses a desire to *“establish a more effective communication system between managers and the employees so they can discuss why the rating is like this”* (respondent 7). Kessler (1994) emphasises the importance of communication, which would seem to support this suggestion. Respondent 5 further explains his difficulty in maintain level performance standards across roles, stating that *“for example, I’m responsible for employees who have desk jobs as well as an employees who work as technicians in the street, and when I come to assessment I find difficulties. I mean if it’s by who works harder I think the one on street work deserves more than the one here taking cover from the sun’s heat, but that’s it, there are general standards and then we try to make the balance to not make everyone angry”*. Thus, there appears to be difficulty in distinguishing, effort, performance and reward across various roles within the company, even at departmental level, as supported by Marsden and Richardson (1992).

Thus, the overall picture from the three companies, and particularly from SIDF, is one in which there seem to significant concerns regarding the clarity and transparency of the pay for performance systems in place, as well as broader concerns that the concept of PRP makes comparisons between unlike tasks roles.

## 5.5 Teamwork

The survey and interviews also covered the topic of teamwork, as there was some disagreement in the literature as to whether the requirement for team work was promoted or damaged by the PRP systems.

### 5.5.1 Improvement to teamwork

The fifth statement presented to respondents regards the role of the PRP system in teamwork. Participants were asked how far they agreed or disagreed with the statement that the PRP system helps to improve teamwork. The responses of the SIDF sample are set out in the table below.

**Table 5.26 SIDF: system improves team work**

<b>The PRP system helps to improve team work</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
27	59	36	29	10
16.77%	36.58%	22.32%	17.98%	6.2%

When considering the impact of PRP on teamwork, a significant number do not know, similar to the issue of fairness. This may indicate a lack of the tools to evaluate the system on the part of respondents. However, a slight majority of respondents agree or strongly agree that PRP enhances teamwork, with 86 out of 161 answers. This is significantly greater than the 39 respondents who disagree or strongly disagree. This is despite the fact that the set-up of the scheme at SIDF does not appear to specifically target team work, and that reward is set at an individual level, contrary to the trend observed as described in the literature chapter for a move toward team-based reward (Larkin, Pierce and Gino, 2012).

Data were also gathered from managers on the subject of teamwork and its relation with the pay for performance system in place at SIDF. Considering the comments of the management interview subjects on this point, there also appears to be a divide, as for example one comments that “*team work is affected positively*” (respondent 11), while another states, “*I don't think it has any effect on team work*” (respondent 6). This seems to reflect the lack of an overall consensus seen in the survey questionnaires, but is perhaps worrying as teamwork must be considered as an important point which the scheme might address. Further, to another (respondent 8), the idea appears as new, indicating perhaps a lack of emphasis on this within the scheme: “*I have not thought about that before, but I think that it has no effect on team work because it does not evaluate that*”. Respondent 5 confirms this, stating, “*there is*

*no basis to evaluate team work.....but we rather take the performance as whole, so the direct manager monitors the employee's performance and based on that he can decide the percentage".* Again, in light of the possible greater effectiveness of and move toward team-based reward (Larkin, Pierce and Gino, 2012), the failure to include teamwork in the performance indicators used for PRP may signal an issue for the company not only in improving teamwork but in failing to safeguard against or monitor the negative impacts which individually-based PRP may have on teamwork.

Management interviews also yielded data related to possible harms arising for teamwork from implementing the pay for performance scheme. When it comes to the views of the managers, several raise concerns about the PRP system's harmful effects for teamwork. Respondents assert that the system *"does cause harm to relations between employees"* (respondent 4) and that *"it has a harmful influence upon the relationships between the employees"* (respondent 10). Another respondent broadens the scope of this harm, stating that, *"it has a negative effect on work in general and between the employees"* (respondent 8). There is therefore a need for SIDF to monitor this situation closely and consider impacts upon teamwork arising from the PRP scheme's implementation. On the other hand, one respondent clearly disagrees that PRP harms teamwork: *"I don't think it makes any harm in the relation between employees because he knows that it's his colleagues and that he obtains a better bonus because of the difference in performance"* (respondent 5). Respondent 1 supports this view: *"there is no general consideration within the company that it harms team work basically because the employees are not competing with each other but rather cooperating, so we try not to make the evaluation on team work because this is not what it should be"*. It is difficult to reconcile these views with the negative ones expressed by other managers, and it is therefore clear that a range of views exist on this topic within the firm.

STC participants were also asked how far they agreed or disagreed with the statement that the PRP system helps to improve teamwork. Their responses are set out in the table below.

**Table 5.27 STC: system improves team work**

<b>The PRP system helps to improve team work</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree

34	69	17	48	15
18.36%	37.26%	9.18%	25.92%	8.1%

As shown in the above table, 69 respondents agree that the PRP system enhances teamwork at the company, and a further 34 strongly agree, making a clear majority in agreement. Significantly fewer disagree with the statement, with 48 disagreeing, and only 15 strongly disagreeing. Meanwhile, 17 respondents do not know: a larger number than for most other statements in the survey. Therefore, it can be said that there is a general but not universal tendency towards the perception of positive impact upon teamwork, as supported in the literature by the findings of the LGMB survey 1994. However, this is not found in all studies or indeed in all case studies within the current research project, and the precise factors or features of the schemes affecting this are not clear, making interpretation of this finding problematic.

Management were also asked about the effect of the pay for performance scheme at STC on teamwork within the organisation. From the management interviews, respondent 8 markedly disagrees with a supportive link between the PRP system and teamwork, citing the constraints of that system in not allowing equal remuneration if all have equal performance, stating that,

*“the system is biased because it does not allow me to have the full option. If I’m short in my authority over the system, how could I reward all the employees the same if they all did a good job, and even if no one did a good job I’d still have to give the rise to someone, imagine me returning the rise because no one deserved it: then it will go automatically to other departments and their manager will take the credit for rewarding his employees a full rise while I’ll be seen as the one who didn’t give the rise at all”.*

In this analysis, not only is teamwork not rewarded, but the manager awarding the increase seems to be at risk of alienation from their team. Kang and Yanadori (2011) specify transparency in distribution of reward for effective PRP, and here the respondent seems to be saying that lack of transparency in this regard is affecting teamwork negatively.

Further, one respondent states of the PRP system that *“it does not generate conflict”* (respondent 3), while another asserts, that *“yes it does affect team work negatively”* (respondent 1). As with the statement regarding conflict, one respondent critiques the concept of differentiated reward as affecting colleague relations, while also casting doubt on the ability of any system to change what he views as the fundamental nature of individual workers:

*“If you reward one person and ignore the other players how would you think this team will perform in the next game? Definitely not in a good way... and here it’s the same, I don’t want to establish a conflict between my employees because I’m putting them in a different classifications, the good workers will always be hardworking and the lazy will always be lazy so I don’t see how this system is doing anything good”* (respondent 1).

This view echoes concerns put forward from the standpoint of equity theory in terms of a detrimental impact of inequitable reward among peers, and the particularly harmful effect of this for those engaged in team efforts toward a goal (Akerlof & Yellen, 1990). Thus, this respondent appears to have hit upon a common concern for such systems, and in light of the divided response of the survey sample, a potential issue for STC. Respondent 12 states that he avoids assessments of work done as a team in order to avoid this problem, stating that *“it is difficult in terms of team working but the good thing is not to reward your employees based on team working because this will damage relationships and then all the workers will be*

*fighting instead of cooperating*". This however raises the question of skewed appraisals and whether the appraisal considers goals which are in line with company objectives. In addition, recent literature has highlighted the increased use and proposed the greater effectiveness of team-based reward, with 50% of PRP schemes reported to utilize team reward (Larkin, Pierce and Gino, 2012). In this context, the course suggested by the interviewee of avoiding harm to teamwork by not including it in assessment and reward may appear to be less preferable than the systemic inclusion of team goals within the performance related pay element.

Another respondent (10) highlights the difficulty in assessing impact on teamwork and relations between colleagues from the manager's perspective: *"of course, this is a sensitive subject because not every employee can talk about the problems he has with his colleagues and from this perspective I can't tell how performance related pay affects team work"*. This view highlights the potential for problems to go unobserved.

At SEC, teamwork was also assessed, with the survey responses in the table below:

**Table 5.28 SEC: system improves team work**

<b>The PRP system helps to improve team work</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
20	60	8	24	36
13.51%	40.8%	8%	11.03%	24.48%

In contrast to the previous point, a more positive view appears when considering whether the PRP system helps to improve teamwork, with 60 agreeing and 20 strongly agreeing that this is the case. However, a significant minority of 60 either disagree or strongly disagree on this point. This is roughly in line with the findings in the other two case studies.

Several of the management interviewees do not perceive a link existing between the reward system and teamwork within the organisation, with one for example responding:

*“I don’t see any relevance between the system and the team. Like what do you mean by team work? ... for example I set three of my employees to get one thing done but that has not got any relation with the system because there are particular standards in the system in which the direct manager assesses on”* (respondent 1).

This view is echoed by another manager, who states that *“I don’t see how it affects team work”* (respondent 2), and another sees only an indirect link between teamwork and the system: *“we don’t have an assessment category based on team work, we have the relationship with his colleagues and that’s, yes that’s one factor on the assessment”* (respondent 4). This would seem to indicate that teamwork is not an aspect of workers’ performance which the PRP system in place at the company is concerned with, or seeks to improve as a priority. Respondent 7 also appears to confirm this point, stating that, *“the system does not have a standard for team work”*. This may be seen as worrying in light of the increasing trend towards and evidence for team-based reward, as well as the danger as presented in the literature that assessment should be made of how much of a company’s output may be related to goals and how much to individual, so as not to risk skewing priorities toward individual aims at the expense of company performance (Forth, Bryson and Stokes, 2014). Respondent 6 however points to the fact that promotion of teamwork is part of some roles, and that this may be set as an assessed target: *“I have an employee who in one of his tasks is to work and teach and deal with other employees on how the work is done: especially if he has experience”*.

There is also a perception of harm to teamwork visible in the interview responses of some of the management sample. Respondent 5 indicates that the system *“makes more negatives for the relations of the employees even if it’s not obvious, but it’s still there and that definitely affects the work environment”* (respondent 5). A similar view is also put forward by respondent 7, in that *“the system imposes some conflict in the relations between employees and their managers and that’s why the system is getting reviewed right now”* (respondent 7). This indicates that a problem has been identified in terms of peer conflict caused by the system sufficient that action is being taken to address this. Further, respondent 11 seems to attribute this conflict to the nature of this kind of reward system, stating, *“Well definitely, if you make the employees compete with each other rather than work together then you must expect conflict between them”* and adds that management respond to this issue by adapting the way in which they apply the system: *“we are trying to make the best of the system and ignore the aspects that make conflicts. For example, I don’t assess my employees when they*

are in a team”. At the same time, not all of the managers perceive any impact on teamwork, with one stating that “I can’t say that because I have not noticed any incidents happening as a result of team work” (respondent 8).

analogous question sought to determine whether the pay system was viewed as harmful to teamwork at any of the case study companies as a cross-check to confirm the reliability of the data. the findings for each company are presented below:

**Table 5.29 SIDF: system harms team work**

<b>The PRP system harms teamwork</b>				
Strongly agree	Agree	Don’t know	Disagree	Strongly disagree
11	25	47	54	24
6.83%	15.5%	29.14%	33.48%	14.88%

**Table 5.30 STC: system harms team work**

<b>The PRP system harms teamwork</b>				
Strongly agree	Agree	Don’t know	Disagree	Strongly disagree
29	65	11	52	28
15.67%	35.1%	5.94%	28.08%	15.12%

**Table 5.31 SEC: system harms team work**

<b>The PRP system harms teamwork</b>				
Strongly agree	Agree	Don’t know	Disagree	Strongly disagree
30	47	16	39	16
20.4%	31.96%	10.88%	26.52%	10.88%

From the above, it is seen that the findings for SIDF and SEC are broadly in line with the previous question, while the data appears to conflict slightly regarding STC.5.5.2 Pressure from others

The participants at each company were asked how far they disagreed or agreed that the pay system led to pressure being felt from others within the organisation because of the

comparisons between colleagues when awarding ratings. The responses of the SIDF sample are given below:

**Table 5.32 SIDF: pressure from colleagues**

<b>I'm harassed by my colleagues because my good work affects their assessment</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
4	20	72	28	37
2.48%	12.4%	44.64%	17.92%	22.94%

The question regarding harassment from work colleagues based on impact to their performance assessment drew one of the two largest responses out of all of the statements for the category 'don't know', with 72 such answers. From the remainder, 37 respondents strongly disagreed and a further 28 disagreed, with 20 agreeing and just 4 respondents strongly agreeing with the statement. Thus, it appears from the evidence that only a minority of staff view their performance as a cause of conflict with their co-workers.

This question was also raised in the interviews with management. The majority view is supported by some of the management staff interviewed, including respondent 9, who states that such conflict "*does not affect employee relations, this does not happen*" (respondent 9). However, others view the system as exerting "*a harmful influence upon the relationships between the employees*" (respondent 10). This view is in line with Belfield and Marsden's (2003) view of the negative impact of unequal pay.

The next statement contained in the survey seeks to investigate the impact of the pay for performance system at the company on relations and particularly conflict between fellow employees. Participants were asked how far they agreed with the following statement: "I'm harassed by my colleagues because my good work affects their assessment". The results from the STC sample are given in the table below.

**Table 5.33 STC: pressure from colleagues**

<b>I'm harassed by my colleagues because my good work affects their assessment</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
31	65	14	46	27
20.26%	42.25%	9.1%	29.9%	17.55%

The majority of respondents in the sample agreed or strongly agreed that they experienced harassment from colleagues because good performance affected others' assessment, at 65 and 31 respectively. Meanwhile, 46 respondents disagreed, and a further 27 disagreed strongly. The result for this question differs from that of the SEC and SIDF samples, in which disagreement was stronger than agreement. While the parameters of the schemes in the three companies differ, as do certain features of the companies themselves, it is not possible based on the available evidence to consider a reason for the different result of STC in this regard.

Information was also sought from management interviews regarding conflict between colleagues as a result of assessment and reward. In terms of evidence from management interview, a strong split in opinion is also shown, from views that *"it does not generate conflict"* (respondent 3) and *"there is no conflict here"* (respondent 2), to the view that *"there might be less integration in the working environment"* (respondent 1). Another respondent meanwhile views the system as inevitably leading to conflict: *"I don't want to establish a conflict between my employees because I'm putting them in a different classification"* (respondent 1), while respondent 12 concludes that *"it might encourage some employees to be more hostile to others so there might be something in what you said, yes"*.

The results from the SEC sample regarding pressure from others are given in the table below.

**Table 5.34 SEC: pressure from colleagues**

<b>I'm harassed by my colleagues because my good work affects their assessment</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
39	30	13	44	22
26.52%	20.4%	8.84%	29.92%	14.96%

On the question regarding harassment from work colleagues based on impact to their performance assessment, 44 respondents disagreed, and a further 22 strongly disagreed. While this was more than those agreeing or strongly agreeing, who totaled 64, agreement on this question was far greater at SEC than at SIDF. While in both companies, a similar proportion of the samples disagreed, at SEC, a total of 69 agreed or strongly agreed, compared with just 21 at SIDF. This seems to indicate greater perceptions of conflict based on PRP. It is not possible from the evidence gained to determine why this should be, but it is interesting to note that this conflict is greater in the case study company where the possible rewards for a good assessment are perceived as more significant.

Management were also asked about conflict arising from the PRP scheme. The results from the survey were not upheld in the comments of managers, with respondent 9 stating that such harassment does not take place, *“for a simple reason, which is that we try not to assess them based on team work. Team work should involve more moral recognition, for example compliments or early release from work, that has a big impact on the employees’ performance from what I see”*.

## 5.6 Organisation

The next topic to be addressed by the study concerns the effects of the pay for performance system implemented within the firm on the individual’s ability to organize their work. Thus, participants were asked two similar questions: the first regarding how far they agreed or disagreed with the statement that the PRP system had helped them to organize their work, and that because of this they know exactly what they are doing; while the second concerned the clarity of job objectives.

### 5.6.1 Ability to organise work

This question sought to test how far performance pay systems were being employed so as to enable improvements in work organisation. The responses of the SIDF sample are tabulated below:

**Table 5.35 SIDF: system helps organise work**

<b>The PRP system has helped me to organize my work, and because of it I know exactly what I’m doing</b>				
Strongly agree	Agree	Don’t know	Disagree	Strongly disagree
9	34	43	50	25

5.59%	21.08%	26.66%	31%	15.5%
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While the majority of respondents find a link between PRP and improved teamwork, this is not the case when it comes to respondents' individual organisation and knowledge of work. Here, approaching half of respondents disagree or strongly disagree that this effect occurs. Again however, over one quarter of respondents do not know whether or not this link exists. These findings appear to show that the pay for performance system as implemented at SIDF does not contribute to enhanced understanding of job roles and in aligning the work of the employees with what is intended to be achieved through their efforts. On this basis, it would be difficult to argue that the scheme can contribute in aligning employee effort and the goals of the organisation.

Information was also gathered from management interviewees regarding the impact of the pay for performance scheme on clarity of job roles and tasks. The results of the questionnaire survey are underpinned by certain of the interviewees' comments on the matter, which points to confusion, in that *"there is no clarity on the system and assessment"* (respondent 10). Respondent 11 meanwhile suggests that, rather than clarifying job roles, the PRP system in use has not taken this function on from earlier systems which it replaced:

*"We used to have a committee to upgrade the performance of the employees and it was led by employees themselves, in which the employee writes his own job description and gets agreement on it then based on this his performance is measured...there is no doubt that the employee forgets some job tasks because of the bonus scheme"* (respondent 11). This response therefore points to a possible harm arising from the way in which the scheme is set up, and links with the point made in literature that priorities and therefore effective performance may be affected by the narrow focus which can be imposed by PRP.

Another respondent (7) again reiterates the lack of clarity in the system itself, saying that, *"the system of performance pay is not clear. We need the HR department to explain this system precisely. I know what I'm doing in terms of assessments but still there are a few things missing"*.

Participants from STC were also asked how far they agreed or disagreed with the statement that the PRP system had helped them to organize their work, and that because of this they know exactly what they are doing. The responses of the STC sample are tabulated below:

**Table 5.36 STC: system helps organise work**

<b>The PRP system has helped me to organize my work, and because of it I know exactly what I'm doing</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
24	73	10	50	28
12.97%	39.42%	5.4%	27%	15.12%

A more positive picture of the effects of the PRP system emerges when considering impact on staff organisation skills. Most respondents agree that the PRP system at STC is helpful in allowing employees to organise their work and to know precisely what they are doing: 24 respondents strongly agree and 73 agree. However, a significant minority of respondents are in disagreement, and 28 respondents strongly disagree, which is more than those who strongly agree. According to one interview respondent, the system is designed to encompass all aspects of an employee's job role: *"there are basic standards to assess the employees based upon it...[with] everything covered and expected from his particular job"* (respondent 2).

The next statement given in the questionnaire concerns the effects of the pay for performance system implemented within the firm on the individual's ability to organize their work. Thus, participants were asked how far they agreed or disagreed with the statement that the PRP system had helped them to organize their work, and that because of this they know exactly what they are doing. The responses of the SEC sample are tabulated below:

**Table 5.37 SEC: system helps organise work**

<b>The PRP system has helped me to organize my work, and because of it I know exactly what I'm doing</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
12	48	16	48	24
8.1%	32.4%	10.81%	32.4%	16.2%

In terms of helping with organizing work and allowing employees to better know what they are doing, twice as many respondents strongly disagree as strongly agree, while 48 respondents agree and the same number disagree. As with other questions, the number of respondents choosing the category 'don't know' is smaller in SEC than for the SIDF survey, but the result is clear in that a small majority do not feel supported by the system in

approaching work organisation and gaining clarity on job roles and tasks. This suggests a difficulty if the system is to be used to increase performance efficiency and/or effect change within the organisation.

Information was also sought from management interviews on the issue of job and role clarity. Responses from the interview sample are also not unanimous on this issue, with one respondent claiming that *“I think employees can improve through this system”* (respondent 2) and that *“it gives them a target to achieve”* (respondent 2), thus emphasizing the role of the system in directing the efforts of employees, while another states that for *“some of the employees, the system does not work on them”* (respondent 5), and no clear exposition is provided in the interview material of an impact of the system upon organisation and clarity for the individual role. Another respondent suggests that the clarity afforded by the scheme is better for some than for others, perhaps as a result of more tangible aims in certain roles, stating that, *“to some employees yes, but this does not work for everyone, so the system is good if you are taking the engineers as one segment because it clearly defines their work to some extent, but if you are taking the workforce as a whole then this might be a problem”* (respondent 4).

The picture overall from the above data is conflicting, with is conflicting, with STC appearing to perform better at bringing improvements in staff organisation through administering the PRP and appraisal scheme.

### 5.6.2 Clarity of objectives and job role

As related to the eighth statement in the survey, the next statement regards the role of the pay for performance system in providing job role and task clarity. Participants were asked to agree or disagree with the statement that *“PRP helps to clarify my job: I know exactly what I’m doing”*. The responses of the SIDF sample were as shown in the table below:

**Table 5.38 SIDF: system helps to clarify my job**

<b>PRP helps to clarify my job: I know exactly what I’m doing</b>				
Strongly agree	Agree	Don’t know	Disagree	Strongly disagree
8	41	33	63	16
4.96%	25.42%	20.46%	39.06%	9.92%

The table above presents the results to the question of whether PRP helps to clarify the jobs of employees and allow them to know exactly what they are doing. The largest category of responses here is for ‘disagree’, with 63 responses, and overall, agree and strongly agree gain only 49 responses compared to 79 disagreeing. A further 33 respondents, a significant proportion, state that they do not know. These results are fairly similar to the results for the previous, similar statement that “*The PRP system has helped me to organize my work, and because of it I know exactly what I’m doing*”, in which 43 agree or strongly agree as opposed to 75 disagreeing, and this supports the validity of this result in reflecting the perceptions of the sample.

Additional information regarding work organisation and PRP was obtained from members of management who were interviewed, which supports the view of the majority that the PRP system in place is not helpful in this regard, with this analysis:

*“It [the system] lacks objectives, there is no link between the goals of the employees and the company ...many aspects are absent from the system like keeping the time of the work valuable, initiative, the knowing of the regulations of the work”* (respondent 7). The system therefore appears to ignore detailed examination of the employee’s work role and accomplishments, making it unlikely to be helpful in informing the detail of an individual’s approach to and knowledge of required tasks. Lawler (1990) emphasises the need for job tasks to be clearly set out within any PRP scheme. Further, this response suggests a gap between company goals and the detailed implementation of the scheme, which may signal a major problem, as Forth, Bryson and Stokes (2014) suggest that pay for performance may negatively affect effort and cause effort or behaviour to be misplaced and not expended in the appropriate direction if the company’s goals are not clearly embedded in the implementation of the scheme.

The difficulty in more meaningful application of the system in this regard is suggested by respondent 7:

*“The system does not cover all the aspects of work and therefore we try to calculate the rise overall, but this is different from one employee to another because they don’t all do the same job: some work in analysis, others in risk, others are accounting, so they have different job descriptions and therefore the system cannot cover all these aspects, but in general like punctuality and things like that, and physical appearance”.*

It is clear that there is no link from this description with the goals of the company, which may be considered as a major obstacle to aligning PRP implementation with meaningful results for performance at an organizational level.

The responses of the STC sample regarding job role clarity were as shown in the table below:

**Table 5.39 STC: system helps to clarify my job**

<b>PRP helps to clarify my job: I know exactly what I’m doing</b>				
Strongly agree	Agree	Don’t know	Disagree	Strongly disagree
14	72	22	55	22
7.56%	38.88%	11.88%	29.7%	11.88%

Opinion is fairly divided among the STC sample regarding whether the PRP system helps to clarify jobs and tasks. Here, 72 agree and just 14 strongly agree, while 55 disagree and 22 strongly disagree, and a further 22 do not know. Thus, while more agree than disagree, this is less pronounced than for the similar previous question about job organisation. This finding suggests that more could be done to incorporate this function into the PRP scheme within STC. The uncertainty here also raises the question of whether priorities are shifted by the fact of setting specific goals for PRP, as suggested in some literature (Lipsev and Chrystal, 2011), with a consequent skewing of the priorities of workers, as considered in management interviews. However, it is not possible from these results to investigate this point further.

Information from the management interviews was also sought in relation to job and task clarity. In this respect, respondent 3 in the interviews feels that the scheme does not provide this guidance, stating that “*there is no a specific direction which the employees can follow*”. He makes the further contention that the PRP scheme may actually skew perceptions of job priorities, as “*to some extent, even though, the employees can be focused on the things that are covered by the system and not going after the things that increase the overall performance*”. This is supported in the literature by Lipsey and Chrystal (2011), as discussed previously. Another respondent gives a similar view, stating that, “*the goals given are hard to achieve and many times are vague*” (respondent 4). This suggests that they do not promote clarity of role or task, but may in fact do the opposite.

The responses of the SEC sample were as shown in the table below:

**Table 5.40 SEC: system helps to clarify my job**

<b>PRP helps to clarify my job: I know exactly what I’m doing</b>				
Strongly agree	Agree	Don’t know	Disagree	Strongly disagree
26	64	8	40	13
17.68%	43.52%	5.44%	27.2%	8.84%

On the question of whether PRP assists in clarifying respondents precise roles and tasks, a clear majority agree or strongly agree, while 40 disagree, 13 strongly disagree and just 8 do not know: which is a smaller number than from SIDF. Also, this finding contrasts with the similar question asked previously: “The PRP system has helped me to organize my work, and because of it I know exactly what I’m doing”. For this question, 8 more respondents chose ‘don’t know’, while more disagreed than agreed. The findings of the survey therefore seem unclear on this point. The effectiveness of the system in giving clarity here is supported by respondent 7 from the management interviews, as he states that,

*“most of the employees don’t work by themselves and they need a supervisor to tell them their job tasks, and for us this has been easier with the system because it allows you to advise the employees of the job they need to do and that a rating is waiting for them at the end of the year”*.

This seems to be an endorsement of the system in affording job clarity for employees.

Confusingly, while STC had a clear majority endorsing the role of the PRP system in individual organisation, concerning the related concept of job role clarity, it is SEC where respondents appear to support this function of the scheme. Therefore, the findings from the two questions do not match each other, and the overall picture is unclear.

## 5.7 Feedback and recognition

The next theme explored in the research, and one which may be linked to those on the use of the pay system to clarify tasks, relates to the provision of frequent feedback for employees of the company and enabling them to feel recognised for the contribution which they make. To explore this issue, participants were first asked how far they agreed or disagreed that “*My supervisor informs me how good my work is on a regular basis*”. They were also invited to agree or disagree that, “*with the PRP scheme, my individual efforts are recognised*”

### 5.7.1 Feedback

The responses of the sample from SIDF regarding provision of feedback are summarized in the table below:

**Table 5.41 SIDF: my supervisor gives regular feedback**

<b>My supervisor informs me how good my work is on a regular basis</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
14	52	11	48	36
8.69%	32.24%	6.82%	29.76%	22.32%

When asked whether or not they received regular feedback from supervisors on the strength of their performance, over half of respondents either disagreed or strongly disagreed. In fact, strong disagreement was expressed over twice as frequently as strong agreement. This suggests a possible issue with communication within the organisation in this area. Feedback may be considered essential in directing the performance of employees and in particular in helping them to target particular aims as set out in their performance targets: therefore, the apparent lack in this area can be considered a problem for SIDF.

Information was also gathered from management interviewees regarding the provision of regular feedback. The comments of management seem to support the findings of the questionnaire, with one commenting that “...some of the employees don’t know what their assessment was, they only notice the change in the salary” (respondent 5). On the basis of this, it would seem that formal as well as informal feedback is lacking. This is an issue, as Lawler (1990) states that for pay for performance systems to work effectively, relations between employees and managers must be open and supportive, indicating the need for communication and feedback. Respondent 7 points to the presence of feedback, but his statement suggests that it is not timely, nor sufficiently frequent: “this is at the end of the year when the assessment comes to pass and some of the employees want to know why the assessment is like that, they can come to their supervisor and he will inform them at the time”. While feedback at the time or following assessment is important, it would seem from this statement that such feedback is not automatically provided or built in to the system of appraisal. Furthermore, direct feedback prior at times of the year other than assessment may also be considered beneficial for retaining focus on goals, and this appears to be absent here, based on the remarks of the interviewees.

The responses of the sample from STC are summarized in the table below.

**Table 5.42 STC: my supervisor gives regular feedback**

<b>My supervisor informs me how good my work is on a regular basis</b>				
Strongly agree	Agree	Don’t know	Disagree	Strongly disagree
13	43	13	88	28
7.02%	23.22%	7.02 %	47.52%	15.12%

The responses to Question 9 indicate that respondents in general do not receive feedback from supervisors on the quality of their work, with 116 out of 185 responses either disagreeing or strongly disagreeing that the respondent is informed by the supervisor how good their work is on a regular basis. In contrast, 43 respondents agree and just 13 strongly agree, while a further 13 do not know. It appears from this that there may be a lack in the provision of both formal and informal feedback within STC. It is not clear from the findings whether this is as a result of the underlying organisational culture and communication, the

wider cultural context, the set-up and implementation of the PRP scheme, or a mixture of these. It is noted however that this is also an issue emerging in the SIDF results.

Interviews with management do not reveal a great deal of information regarding the feedback provided. However, from the management comments which were recorded, it is suggested that there is no formal, regular system of feedback in place, as employees must take special action to acquire it: *“the employee if he likes he can come and ask about his performance and then his direct manager could provide him with an answer”* (Respondent 5). this again denotes an unsatisfactory situation in which the giving of feedback is not integrated into the implementation of the pay for performance system, and raise the question of how effective an intervention PRP represents if employees are unaware of the details of their performance assessment, as they must logically therefore lack sufficient information to then make changes to increase their performance effectively next year if they are not given a good rating. Kang and Yanadori (2011) highlight transparency as a key element of effective pay for performance schemes, and it seem that lack of feedback would go against this condition and should be addressed by STC in order to maximize results.

The responses of the sample from SEC regarding regular feedback are summarized in the table below.

**Table 5.43 SEC: my supervisor gives regular feedback**

<b>My supervisor informs me how good my work is on a regular basis</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
24	62	9	40	26
14.88%	38.44%	5.58%	24.8%	16.12%

The findings regarding frequency of feedback from supervisors is more positive than for the other two case study companies, with a clear majority who feel that feedback is regularly given. Still however, more than one third of the sample disagrees.

Information was gathered regarding feedback from the management interviewees. Here, the more positive response of the SEC survey sample in this regard was underpinned by an explanation of a clearly delineated system of formal feedback. One managerial interviewee explains a structured quarterly system for feedback: “*we have a session every a quarter of a year called a session of recommendation. In this session I inform the employee about his work: I say, ‘you are good or you are excellent or no you are not doing well and you need to have training on this issue’, and things like that*” (respondent 8). This may be seen as a strength of the system designed and implemented at SEC, and suggests that PRP schemes can be designed so as to ensure regular feedback.

From the above findings, it appears that feedback is an area where the possibilities of the performance appraisal system are not being fully realised in line with current acceptance of the value of feedback and in order to allow the employees to gain a clear sense of their performance in accordance with goals set and to act based on this, although in this regard SEC performs better than the other two organisations.

### 5.7.2 Individual recognition

The next statement relates to the ability of the performance pay system as implemented in the company to provide employees with appreciation for the individual effort which they expend. Participants were asked to respond to the statement that “*because of PRP, my personal efforts are appreciated*”. The responses of the SIDF sample are set out in the table below:

**Table 5.44 SIDF: my efforts are appreciated**

<b>Because of PRP, my personal efforts are appreciated</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
9	64	33	41	16
5.58%	39.68%	20.13%	25.01%	9.92%

A different and more positive picture to that taken from previous results of the SIDF questionnaire emerges when considering how far PRP enables personal efforts to be appreciated. Here, more respondents agree than disagree. Meanwhile, 33 respondents or over one sixth of the sample do not know. While the slight majority who agree is encouraging, an overall majority however either do not know or disagree. The reasons behind answers cannot be ascertained due to the closed nature of the questions: however, it would be interesting to

know whether those agreeing with the statement are those who have received financial reward as a result of the pay for performance scheme.

Information was also collected from management interviews regarding the appreciation of the personal efforts of the employees. Certain of the interviewees from management also take a positive view, with respondent 8 commenting that, *“the one who deserves it will be given more bonus...”* (respondent 8). This suggests a recognition of effort expended. Meanwhile, respondent 4 dismisses the feeling of lack of appreciation as inevitable, and supports the system, stating that *“When it comes to appreciation, everyone thinks that he is not given what he deserves, but that’s why we have a system in place to distinguish the best workers and to give them the rewards they deserve”*. While this suggests that the system is correctly identifying and rewarding the best workers, it does not address whether it allows the efforts of all to be recognised. This is echoed by respondent 11, who states, *“well, the employees who contribute more and increase their performance will definitely be given the rise, but as you know with many, human nature is like that, they want more.”*

However, others disagree that appreciation of the employees’ efforts is successfully communicated through the scheme, as *“...everyone thinks he worked hard and has not been fully appreciated”* (respondent 3). This comment chimes with a view presented in the literature that employees tend to rate themselves as above average regardless of actual performance, and to the concern that in not reflecting this, pay for performance schemes can often lead to dissatisfaction among a majority of employees. Further, another interviewee takes a less positive view of recognition for employees overall, stating that *“they work hard but there is no reward...the only reward they get is experience on their CVs”* (respondent 9). Considering the reasons for this negative view, respondent 9 adds that *“there is a general problem within it which is it’s vague...it classifies the best people with the good and can’t make a difference”*, suggesting that any perception of lack of personal appreciation may be justified.

The statement relating to the ability of the performance pay system as implemented in the company to provide employees with appreciation for the individual effort which they expend was answered as follows at STC:

**Table 5.45 STC: my efforts are appreciated**

<b>Because of PRP, my personal efforts are appreciated</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
31	77	4	44	29
16.74%	41.58%	2.16%	23.76%	15.66%

As seen in the other two samples, In the STC survey more respondents agree than disagree that PRP allows their personal efforts to be appreciated. While 44 disagree and 29 strongly disagree, 77 agree and 31 strongly agree, meaning that the majority of the sample agrees with the statement. Just 4 respondents state that they do not know. However, this still means that a sizeable minority feel that their efforts are unappreciated, and this could be interpreted as an example of the negative impact of unequal reward as related in the literature review in Chapter Two

Information was also sought from the management interviews with regard to the feeling of appreciation of the efforts of employees in relation to the pay for performance scheme at the company. In this regard, one of the managers feels that the differentiation that the scheme makes between employees would not have the result of reflecting appreciation, stating that this is so *“for some employees, but in general, which is the majority of the employees, will not be given the full rise, they will think that their effort is not appreciated”* (respondent 10). Lazear (1995) reports a role of PRP in creating inequity in pay, and equity theory suggests that this may lead employees at the wrong end of this bargain to withdraw their effort, with attendant negative consequences for the firm. If this is the case, the lack of financial appreciation of a proportion of the staff may be just cause for concern.

Participants from SEC were asked to respond to the statement that “because of PRP, my personal efforts are appreciated”. Their responses are set out in the table below:

**Table 5.46 SEC: my efforts are appreciated**

<b>Because of PRP, my personal efforts are appreciated</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
25	54	19	29	21
17%	36.72	12.92%	19.72%	14.28%

As seen in the SIDF sample, the SEC survey shows that more respondents feel that PRP allows for appreciation of their personal efforts than those who do not. Here, 25 and 54 respondents respectively strongly agree and agree, compared to 21 and 29 respondents respectively who strongly disagree and disagree. The remaining 19 respondents state that they do not know. There remains however a sizable proportion of the sample who do not agree, and for whom equity theory would suggest a resultant withdrawal of effort (Lazear, 1995). This appears also to be acknowledged among managers, although various suggestions are put forward for improvement at the same time:

*“It does appreciate the effort made by the employees but we can't give everybody the rise they want and so this is why the system is not complete”* (respondent 12). This statement reflects a perception that the system should seek to make all employees feel appreciated, with the unspoken implication that there is a negative consequence arising from approaches which do not do this. Another respondent states that *“I agree if the employees work the way they are required to do this system is the best to reward them for their good work, but if you are a worker who comes late to work then this system won't appreciate you in terms of money or the rise you get”* (respondent 3). Another states, *“I tell you that yes, but more importantly, there are the other rewards which are absent from this company, such as good words from the management to recognize performance”* (respondent 5). In this last comment, the interviewee endorses the view that financial performance is one of a range of factors either desirable or necessary for performance to be maximized and loyalty created, in line with humanist approaches as well as authors emphasizing intrinsic as well as extrinsic motivation (Homberg and Osterloh, 2013; Beer and Katz, 2002).

## **5.8 Effect of proportion of pay as reward**

In reflection of debate in the literature regarding the benefits and drawbacks of smaller or larger proportions of pay being linked to performance, the survey and interviews sought the perceptions of the study sample on this issue, with questions about satisfaction and effect of

this proportion, which varied across the case study companies. The results of this are presented in this section.

### 5.8.1 Satisfaction with proportion of salary based on reward

Regarding the proportion of pay which was based upon performance, participants in the survey were asked how far they agreed or disagreed with the following statement: “the proportional level of PRP is satisfying”. The results collected from the SIDF sample are given in the table below:

**Table 5.47 SIDF: level of PRP is satisfying**

<b>The proportional level of PRP is satisfying</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
2	23	18	61	57
1.24%	14.26%	11.16%	37.82%	35.34%

The PRP system at SIDF is in general not considered by employees to offer a satisfying proportion of performance-linked reward, as shown in the table above. Only two individuals strongly agree and 23 strongly agree that the level offered is satisfying, compared with 61 who disagree and 57 who strongly disagree. Only 18 individuals responded that they did not know. When viewed in tandem with the responses on the impact of the system on employees’ work, this could mean that the system in place at SIDF is neither satisfying for staff nor effective in directing staff behaviour. In any case, the view of the extent of reward available at the company for good performance is not positive, and this is supported in the literature, which mainly sets a minimum of 10% if PRP is to be an effective motivational tool (Lewis, 1997).

Information was also gathered from management interviewees concerning the ability of the level of PRP offered to satisfy employees. The views expressed in the questionnaire are supported by evidence from interviews, whereby one respondent “*would have wished the system were more rewarding*” (respondent 5). Again, managers point to the inability of the

scheme to differentiate performance for the majority of staff: *“most are in the same basket, only the one who really deserves something unique will be given a bonus above the average...mostly, 70%, 80% have the same bonus...”* (respondent 3). For another respondent 6, the problem is the same: *“the proportion level is satisfying, but the problem is in the percentage, I can’t give all what they deserve as a result of the system”*. Another feels that the proportion is not large enough to give full results, stating that it satisfies *“to some extent, but it is still not as we hoped for”*. This implies that managers do not find the current level of reward offers allows them to gain the best use of PRP as a lever for performance.

The results collected from the STC sample regarding their satisfaction with the proportion of PRP are given in the table below:

**Table 5.48 STC: level of PRP is satisfying**

<b>The proportional level of PRP is satisfying</b>				
Strongly agree	Agree	Don’t know	Disagree	Strongly disagree
7	32	5	58	83
3.78%	17.28%	2.7%	31.32%	44.82%

Again, there was widespread disagreement with the notion that PRP was offered at a proportion which was satisfying. Here, 58 disagreed and a further 83 strongly disagreed, which was the same as for the previous statement. By contrast, 32 agreed and just 7 strongly agreed, while only 5 respondents did not know. This echoes the findings of the SIDF survey, and may reflect the need for a more significant move toward PRP as a proportion of overall pay if any impact on employee satisfaction is desired.

In terms of the interviews, there was little acknowledgement by respondents of any problem with the proportion of PRP, aside from one respondent who gave the following summary: *“Making a percentage for each department is not fair: for example a department or sub department which has 10 employees, based on their overall yearly performance the highest*

*management requires that 2 employees have 5 out of 5 and two have 4 out of 5 and three 3/5 and two 2/5 and one 1/5, and then the direct manager has to give these assessments to his employees based on what he sees fit. So it's not fair because the assessment is made for the direct manager already, he only has to split it to the employees"* (respondent 11). This assessment highlights a lack of autonomy on the part of management, seen by Gerhart (2001) as a prerequisite for effective PRP schemes. Meanwhile, one respondent acknowledges the dissatisfaction of some employees but feels that overall the proportion is adequate: *"it's satisfying for some and not for others but what I see is that it's not bad when you receive the full rise"*. This comment does not however make any indication of whether the proportion is sufficient to incentivize those who do not receive it to work harder in pursuit of it, if indeed this is a realistic function of performance pay. In any case, the literature which does support this function prescribes a 10% margin for such incentives (Lewis, 1997).

The results regarding the proportion of pay based on performance collected from the SEC sample are given in the table below:

**Table 5.49 SEC: level of PRP is satisfying**

<b>The proportional level of PRP is satisfying</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
13	53	17	34	31
8.84%	36.04%	11.56%	23.12%	21.08%

The PRP system at SEC appears to divide employees on the question of whether it provides a sufficient proportional link to performance to be satisfying. Here, 66 strongly agree or agree, and 65 disagree and strongly disagree, although more strongly disagree than strongly agree. This finding contrasts with that in SIDF and STC, where a clear majority disagree with the statement. This greater award is in line with prescriptions in the literature for a minimum bonus of 10% of salary (Lewis, 1997).

From the management interviews, it is clear that the bonus offered by SEC is considered to be substantial:

*“...we have here a much higher percentage for the employees who are rated 1 2 3, which makes competition between the employees because everyone wants it”* (respondent 6).

*“...there is a large difference in terms of rating and then its reflection on the salary: for example rating 1 is about 400 SR or 70 pounds different than rated 2, and over the course of a few years the salary will be much different”* (respondent 5).

Respondent 7 confirms this situation, but does not consider that this approach is effective, stating: *“Now it is, we have more than most of the other companies, at 8% and 5% and 3%, but I emailed the management recently and I told them that they should change the percentage of the category instead of changing the percentage of the rise, because now they have changed it to 6% for excellent. We have employees who get 30,000 SR (5,000 pounds) as a basic, so he will be taking about 2,500 SR (416 pounds) as a rise! Instead I told them to raise the percentage of the employees who fit under the category of excellent to have more getting the rise they want and lower the percentage of the rise...this way I think it will be better, you know”*.

However, this in itself, according to literature, does not guarantee success to a pay for performance scheme. Belfield and Marsden (2003) look at the application of PRP schemes in the 1990s, and conclude that although at the time rewards offered were frequently large enough to be significant to employees in terms of pay differential, there is no clear evidence that these schemes succeeded in achieving their goals.

In summary, there appears to be a clear correlation between the amount of reward offered and satisfaction with that offering, and yet even at SEC, where the reward is larger, the proportion of respondents who are satisfied with this does not reach above half. It would be interesting to understand the proportion of reward which would satisfy those who report not being so, although this data was not collected.

### **5.8.2 Importance of pay scheme based on proportion of performance-related pay**

The next statement in the questionnaire was regarding the importance of the PRP system to the individual taking into account the percentage rise which it was possible to attain. Thus,

participants were asked how far they agreed with the following statement: “*the PRP system does not matter to me, because the percentage rise in my salary is little*”. The responses of the SIDF sample are summarized in the table below:

**Table 5.50 SIDF: rise in my salary is little**

<b>The PRP system does not matter to me, because the percentage rise in my salary is little</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
23	55	21	46	11
14.26%	34.1%	13.02%	28.52%	6.82%

Overall, more respondents at SIDF agree than disagree that they do not find the PRP system is important to them due to the small percentage rise in salary it offers, at 78 as against 57. This finding raises questions as to the possible impact of the PRP system at SIDF, as only 57 out of the sample of 161 disagree that it does not matter. This somewhat supports the findings of the previous statement, in which the majority of respondents were dissatisfied.

Information on this issue was also sought from management interviewees. In considering the percentage difference possible from the bonus, the interview responses were also critical of the scheme, including the suggestion that “*the bonus should be 10% and the problem is solved. The proportion of the bonus is very little*” (respondent 2). This view is supported by other respondents, who feel that the bonus “*should be more because it wouldn't matter to him much if the proportion is small*” (respondent 5) and that “*the percentage of the proportion should increase*” (respondent 5). This view is in line with much of the literature on PRP, which proposes that at least 10% of overall salary needs to be connected to performance in order to be effective in motivating employees (Lewis, 1997). Respondent 11 concurs, stating that the motivational power of the scheme is not being fully harnessed through the amount of the reward: “*we should make it a little bit more to avoid carelessness, if it's small as now it does not motivate the way we want*”.

The findings on this statement in the questionnaire are presented below for the STC sample:

**Table 5.51 STC: rise in my salary is little**

<b>The PRP system does not matter to me, because the percentage rise in my salary is little</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
25	61	8	64	27
13.5%	32.94%	4.32%	34.56%	14.58%

In contrast with the findings from the previous statement, a slight majority of respondents either disagreed or strongly disagreed that “The PRP system does not matter to me, because the percentage rise in my salary is little”, at 64 and 27 respectively. This is almost matched however by the 61 agreeing and 25 strongly agreeing with the statement. It is clear therefore that opinion is divided on this issue.

The views of management were also gathered on this topic, and results from the interviews reveal that some managers do not see an issue with the spread of reward across employees, as with the previous question, with one stating:

*“The percentage is fine. I’m aware that the system can’t offer more than this percentage to cover all employees, otherwise there will be no benefit of the system because it will not have a motive: if everyone took the best rating then why would anyone want to work more?”* (respondent 3). This statement implies a belief that the system does provide a motivational incentive for performance across the workforce. Respondent 10 meanwhile highlights what he perceives as the importance of the scheme to employees, saying that *“we can say that employees are less careless about it but in reality it’s very very important for them”*.

Regarding the following statement: “the PRP system does not matter to me, because the percentage rise in my salary is little”, the responses of the SEC sample are summarized in the table below:

**Table 5.52 SEC: rise in my salary is little**

<b>The PRP system does not matter to me, because the percentage rise in my salary is little</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
26	31	11	39	35
17.68%	21.08%	7.48%	26.52%	23.8%

Similarly, when asked to respond to the statement, the results were more positive at SEC than at SIDF. As shown in the table, a total of 74 respondents either disagree or strongly disagree with the statement, compared to 57 who agree or strongly agree. Thus it would appear that the possible rewards for receiving a good assessment grade are substantial.

Management were also asked to consider this statement. As one respondent explains, “*if someone actually takes it every year and his colleagues do not then in five years the salary of the first person will be double the second employee*” (respondent 3). This is also supported by respondent 5:

“*there is a large difference in terms of rating and then its reflection on the salary: for example rating 1 is about 400 SR or 70 pounds different than rating 2, and over the course of a few years the salary will be much different*” (respondent 5). While these comments indicate a level of bonus which is sufficient to motivate as seen by Lewis (1997), it raises the issue considered as a disadvantage for PRP that such schemes tend to increase the pay differential between highest- and lowest-paid employees (Forth, Bryson and Stokes, 2014).

Respondent 6 also concurs, stating that “*we have here a much higher percentage for the employees who are rated 1 2 3, which makes competition between the employees because everyone wants it*” (respondent 6).

## **5.9 Overall satisfaction**

The final statement aimed to gauge overall satisfaction levels with the pay for performance system in place at the company. The results for the sample from SIDF are summarized in the table displayed below:

**Table 5.53 SIDF: I am satisfied with the PRP system**

<b>In general, I'm satisfied with the PRP system we have here</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
7	31	15	59	45
4.34%	19.22%	9.3%	36.58%	27.9%

The final question seeks an overall picture of the views of employees regarding the impact of the PRP system. While certain of the previous questions received generally positive responses, a clear majority of respondents do not agree that they are satisfied with the PRP system in place at SIDF. In fact, almost 3 times more respondents disagree or strongly disagree than agree or strongly agree. Only 15 respondents state that they do not know, indicating that there is little uncertainty on this general question. This is an obvious problem for SIDF, and is indicative that the PRP system as it currently stands within the company should be reviewed in light of the dissatisfaction it engenders in employees.

When evaluating the evidence from interview, it seems clear that many of the managerial staff interviewed have criticisms in relation to the PRP system. One respondent comments that *“PRP is the best tool for increasing performance if you use it fairly and the worst destructive tool if you misuse it”* (respondent 11). Another response is unequivocal: *“I'm against it...the employee is negatively affected when he does not have the proper incentive”* (respondent 4), while a third complains that, *“...at the end of the year they [the employees] come to me asking about why the bonus is not right and I don't know what to say to them”* (respondent 6). There are also some suggestions made related to how the scheme could be improved which emerge from the interviews at SIDF. The first of these is that *“the evaluation should be more efficient... it's only three levels now it should be more”* (respondent 3). This comment appears to reflect earlier concerns that the PRP scheme is too broad in its definitions or ratings of performance to allow managers to target performance increases for

the majority of staff. The second suggestion is that the scheme “*should be something other than money*” (respondent 3). While the reasons for this view may be hard to interpret on the available evidence, this suggests perhaps a recognition of the role of intrinsic motivation and the need to support this in a way which PRP is not generally considered to do. Frey, Homberg and Osterloh (2013) emphasise the need to include detailed consideration of intrinsic motivation in evaluating performance related pay, and report two types of intrinsic motivation: the first stems from the inherently satisfying characteristics of the content of the work for an individual, while the second is based in feelings of obligation which cause the individual to wish to perform work well. Neither of these considerations can be said to be addressed in the PRP scheme at SIDF, nor indeed by PRP in general.

“*...in terms of PRP...employees should be asked about how they would like to be assessed*” (respondent 4). This last comment is a view supported by Kessler, who regards it as important that workers are involved in the planning of the pay for performance scheme.

The results for the final statement with the sample from STC are summarized in the table displayed below:

**Table 5.54 STC: I am satisfied with the PRP system**

<b>In general, I’m satisfied with the PRP system we have here</b>				
Strongly agree	Agree	Don’t know	Disagree	Strongly disagree
5	30	7	42	101
2.7%	16.2%	3.78%	22.68%	54.54%

The results for the final statement, “In general, I’m satisfied with the PRP system we have here” provide a clear picture of employee dissatisfaction with the PRP system in place at STC. A majority of respondents, at 101, strongly disagree, and a further 42 disagree. In comparison, only 30 agree and a mere 5 strongly agree. This is somewhat similar to the

situation outlined within SIDF, and presents a picture of negative perceptions of the PRP scheme which may be down to multiple factors and certainly suggests a problem for STC.

Managers interviewed were also asked for comments regarding general satisfaction with the pay for performance scheme as it currently stands, as well as suggestions for future action. In terms of the STC interviews, while some clearly support the scheme, one feels that it “*implies bad relations with your employees*” (respondent 4) and is therefore not wholly supportive of the scheme. Another is clearly against the scheme, but makes suggestions for its improvement:

*“The system, if it has to remain, I wish they’d remove the percentages and allow supervisors more abilities to reward their employees. Also, I don’t, I think we should implement more effective rewards than a bonus scheme which might do more harm than good...we could reward the employees as a team”* (respondent 2). This fits in with the prescription for autonomy of managers (Gerhart, 2001), as well as with the suggestion of a 10% minimum reward (Lewis, 1997). Respondent 12 also calls for an end to the percentage, as well as greater clarity: *“it could be enhanced by eliminating the percentage and by making the explanation to the system so no one can say I didn’t understand”*. A fuller explanation of the problems caused by the percentage rule in practice is offered by respondent 3:

*“In general we are not satisfied. I’ll tell you, it has a problem with the implementation of it. I have a number of good employees and I must exclude some of them because of the use of the percentages. Ok, if I downgrade him by one category he might still be somewhat satisfied, but sometimes I have to put a good employee in category 3 and then he will ask, why should he be working hard? And I told him it’s not your fault but the percentage took it from you and I promise to compensate him next year”*.

The idea put forward here that significant damage might be wrought as a side effect of implementing a bonus scheme is strongly supported by widespread evidence and theory from the literature to suggest that implementation of PRP schemes can give rise to unforeseen problems such as a dampening of creativity, reduction in collaboration and partial negation of the positive influence of intrinsic motivation in employees (Amabile, 1988; Beer & Katz, 2003; Pfeffer, 1998).

The overall satisfaction with the PRP system at SEC was returned as shown below:

Table 5.55 SEC: I am satisfied with the PRP system

<b>In general, I'm satisfied with the PRP system we have here</b>				
Strongly agree	Agree	Don't know	Disagree	Strongly disagree
13	44	4	52	35
8.84%	29.92%	2.72%	35.36%	23.8%

When asked about their general satisfaction with the PRP system at SEC, the majority of respondents disagreed that they were generally satisfied. A significant minority agreed, with 44 agreeing and 13 strongly agreeing, while just 4 did not know. Therefore, this case study company has given different results to the other two in terms of general satisfaction with the PRP system in place: more respondents here are satisfied with the system and a smaller proportion strongly disagree that this is so. However, the overall picture remains one of general dissatisfaction here also.

This finding is supported in many of the comments made during interview with management at SEC. As one respondent reveals, *“the system is going under review now because of many complaints against it”* (respondent 7). However, another respondent casts doubt on the necessity or even desirability of achieving universal employee satisfaction: *“satisfying everyone is craziness”* (respondent 6). This view finds support from Lewis (1997), who casts doubt upon the concept of fairness in this context as being a goal of management, who rather seek to increase productivity. This is in contrast to Torrington, Hall and Taylor’s (2005) view that fairness should form the basis of pay calculation. Views on what constitute the failures of the system therefore vary, as do recommendations for improvements to the current situation. In the view of one respondent,

*“Basically what the system is lacking is the small percentage rate of people who would receive the top rating (use of quotas). If this could increase to reach 10 percent then it will give more space to the assessor to reward more employees and then increase performance”* (respondent 7).

Another respondent concurs with this view, stating that, *“I know it’s not possible, but the percentage of the employees should be raised to 10% instead of 5%”* (respondent 4).

This issue forms a common theme across all three of the case studies, with the capping or bell curve of bonuses being cited as a problem for perceptions of fairness and in preventing conflict and dissatisfaction. Cannell and Wood (1992) found that the most important benefit of PRP – more so than in providing motivation, was that of rewarding good performance. If a system is unable to reward all good performance through the capping of the number of

employees to be rewarded, then such a pay scheme cannot be seen as fulfilling the reward for performance strategy however.

Respondent 2 also takes the view that the PRP concept is suitable but that its application should be rethought, and considers that the company's approach should be reviewed and modernised, commenting that, "*I wish the system could be improved to a higher standard and to look at what's new in this field and bring it in*" (respondent 2).

Meanwhile, another respondent sees a more fundamental problem with the PRP concept and the pressure which it places on management,

*"Its negatives overcome its positives...it makes a lot of pressure on the managers and I say even managers are misjustified by being put in that position in which they have to rate their employees and then determine the bonus of it"* (respondent 5).

This view is interesting in representing the feelings of the respondent regarding their own position in relation to the PRP scheme being implemented at SEC. Kanter (1987) and Lawler (1990) suggest that managers dislike being placed in a position where they must make judgements which are not popular or affect their relations with employees.

Another respondent signals his view that a system would be preferable which treats employees equally without differentiating substantially based on performance ratings:

*"I wish that the PRP system would be cancelled and be enough with the end of the year increase for each within his position and if there is a PRP system, there should not be that much of a difference between employees"* (respondent 5). This view seems to favour an internal labour market approach, using grading and promotion and pursuing long-term aims rather than incentivising short-term goals (Lipsey and Chrystal, 2011).

The other view which emerges in the interviews at SEC is the idea that there are cultural issues which are at odds with the introduction of this type of pay system within Saudi companies, as two respondents take issue with the idea that such concepts can be transported across cultures. One respondent comments on the PRP system as follows:

*"This system is making a huge problem in the company to say the truth, it's not applicable for us, maybe in the West where everyone is responsible for himself only and it does not matter to him, but here, no, it does not work like that"* (respondent 3).

Armstrong and Murliss (2007) suggest that every organisation is placed within an individual context, within which the planning and design of the payment and reward system is based upon contingency and not upon the shape of schemes with similar aims in other settings. In

light of this, the comments of the respondent may reflect a feeling that the system has been ‘imposed’ rather than being a natural ‘best fit’ for the organisation’

The same point is made by respondent 1: *“This system is brought to the company as a part of what they see as bench marking with American companies... but it’s not always necessarily true that if the system works there then it must work here”* (respondent 1).

The view described by Baker (1993) as common, in which fixed pay is seen as allowing a culture of entitlement to prevail and acting against flexibility and competitive advantage, may not be shared here, therefore, and the de-emphasis on organisational hierarchy implied by varying rates for the individual (Baker, 1993) might be more disruptive to apply in a paternalistic culture such as that of Saudi Arabia. Further, one aim of the introduction of PRP as mentioned in the literature is to change the organisational culture, in the main to become more performance-focused (LACSAB, 1990b:8). If this is the case in the scheme at SEC, this drive would appear to be encountering resistance.

Kessler (1994) states that choice of approach within the organizational context drives success, but also that such choices are subject to strong influences coming from this same context, in terms of organizational culture and history, as well as the influence of the particular objectives held for the scheme on the part of management. In light of this, it would appear that there is a mismatch here between the organisational culture and, according to the interview respondents, their wider context, and the choice of approach.

## **5.10 Summary of findings by case and comparisons drawn**

Presented in this section are the summaries of key findings for each of the case study companies, before a comparison of results is presented. It should be noted here that interpretation of the findings must be approached with an element of caution considering the difficulty in accessing sufficient information regarding the exact nature and application of the PRP systems in place in the organisations surveyed. Further, the limitations in fieldwork as highlighted in Chapter Four introduce the possibility of sampling bias. The relatively high proportion of respondents selecting ‘Don’t know’ for some statements is also worthy of consideration, and, speculatively, may suggest an element of caution in expression of

negative views, and, perhaps concerns regarding confidentiality and anonymity, despite the assurances given.

### **5.10.1 Summary of Findings at SIDF**

In general, the findings regarding perceptions of the PRP scheme currently in place at SIDF are more negative than positive, for both lower level employees, the majority of whom are dissatisfied with the scheme, and line managers. The key points found are summarised briefly below:

- There is a clear emphasis in responses on the importance of money as a motivating force, and also an agreement among the survey respondents that a link exists between payment and performance. However, the interview responses cast doubt on the extent of the linkage actually achieved between pay and performance at SIDF, citing the restrictions of the quota system and a disconnect between the assessments made and the final outcomes.
- While most survey respondents perceive an impact on their performance of the bonus scheme, one quarter do not and the managers are divided on this issue.
- Fairness is a divisive issue, with almost equal numbers of survey respondents on either side and a proportion who do not know. Line managers meanwhile highlight problems of motivating those not classed as above average, lack of clarity in the scheme and difficulties in application across departments.
- Few employees trust the fairness of the appeals procedure.
- Impact on the way in which employees work was seen by a small majority of survey respondents, while interview respondents are similarly disunited, giving evidence of a minor influence on ways of working.

- Slightly more than half of the survey respondents perceive a positive impact on teamwork, while several managers perceive a negative impact on co-worker relations and/or on work.
- There was little perception of a positive impact of the pay scheme for job organisation and clarity of role, and one interviewee suggested that this function had not been successfully continued from the performance committees, and thus that certain job tasks were being forgotten.
- A large minority of survey respondents identify favouritism, supported by one interviewee's comments. Other themes linked to this in interview relate to lack of line management control over ratings and the appearance of discrepancy in assessments resulting from this.
- A minority of respondents felt harassed by colleagues due to the PRP system, while views of line managers range from categorical denial of this to the identification of a harmful influence on colleague relations.
- Employees in general do not find the proportion of pay for performance within their salary satisfying, and managers concur that reward should be more.
- Recommendations of the managers include creating more grading levels, seeking greater efficiency, using rewards other than purely financial, and greater consultation with employees on assessment.

### **5.10.2 Summary of findings for STC**

The key findings from the STC survey and interviews are summarised below:

- Money is a key motivator for employees, although one interviewee proposes a need to find other paths to motivation.

- Most employees view a link between pay and performance, but several line managers state that this link is not made in reality.
- Strong perceptions of unfairness and favouritism are seen among the employee sample, as supported by several interviewees.
- Only a slight majority of the survey sample view an impact on the way in which they do their job arising from the PRP scheme, and management respondents also present opposing views on this which seem to stem from basic beliefs about human nature rather than the scheme' implementation in particular here.
- The scheme suffers from a lack of clarity about its workings.
- There is a lack of feedback from management to employees on performance.
- The majority report harassment from colleagues based on the system, showing evidence of conflict caused by the scheme or its implementation (different from other two case studies).
- 128 of the survey group are dissatisfied with the system overall, against 30 satisfied overall.

### **5.10.3 Summary of SEC findings**

The key findings from the SEC research are summarised below:

- Money is seen by the vast majority of respondents as a strong motivator for work, and this is supported in the main by the statements of managers.
- The link between pay and performance is also seen clearly, and the managers comment upon the large level of pay differential possible
- Almost two thirds of survey respondents feel that the system is unfair, more than for the other two case studies. This is interesting here given that potential rewards for performance are more significant in this case, giving a greater importance to perceived fairness and/or possibly magnifying any perception of unfairness. While it

is not possible from the data gathered to understand clearly the reasons behind the greater sense of unfairness within this sample, this could be a possible explanation.

- The majority of respondents perceive favouritism by managers in the implementation of the bonus system.
- A slight majority perceive beneficial effect on teamwork. However, it is clear from the responses of management interviewees that the system in place does not specifically target or prioritise teamwork. A significant minority view a harmful effect of the pay system on teamwork.
- The results regarding PRP and job role organisation and knowledge of tasks are unclear.
- Unlike for the other two case study companies, employees at SEC in general find that the PRP system in place there offers a significant pay difference for those achieving high grades.
- Cultural mismatch between the system, developed in the west, and the Saudi Arabian cultural context is flagged up by a number of interview respondents.

### **5.10.3 Comparison of findings**

When considering the findings across the three case study companies, it must be borne in mind that the unique cultural conditions across those companies vary. Thus, important factors influencing the set-up of these schemes varies, and also the context in which PRP is implemented in each organisation is necessarily unique. Kessler (1994) states that the success of any PRP scheme hinges on basing the design and implementation of the system on the context of the company, but that decisions are also impacted by that context and by managerial aims in introducing the scheme. While there are notable differences in the design of the scheme in one of the three companies, difficulties for the researcher in accessing full information regarding the systems can make findings difficult to interpret.

However, Armstrong and Murliss (2007) also points to political influence at a national level driving introduction of performance related pay, and the widespread move toward introducing PRP may also be impacted by this in the Saudi Arabian context, and in the case studies in particular. It is also reasonable to assert that there may be similarities in the way in which systems of pay which are similar in nature may be received in a similar way within the same broader cultural context, and also in general based on universal human response,

although care must be taken when generalising out from these findings, as each case study is placed within its own unique context. In the three case studies undertaken for this research, various similarities are noted in the results, along with certain differences, and these features are detailed below.

One finding which is universal across the case study companies is that a strong majority of the survey samples agree that money is the key motivator in their work. This is also in the main supported by line managers' comments. A further noteworthy similarity however is that while the survey results in each case support a link between pay and performance, in each case several line managers cast doubt on the basis of this link in reality, due to reluctance in SEC to apply the assessment method, concerns at SIDF over the quota system and connections of assessment to outcomes, and at STC, the problem of distinguishing ratings in the middle ground is brought forward, as well as concern at how far managerial assessment relates to final pay outcome, as at SIDF. Therefore, at each company issues appear if taking Belfield and Marsden's (2003) view evaluation of performance in PRP must be closely related to reality if it is to work better than input-based pay.

In two case study companies, STC and SIDF, the percentage rise in salary based on performance is perceived as too little by the majority, and employees are dissatisfied. In one company however, SEC, it appears from interview comments and survey results that the potential reward for a good performance assessment rating is more significant. Interestingly however, although the findings related to general satisfaction are less negative at SEC, a majority of respondents are still dissatisfied overall with the scheme. It is not possible to say whether the slightly more positive response is given on the basis of this greater potential for benefit from the scheme to the high-performing individual. If so however, this benefit appears outweighed by drawbacks of the scheme, at least if the company's objectives are related to employee satisfaction. There is discussion in the literature regarding possible harms resulting from employee dissatisfaction where there is no performance element in reward (Brickley, 2009), but also concerning the harm arising in consequence of unfavourable comparison of rewards with co-workers. In both cases, a demotivating effect is assumed, which is linked with drops in performance. Line managers' comments regarding their own satisfaction with the working of the scheme and their role in implementation for it are divided across all three case study groups.

In terms of impact of the PRP schemes in place at the three case study companies on the way in which work is completed by employees, the results show a marked similarity, with approximately half of each sample asserting that impact from this exists, while the remainder either do not view such an impact or do not know. Managers' are also divided in each company, with some in each case suggesting that the scheme either does not work or does not impact all employees equally. Motivation is also considered, and in this case.

Perceptions of fairness are higher in SIDF than for STC and SEC, with SEC showing particularly strong perceptions of unfairness on the part of employees. However, even in SIDF, fewer than half of respondents perceive the system as fair. Managerial comments across the companies suggest dissatisfaction with the fairness of the bell curve system for quotas of employees receiving each grade, while others speak of difficulties in maintaining good relations while implementing the scheme fairly.

Another issue to emerge strongly from both surveys and interviews in each company is that of clarity, with problems highlighted in understanding the schemes, in communication of their objectives and processes to both line management and staff, and in terms of the frequent provision of feedback. Further, several managers in the various organisations report a sense of cultural mismatch in the introduction of PRP schemes, considering that they are not well-received or appropriate in the cultural context of Saudi Arabian companies.

## **5.11 Conclusion**

This chapter has presented and discussed the findings gained from three case studies, involving interviews with line managers and survey questionnaire employees at companies SIDF, STC and SEC. The results for each company were presented in statistical form for the survey questionnaires and using direct quotation when discussing the results of the line management interviews. The findings were discussed in relation to relevant literature, and later the findings were compared across the three case study companies, bearing in mind the limitations of the data which it was possible to collect. Considerable divisions of opinion were uncovered with respect to the success of the schemes in linking pay to performance reliably, and in terms of fairness and clarity in each of the organisations under study. Further, while the amount of pay differential which it was possible to achieve was reported as more significant within SEC, this was considered a problem in the other two companies, and while

at SEC greater overall satisfaction was reported with the scheme, perceptions of fairness were lower.

# CHAPTER SIX: CONCLUSION

## 6.1 Introduction

The previous chapter presented the findings obtained through questionnaire and interview with employees and managers across three case study organisations. The findings reveal a picture of widespread dissatisfaction amongst staff and managers with the PRP schemes in place in two of the companies, and concerns among some management that the assessment processes and allocation of bonuses does not allow for genuine assessment and reward for the best performing employees. There are also concerns raised about the underlying wisdom of differentiating between workers in providing different pay, in that it may undermine teamwork and go against the norms of working culture in Saudi Arabia. There was also some evidence of moves to adapt what was being implemented in line with these norms. Further, in two of the case study organisations, there was a clear sense among employees that the proportion of pay related to performance assessment was insufficient to motivate, raising issues regarding how best to implement PRP. At the same time, there are also voices in support of the schemes at each company, and in SEC, overall satisfaction was expressed with the system in place.

Following on from these findings, Chapter Six is intended to provide final remarks on the research conducted for this thesis, the findings of the primary research conducted to address the research questions and the conclusions which may be drawn from these results. Thus, the research questions will be revisited and the findings discussed in the previous chapter, the findings and analysis chapter, will be applied to those questions. Further, within the

constraints of generalisability as considered in the methodology chapter of this research work, a wider application or interpretation of the findings from the three case studies will be attempted. Thus, conclusions regarding the feasibility of pay for performance systems and issues regarding their implementation can be drawn at company, national, regional and international level. Following on from this consideration of conclusions to be drawn from the findings, a series of recommendations will be presented.

In tandem with the conclusions previously described, these range from recommendations for the specific companies which participated in the research project to recommendations at a wider level. In addition, this chapter will consider the research presented in terms of both its achievements and its limitations, reflecting on the issues which may have acted as obstacles to the research and considering how these might be addressed in the future, as well as summarising the limits of generalisability of the knowledge produced and how it may be used. The study will also be evaluated in terms of its reliability and validity. Finally, a further important input which this study seeks to make is to suggest fruitful areas for future related research projects arising from the findings uncovered here. This will be discussed in this chapter, prior to the final concluding remarks.

## **6.2 Findings as Applied to Research Questions**

This section of the chapter will provide a brief recapitulation of the aim, objectives and research questions formulated for this study, based on existing evidence, before applying the findings drawn from the three Saudi case studies to address and answer those questions.

### **6.2.1 Review of Aims, objectives and research questions**

The main aim of this research was to investigate and analyse the role and impact of Performance Related Pay schemes in the Kingdom of Saudi Arabia on performance in Saudi

national firms, as conducted through a case study of three indigenous Saudi organisations, namely: The Saudi Industrial Development Fund (SIDF; The Saudi Electricity Company (SEC) and; the Saudi Telecoms Company (STC). The main question posed to drive the research process was as follows:-

***What is the impact of PRP on employees' performance in Saudi national firms in Saudi Arabia?***

This question was developed into a series of sub-questions which were divided into categories of performance, teamwork, cultural role, fairness and feedback. This was based upon an extensive review of the related literature, exploring the theories which underpin PRP such as agency theory and expectancy theory, and encompassing previous studies carried out in various national contexts worldwide. The questions composed and pursued based on this process are recapped below:

**Table 6 Research questions**

Performance	Q1: Does the introduction of the PRP system increase employees' performance? Q2: Does the introduction of the PRP system make employees work harder? Q3: Will employees be more highly paid if they work harder?
Team work	Q 4: Has the introduction of PRP helped in encouraging effective work as part of a team? Q 5: Has the introduction of PRP helped in unifying the goals of both parties within industrial relations?
Culture role	Q 6: How has PRP influenced organizational culture?
Fairness	Q 7: How fair is the PRP scheme from the employee's perspective?
Feedback	Q 8: How far are employees satisfied with the PRP system's approaches to the formal and informal feedback which they receive?

By seeking answers to the questions in the table above, the research aimed to provide a clear picture of the impact of PRP within each of the case studies undertaken, in order to facilitate conclusions to be drawn regarding the effectiveness of the organisations' use of pay as a lever for performance, as well as adding to the body of more general research about the effectiveness of PRP at a broader level. The findings will be matched to these questions in the following subsection.

### **6.3 Summary of findings from the case studies as applied to the research sub-questions**

Each of the questions identified above were explored in each of the three case study organisations, and this process revealed numerous issues facing these companies in terms of employee and managerial response to the pay schemes as implemented. Many of the results were broadly comparable across the case studies, but not all, emphasising the importance as laid out in the literature for assessment of the individual application of pay for performance in what is a broad category of payment scheme. In this summary, results will be summarised for each category, by case study where differences are seen, and in conjunction with literature.

#### **6.3.1 Performance**

Performance is identified in much of the literature on performance related pay as a main part of the rationale for this type of pay approach, as suggested by the title of such schemes at the individual level, and also in relation to company performance (Gerhart & Rynes, 2003; Pfeffer, 1998; Rigby, 2001; Rosenthal et al., 2005). The first question addressed within this category is as follows: **does the introduction of the PRP system increase employees' performance?** Surveys at SIDF, STC and SEC each show a majority who view an impact of the schemes implemented upon working practices and performance. This is not viewed as

universally the case by management, and doubt is also cast on the ability of individual effects of the scheme to pay into team or company performance. Considering the findings from all three of the case studies, this research project supports the notion that the schemes implemented have an impact, but do not increase performance across the whole of the employee base, with between a quarter and a third of employees in each case study finding no impact on their performance. Further, doubt is cast by interview responses on the ability of this impact to extend to all, to be sustained and to feed departmental and company performance, and the range of views appears to reflect the conflicting positions in the literature, which may be seen as puzzling when reflected within one individual organisation. While some of the material from interview points to increased individual performance for those who are rewarded, there is little support for wider effects based on expectation of reward. Further, the issue of a damaging effect on the performance of unrewarded staff as supported by Trevor, Reilly, and Gerhart (2012) finds support from management in these case studies. Interestingly, Marsden et al. (2000) find no immediate downward effect of performance in the short term on introduction of PRP, although they find workplace relations to be damaged by this. However, they postulate that any gains in performance from PRP are not sustainable over the long run.

The second question in the performance category is as follows: **does the introduction of the PRP system make employees work harder?** Again, the findings here conflict, with a small majority of employees in each company perceiving an impact on working practices, and division among management. Manager interviews also suggest that this is not universal to all employees, and a recurring theme within this are the idea that younger or more recently recruited employees are more influenced by the PRP scheme to work hard than are older or more established workers. In addition, lack of reward in one year is linked by managers to decreased performance or lowered effort the next, supporting the notion of a demotivating

force in addition to a motivating force and as opposed to a simple lack of impact (Forth, Bryson and Stokes, 2014).

The third question set to explore performance is as follows: **will employees be more highly paid if they work harder?** It is interesting to note here that while employees across the three case study organisations note a link between performance and reward for that performance; this is particularly strongly expressed at SEC, which documentary sources reveal has a far larger reward for performance element than the other two companies studied. Importantly however, managers in each of the organisations studied cast doubt upon the link between performance and reward in practice, and this may feed into the issues of fairness as considered in the group of research sub-questions discussed in Section 6.3.4.

### **6.3.2 Teamwork**

The first question set for the area of teamwork is as follows: **has the introduction of PRP helped in encouraging effective work as part of a team?** Across each of the case studies conducted as part of this research, a majority view a beneficial effect of the pay for performance scheme implemented on team work. Meanwhile, at SIDF and SEC, a significant minority perceive a damaging impact on teamwork from the same, and in STC a slight majority do the same, making reconciling the views of benefit and harm challenging. One further aspect of harm raised in qualitative evidence is the notion that harms to relations between employees and their ability to work together as a team is necessarily hidden to management to some extent, as employees may be reluctant to discuss conflicts. Further, some light is shed on benefit versus harm by the response of management, who mainly do not appear to relate the work conducted to appraise performance with team relations or with team performance, implying that these impacts are not planned for and teamwork is not a focus of the scheme. At SIDF, it appears that teamwork is not a part of appraisal, whilst comments at STC indicate that some managers avoid appraising employees based on team efforts

specifically to avoid conflict. This may be expected to lead to skewed appraisal of work done, as well as priorities for that work. This seems to highlight a deficiency in the system and a strong example of an issue which has been raised previously in the literature. In addition, it is not in line with moves toward greater use of team based incentives as recorded by Larkin, Pierce and Gino (2012).

The second question in this category is as follows: **“has the introduction of PRP helped in unifying the goals of both parties within industrial relations?”** Evidence from management in SIDF suggests difficulty in aligning performance targets with company objectives, as supported by Kang and Yanadori (2011), while at STC, it is suggested that goals are shifted to fit the requirements of performance measurement rather than falling in line with the true requirements for employees’ work. Further, the evidence conflicts in terms of the ability to clarify employees’ tasks and therefore the unifying capacity of PRP is not supported by the study. There is a slight tendency toward perceiving PRP as aiding clarity of role at SEC and STC, while in SIDF this is not seen, and PRP appears to have reduced this clarity from previous approaches at the firm.

### **6.3.3 Cultural role**

Culturally, it is identified in the literature that an organisation may implement an innovation from the wider business world to little effect, as organisational culture adapts the innovation rather than changing in itself in a meaningful manner. This reality is supported by qualitative evidence from this study, in which management implementation of the scheme ranges from rigid interpretation of performance to a turn-taking system of awarding bonuses. Thus, the question set for the cultural role of PRP: **How has PRP influenced organizational culture?** can be answered in terms of a partial effect at best, as while employees’ mainly feel that their working approach has changed, management describe how they adapt the scheme to fit their idea of how to manage effectively. Further, cultural mismatch between the system, developed in the west, and the Saudi Arabian cultural context is flagged up by a number of interview respondents. Kang and Yanadori (2011) suggest that where imported practices are

not compatible with a culture, they are not always introduced in an effective manner, and this is also a relevant point here.

#### **6.3.4 Fairness**

Fairness has emerged from this research as a major issue within the PRP systems and their implementation analysed in the three case study companies. The research sub-question set to examine fairness was as follows: **how fair is the PRP scheme from the employee's perspective?** Overall, a significant number of employees in each case study perceived unfairness in the system of pay for performance implemented within their respective companies. In fact, a majority of STC respondents perceived unfairness, and almost two thirds of respondents at SEC. The larger numbers at SEC are highlighted here, as while each company has its own prevailing culture which is complex to analyse and is undoubtedly a factor in such results, the possible association of this with the higher percentage of the performance element of pay within SEC for top performance ratings as compared with the other two organisations cannot be ignored. This situation may lead employees to place a greater importance on the perceived fairness of the system, and/or possibly magnify any perception of unfairness. While it is not possible from the data gathered to understand clearly the reasons behind the greater sense of unfairness within this sample, this could be a possible explanation.

The evidence for fairness or otherwise in the PRP schemes studied as evidenced by both employees and managers can be broken into two broad strands; fairness in the way the systems are designed, and the fairness of management and HR in implementing those systems. Taking the design of systems first of all, a further obstacle to perceptions of fairness is identified in terms of understanding the structure and workings of the PRP system in place. There is significant reporting of difficulty in understanding the workings of the pay for performance scheme across employees of STC and SIDF, and also in SEC to a lesser degree.

This is supported by qualitative data from management. This may lead to perceptions of unfairness, regardless of the reality of the assessments. Further, this issue is not simply between line managers and employees, line managers at SIDF highlight the point that they do not have full control over setting grades and are not involved in the process by which this is finally decided. In terms of the possibility of gaining additional reward, each of the case studies reveals use of a bell curve or capping system, in which a certain proportion of employees may receive a given grade. This has implications for assessment and assignment of grades which are highlighted by the managers interviewed, some of whom state that this leads to the frequent impossibility of selecting grades based solely on merit. This may form another element behind the significant perceptions of unfairness of the scheme.

The second element contributing to perceptions of unfairness is favouritism, as supported in the literature by Marsden (2004, in Bryson and Forth, 2006) (see Section 2.8.2), and this is perceived as an issue across each of the case study organisations, but in particular it is reported at both STC and SEC by a large majority of employee respondents, corroborated by managerial interviews, with emphasis given by STC managers to a lack of monitoring of the appraisals given by managers, coupled with strong distrust of the appeals system. Overall, it can be stated in answer to the research question here that most employees consider the PRP scheme to be unfair in some aspect, and that this is based on issues of favouritism, lack of transparency and the nature of the system itself.

### **6.3.5 Feedback**

Across all studies there is a majority perception that the pay for performance scheme allows the individual to feel more appreciated by management, perhaps implying that the act of appraisal functions to provide attention and thus recognition, in addition to the concept of financial appreciation. A significant proportion at each company does not feel appreciated as

a result of the scheme however. The research sub-question for feedback asks: **how far are employees satisfied with the PRP system's approaches to the formal and informal feedback which they receive?** The principle finding with regard to this is that feedback is seriously lacking within two of the case study companies, and at SIDF and STC comments suggest that even yearly feedback on appraisal is not universally provided. This lack of both formal and informal feedback calls into question the ability of the PRP systems as currently implemented to affect employee behaviours in a manner which is targeted to increase or focus performance or to alter company culture based on the aims of the organisation. Regarding SEC, the two-thirds majority citing regular feedback suggests a more positive situation and the implication taken from this result is that feedback through the PRP system as a strength of that approach depends on implementation within the individual organisation. This is an aspect already suggested in literature as an obstacle to attempts to clarify the exact repercussions of taking a PRP approach, but adds to the body of evidence to guide implementation (see Section 2.10).

#### **6.4. Conclusion: main research question**

The findings and conclusions drawn to address the sub-questions of the research feed into the main research question set for this thesis, which was: **What is the impact of PRP on employees' performance in Saudi national firms in Saudi Arabia?**

The findings discussed in the previous subsections of this section indicate both positive and negative impacts from PRP on employee performance. An alteration in performance and behaviour is acknowledged by the majority, yet the evidence casts doubt upon the ability of the schemes to align the effort of employees with the objectives of the organisation, to provide guiding feedback and to accurately measure performance. A failure to address teamwork is a part of this picture. Qualitative data on favouritism and fairness brings forth

culturally based dimensions of manager-employee relations which conflict with the requirements for implementing PRP fairly and effectively, as in doing so, managers are asked to disregard social ties and length of tenure in the course of awarding sought-after bonuses. It is not concluded here however that this cultural context, common to Saudi firms, is the principle or only reason for perceptions of unfairness however.

Unfairness was identified to a particular extent within SEC, the only organisation whose PRP scheme contains a significant performance-related element of pay as defined by. The link between the two conditions is speculative, but may be seen as a double bind, whereby smaller reward elements are viewed as ineffective but larger ones may increase the likelihood and impact of perceived unfairness. Beer and Cannon's (2004) case studies found that newly-implemented PRP systems led to a loss of the trust and commitment which firms have historically relied upon to succeed, and in light of this, the findings with regard to favouritism and unfairness should be viewed with concern. Linked to fairness, there are difficulties described in the literature in constructing a genuinely valid appraisal of performance, aligned with company objectives (Marsden, 2004, in Bryson and Forth, 2006), and these are reflected in evidence from this study. Further, issues of combatting demotivation for those not selected for reward, whether this arises from systemic unfairness, favouritism, damage to intrinsic motivation through a focus on extrinsic factors, or from a poor fit of self-perception to managerial appraisal, also emerge from the current findings. These are issues which seem to raise considerable barriers to the possibility of a fully effective pay for performance scheme, and at the least suggest that it is not practically possible to gain benefit from PRP without also incurring damage. However, the conclusions drawn here are firmly within the context from which they are derived, which is that of the three Saudi companies studied, and arguably the wider Saudi Arabian business world.

## 6.5 Recommendations

The following recommendations are provided for the benefit of those companies who participated in the research, and where they do not apply to each of the organisations, this will be stated. Further, the recommendations may be considered by other firms within similar conditions or where similar issues arise. Additionally, these recommendations support the literature on implementation of PRP.

The overall design as well as the individual decisions taken must be clear to all parties if perceptions of fairness are to be improved. This involves channels for dialogue between HR, top management, line managers responsible for conducting staff performance appraisals, and staff within the PRP system. At present, the final responsibility for decisions regarding award of grade and reward is not communicated clearly to all.

The adoption of a bell-curve grading system is causing problems for the reputation of the schemes, with evidence of quotas for grades producing arbitrary assessments and increasing perceptions of unfairness. This should be taken into consideration in the planning of future modifications to the pay scheme used.

The forms of PRP in current operation at STC, SEC and SIDF does not prioritise or reward team working, and management comments indicate that assessment of this may be actively avoided in some cases. In light of recent evidence to support the trend towards team-based reward (Larkin, Pierce and Gino, 2012), and considering concern on the part of line managers as to a lack of cultural fit for individual PRP in the Saudi context, consideration should be given to explicitly incorporating teamwork and team goals into the reward system.

The strong dissatisfaction with the pay for performance schemes in place within SIDF, STC and SEC represents a serious cause for concern, as do comments by managers that the scheme is damaging relations within the firm. Therefore, consideration should be given to the aims of the scheme and how far these are being achieved as weighed against possibly unintended effects. Within this, it is not to be assumed that any dissatisfaction is purely due to cultural mismatch, although this is suggested by some of the interview material. As presented in the literature review in Chapter Two, there is a considerable amount of research in an international context which points to certain negative impacts arising from the implementation of PRP, and this is presented both in terms of approaches to applying such systems and aspects inherent to the concept of PRP. As such, it can be considered that these findings contribute to this body of evidence, with the inherent challenge of accurately linking performance to measurements and then rewards being highlighted here, as well as the damaging impact of perceptions of unfairness, which may be unavoidable in when pay is variable based on performance assessment.

## **6.6 Validity, reliability and limitations of the study**

This research study was subject to careful consideration in terms of its design so as to ensure that results were reliable and internally valid. For this, data was triangulated through the use of quantitative and qualitative data gathering approaches, as well as collection and analysis of primary source documents. However, the first objective of considering whether or not performance pay increased employees' performance in the case study companies could not be fully addressed, which may be said to affect validity, while the results gained are still valuable. External validity is not considered achievable through case study, but this approach can be used to consider or extend theories previously suggested. While a three case approach

provides a broader view of PRP in the Saudi Arabian context than would be offered by a single study, nevertheless it must be stated that the results of this study cannot be freely generalized to other organisations without considering the particular circumstances or context. Other limitations include access to secondary sources due to commercial confidentiality, as well as the possibility of bias introduced in participant selection and self-selection due to the contact methods used. However, the results of the study provide a picture of the implementation and impacts of PRP in the Saudi environment however, which represents a significant addition to literature assessing PRP across a global context.

## **6.7 Future research directions**

This study has provided a revealing portrait of perceptions of the pay for performance systems in operation in three companies within Saudi Arabia, and its contribution marks an addition to the body of knowledge regarding PRP systems, their implementation, contexts and consequences, at the international level. In particular, the study has contributed to a knowledge gap due to its situation in the developing world and in Saudi Arabia in particular. However, such a study cannot be comprehensive in scope, and therefore, from the limitations of the current study, future research directions emerge.

Firstly, this is a cross-sectional study, and it would be interesting to provide a longitudinal study to observe how PRP systems are adopted and adapted over time by organisations. This is particularly so in regard to the question of the sustainability of any advantage, but also to the long term effects of any harmful impact of the introduction of a particular system, as discussed in the literature review, the findings chapter and in this chapter. Secondly, this study drew on the perceptions and experiences of those to whom the PRP systems were being applied, as well as to those directly responsible for implementation, but did not take into account the views and intentions of decision-makers in introducing and shaping the pay

systems in place. A future study might gain greater insight through access to this group, so that comparisons might be drawn between the intended results and the reactions to the pay system in practice. This is particularly so as it is not clear from the literature precisely which motivations for introducing pay for performance are generally held by firms who decide to utilise this practice.

Third, while a significant research gap was identified in the literature review which pertained to the understanding of the impacts of PRP schemes on different segments of the workforce, this was beyond the scope of this study to address, due to the varied roles of the employees surveyed which were not articulated, and the focus on other parameters. Future studies in PRP could very usefully address this gap by comparing the perceptions of different professional and non-professional groups.

A final point which might be explored in more depth in the future concerns the cultural context of the case study companies, being Saudi firms. While cultural elements were considered through literature review and the research sought to include these in the primary research, the picture of the way in which cultures interact with imported HR practices which were developed in different cultural settings is an area which requires further study to form a clear picture. It is hoped however that this study has provided a basis from which future studies on PRP in the Saudi Arabian context might grow.

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# Appendices

## Appendix 1: SIDF Pay Scheme. Documentary sources

**SAUDI INDUSTRIAL DEVELOPMENT FUND  
HUMAN RESOURCES DEPARTMENT**

**PERFORMANCE APPRAISAL (GRADES 11 – 14)**

Name :   () Job Title:   ()  
 Department : Division / Section :

Issuing Date: \_ To be returned to Human Resources Dept. Before:

SN	FACTOR	POOR	ACCEPTABLE	GOOD	VERY GOOD	OUT- STANDING
1	Punctuality					
2	Supervision Required					
3	Acceptance of Direction					
4	Relations with Other Employees					
5	Knowledge and Experience					
6	Enthusiasm					
7	Productivity and Quality of Work					
8	General Conduct					
9	Physical Aptitude					

**DIRECT SUPERVISOR :**

.....  
 .....  
 .....

NAME: ..... SIGNATURE: ..... /...../14.....

SECTION HEAD / DIVISION MANAGER SIGNATURE: ..... /...../14.....

DEPT. MANAGER / ASSISTANT DIRECTOR GENERAL SIGNATURE: ..... /...../14.....

EMPLOYEE SIGNATURE: ..... /...../14.....

**FOR HUMAN RESOURCES DEPARTMENT USE ONLY  
PERFORMANCE APPRAISAL (GRADES 11 – 14)**

Employee Name : ( )

Job Title : ( )

Employment Date:

Date of Last Promotion :

Last Increment Date:

Current Grade : ( )

Current Salary: \_ Total Points Scored: \_

Evaluation Percentage : %

The Annual Percentage Increment: (%)

Amount of Salary Increased: .....

The New Salary: .....

Performance Bonus : ( )

**PROMOTION REMARKS:**

.....  
.....  
.....  
.....

Job Title: ..... (.....) Grade No.: (.....)

**PERSONNEL MANAGER'S RECOMMENDATIONS:**

.....  
.....  
.....

The Recommended Salary Increase ( %) Signature: ..... /...../14.....

**DEPARTMENT MANAGER / ASSISTANT DIRECTOR GENERAL'S / HR INSTRUCTIONS:**

.....  
.....  
.....

Signature: ..... /...../14.....

**SAUDI INDUSTRIAL DEVELOPMENT FUND  
HUMAN RESOURCES DEPARTMENT  
PERFORMANCE APPRAISAL (GRADES 21 – 28)**

---

Name : \_()

Job Title : \_()

Date Report Issued by Human Resources: \_H

To Be Returned to H/R Before: \_H

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**SECTION 1:**

**A) Functional Responsibilities:**

Briefly describe the scope and nature of this officer's responsibilities during the appraisal period, with reference to the approved position description, including any on-going responsibilities not specified in the position description.

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**B) Major Assignments Handled:**

List the major assignments handled by this officer during the appraisal period.

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**SECTION 2 :**

**TO BE COMPLETED BY SUPERVISOR (APPRAISING OFFICER):**

Based on the responsibilities and assignments handled as specified in Section 1, evaluate the employee's performance by ticking the appropriate box.

Detailed description of factors and definitions of ratings are given in the performance appraisal booklet.

**1- JOB KNOWLEDGE :**

FACTOR	POOR	ACCEPTABLE	GOOD	VERY GOOD	OUT- STANDING
Knowledge of the technical requirements of the job					
Familiarity with current techniques & practices					
Understanding of Fund's objectives / policies etc.					
Understanding of Department Policies / Procedures					

**2- JOB EXECUTION :**

FACTOR	POOR	ACCEPTABLE	GOOD	VERY GOOD	OUT- STANDING
Ability to apply job knowledge in work situation					
Quality of output					
Level of output (Consistent with quality)					
Ability to meet targets					
Creativity					
Judgment					
Ability to analyse data and react appropriately					
Quality and thoroughness of follow-up					
Effectiveness of keeping supervisor informed					

**3- ADMINISTRATION :**

FACTOR	POOR	ACCEPTABLE	GOOD	VERY GOOD	OUT- STANDING
Ability to plan and organize work effectively					
Ability to handle multiple tasks and priorities					
Decision making / problem solving ability					
Ability to work under pressure					
Ability to communicate effectively in writing					
Ability to communicate effectively verbally					

**4- PERSONNEL CHARACTERISTICS :**

FACTOR	POOR	ACCEPTABLE	GOOD	VERY GOOD	OUT- STANDING
Presentation					
Punctuality					
Initiative					
Commitment					
Reliability					
Tact					
Willingness to accept constructive criticism					

**5- RELATIONSHIP WITH OTHERS :**

FACTOR	POOR	ACCEPTABLE	GOOD	VERY GOOD	OUT- STANDING
Relations with direct supervisor(s)					
Relations with peers					
Relations with other Fund employees					
Relations with outsiders					

**6- SUPERVISORY ABILITIES :**

This section should only be completed for employees who have regular responsibility for supervising the work of others. For other employees, write "NOT APPLICABLE" across this section. In such a case, an adjustment will be made in calculating the outcome of the appraisal to reflect the fact that the employee is unable to gain a rating in this section.

FACTOR	POOR	ACCEPTABLE	GOOD	VERY GOOD	OUT- STANDING
Ability to supervise staff effectively					
Ability to delegate and monitor effectively					
Ability and effort in motivation training and development of the staff					

**SECTION 3 :**

**TO BE COMPLETED BY THE SUPERVISOR (APPRAISING OFFICER)**

Based upon detailed assessment in Section 2, use this section to highlight particular areas of strength and areas requiring improvement in the employee's performance over the appraisal period, and to indicate the corrective action to be taken. The corrective action identified should be realistic and achievable, and measurable and should form the basis for regular discussions and review with the employee during the next appraisal period.

**AREAS OF STRENGTH :**

.....

.....

.....

.....

.....

**AREAS REQUIRING IMPROVEMENT :**

.....

.....

.....

.....

.....

**CORRECTIVE ACTIONS :**

State the corrective actions to be taken in the areas requiring improvement. State who is responsible for those actions (employee / supervisor / Training & Career Development Division). If you yourself are aware of any specific training course that might be useful, make a note of this.

**RESPONSIBILITY FOR FOLLOW UP  
(Tick one or more boxes)**

AREAS REQUIRING IMPROVEMENTS	EMPLOYEE	SUPERVISOR	TRAINING

If this section contains recommendations for actions by either the employee and/or the supervisor, the supervisor is expected to ensure these are implemented during the next appraisal year, and to comment on the degree of success achieved in the next appraisal of the employee.

If this section contains training recommendations, on completion of the appraisal a copy of this section will be sent to the Training & Career Development Division for planning and follow-up.

**SECTION 4 :**

The first part of this section is for signature of the Direct Supervisor (Appraising Officer), and for the comments and signature(s) of succeeding higher levels of Management up to the level below the Department Manager. The Manager who has the final signature should then return this form to the appraising officer for discussion with the employee being appraised. The employee should be allowed to record any comments he wishes relevant to the appraisal, should then sign the appraisal, and the appraisal should then be sent to the Human Resources Department.

**DIRECT SUPERVISOR (APPRAISING OFFICER):**

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.....  
.....  
.....

NAME: ..... SIGNATURE: ..... /...../14.....

**DIVISION MANAGER:**

.....  
.....  
.....  
.....

NAME: ..... SIGNATURE: ..... /...../14.....

**ASSISTANT / DEPUTY DEPARTMENT MANAGER:**

.....  
.....  
.....

NAME: ..... SIGNATURE: ..... /...../14.....

**EMPLOYEE COMMENTS:**

.....  
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.....

I have read the appraisal (section 1, 2, 3 and 4). I have been given the opportunity to discuss the appraisal with my supervising officer, and the opportunity to record the comment I wish relevant to the appraisal. Except as noted above, I accept the ratings and comments made in the appraisal. I confirm that I will participate with my supervisor / Training & Career Development Division in achieving improvement in those areas requiring this.

NAME: ..... SIGNATURE: ..... /...../14.....

**Please now return this form to Human Resources Department.**

**SECTION 5 :**

*(To be completed by Human Resources Department, Department Manager or Assistant Director General or General Consultant of the employee being appraised and approval of the Director General.)*

**HUMAN RESOURCES DEPARTMENT :  
GENERAL INFORMATION ABOUT THE EMPLOYEE BEING APPRAISED:**

Employee Name:   () Job Title:   ()  
Date of Employment: Current Grade: Date of Last Promotion:  
Present Salary : . Date of Last Increment:  
Total Points Scored (    ) out of (    ) Percentage Evaluation : (   % )  
Amount of New Increment Approved: ..... Amount of New Salary: (.....)  
Annual Percentage Increment : (   % ) Performance Bonus (    )

**POSITION IN CASE OF PROMOTION RECOMMENDED :**

Approved in the Budget  Not approved in the Budget

Job Title : ..... ( ) Grade No.: ( )

**Appraisal Analysis :**

**MANAGER, PERSONNEL DIVISION :**

NAME: ..... SIGNATURE: ..... /...../14.....

**HUMAN RESOURCES MANAGER / ASSISTANT DIRECTOR GENERAL RECOMMENDATION :**

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.....

SIGNATURE: ..... /...../14.....

**DEPARTMENT MANAGER / ASSISTANT DIRECTOR GENERAL RECOMMENDATION :**

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.....

SIGNATURE: ..... /...../14.....

*(Please pass this form to the Director General.)*

**DIRECTOR GENERAL :**

Salary increase / Performance Bonus of (.....%) is approved.

.....  
.....  
.....  
.....  
.....

DIRECTOR GENERAL: .....

DATE : ...../...../14.....

## **Appendix 2: STC Pay Scheme. Documentary sources**

### **Performance Appraisal General Guidelines 2014**

In light of the company's desire to improve its employees performance, we are glad to share the general guidelines that will be applied in the 2014 performance appraisal cycle.

#### **General Guidelines for the performance management**

- Determining the employees objectives by his immediate manager and discussing these objectives with him. All the objectives must be SMART (Specified, Measurable, Applicable and has a timeline). These objectives must be minimum of four objectives for one employee.
- The evaluation will be based on the employee's objectives & competencies during his working time for the same period.
- There have to be a continuous feedback & follow up internally between the managers and the employees.
- If the employee rejected the objectives set for him by his boss, or he refused to discuss these objectives, he shall be referred to the Next level Manager to resolve and if this fails, then it should be referred to Employee Care Relations department to take disciplinary actions for this attitude and hence the objectives set by his boss are approved.
- If the subordinate did not accept and return back the performance form showing his objectives to his manager in the specified time for any reason during objective setting and discussion and it was difficult to present his performance appraisal forms, they can be submitted by the boss in coordination with Performance and Development department and next level Manager provided that they are discussed with the employee later.
- In case of relocation, loan or promotion where employee objectives have changed, additional objectives are to set for the employee according to the new job. Coordination has to be made between immediate supervisors regarding evaluation provided that evaluation is approved by the latest boss. If this transfer has occurred before closing the cycle by 90 days or more, the employee will be inserted into his new sector curve. Whereas if the period was before closing the cycle by less than 90 days , the employee will be inserted into his old sector curve.
- Employees on consultant contracts shall be treated according to their contracts.
- Temporary employees at the call centers and specified period contract non-Saudis are treated like full time employees in performance measurement.
- The manager must justify automatically in the system if one of his employee score a rating that is below or above his previous rating by two grades.

- No employee will be evaluated after closing the cycle, until the legal affair department reviews his case file.

**Guidelines for Evaluating Absent Employees (suspended employees, employees on exceptional or study leaves, seconded employees and employees on scholarship and new employee)**

- A new employee shall not be evaluated if his working period was less than (90) days during a performance evaluation cycle.
- Employees who are on suspension shall not be evaluated but they have reported back to work and they are to be evaluated based on the actual work period if they spent on job (90) days or more.
- Employees who are on exceptional or study leaves, those on loan to other organizations shall be evaluated if that the period they spent on job is (90) days or more.
- Those who are on loan to STC Group affiliates outside Saudi Arabia shall be evaluated as per external assignment policy.
- Employees who are on loan from STC Group affiliates outside Saudi Arabia shall be evaluated outside the Bell – Curve.
- Employees who on scholarships or who enrolled in developmental diplomas that last for (90) days or more shall be evaluated according to study results at the respective universities or institutes in a way that would be in line with the performance rates stated in the performance policy, and Career Development sections shall be responsible in this regard. If the student returned back and reported to work for six months, he shall be included in the current performance cycle and shall be evaluated proportionately by the manager.

**Objectives rating**

Assessment	Definition
Significantly Exceeds Expectations	The average of achievement based on the required indicators is 126% and above
Exceeds Expectations	The average of achievement based on the required factor is 111% - 125%
Meets Expectations	The average of achievement based on the required factor is 91% - 110%
Partially Meets	The average of achievement based on the required factor is 76% -

Expectations	90%
Does Not Meet Expectation	The average of achievement based on the required factor is 75% and below

- These following percentages are subjected to comparison, and it depends on the achieving percentage of the objective.

**Competencies Rating**

Assessment	Definition
Significantly Exceeds Expectations	Always shows all behavioral indicators that meet the required level of efficiency and agreed on for his job and seek to develop them and consider a model to the others
Exceeds Expectations	Mostly show the behavioral indicators that meet the required level of efficiency and agreed on for his job.
Meets Expectations	usually show the behavioral indicators that meet the required level of efficiency and agreed on for his job
Partially Meets Expectations	Rarely shows the behavioral indicators that meet the required level of efficiency for his job and his level of work
Does Not Meet Expectations	Mostly doesn't show the behavioral indicators that is required to succeed in his job. This is effect negatively on the work and the team. Need development and training in most of the required behavioral indicators.

**Appendix 3: SEC Performance Pay. Documentary sources.**

Level	Saudi			Non Saudi			Transportation Allowance	Deputation	
	First	Middle	End	First	Middle	End		Internal	External
40									
41									
42									
43									
44									
45									
46									
47									
48	5567	7953	10339	3656	5222	6789	600	400	600
49	6315	9022	11728	4212	6018	7823	600	400	600
50	7293	10319	13545	4941	7058	9175	600	400	700
51	8315	11879	15442	6370	9100	11830	600	500	750
52									
53									
54									
55									
56									
57									
58									
59									
60									
61									

*Workers rating system:-*

Category of performance assessment	Below the least of the class level	Between the least to the middle of the class level	More than the middle until the end of the class level	Performance distribution percentage
Much above expectations	12%	8%	7%	15%
Above expectations	10%	6%	5%	20%
Achieved all expectations	8%	4%	3%	60%
Achieved the least of expectations	6%	2%	0%	5%
Did not achieve expectations	0%	0%	0%	

**Example of how the PRP system works:-**

A Saudi worker on grade 48 receives a basic of 9000 SR. He received a rating of 'above expectations' and received a promotion to grade 49. The average salary of grade 48 is 7953 SR. The percentage of the promotion to grade 49 is: 5%. Since his current salary is 9000 SR. which is more than the average of his class level then the PRP scheme became 5%.

And therefore:-

:-  $5\% + 5\% = 10\%$ .

:-  $(9000 * 10\%) + 9000 = 9900$  SR.

#### **Appendix 4: Text of letter attached with survey**

**Dear Sir,**

**Kindly complete this survey regarding the PRP scheme applied in your organisation. Please remember that there are no right and wrong answers and that your impartial point of view does matter to the research. Your assistance in this research will be of benefit in improving the well-being of employees across the firm. Any personal information you provide will be held in the strictest confidence and will not form part of the published research.**

## Appendix 5: Survey

### Employee Information

Years of employment :

Date:

Grade:

### Review Guidelines

Please complete the evaluation of the PRP scheme using the following scale:

**1** = *Strongly agree*

**2** = *agree*

**3** = *NA*

**4** = *disagree*

**5** = *strongly disagree*

### Your Evaluation

To what extent do you agree with the following statements?	(5) = strongly disagree	(4) = disagree	(3) = NA	(2) = Agree	(1) = Strongly agree
The most important motivator to work is money	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Pay is linked to performance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PRP has no effect on my work performance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The PRP system applied is unfair	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PRP has helped contribute to more effective team work	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The PRP system harms teamwork	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The way the PRP system works cannot be understood	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PRP has helped organizing my job: I know exactly what to do in each task	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My supervisor informs me how good my work is on a regular basis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
With the PRP scheme, my individual efforts are recognized	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
With PRP, my work objectives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

are clear and I know what my job is

**Managers use PRP to reward their favourites and penalize those who they don't like**

**PRP has had no impact on my working behaviour**

**I'm harassed by my colleagues because my good work affects their assessment**

**The appeal system against the manager's assessment is fair**

**I am satisfied with the proportion of PRP to basic pay.**

**PRP scheme does not matter to me because the proportion to my basic salary is small**

**Overall, I am satisfied with the PRP scheme applied in the firm**

**Any additional comments:**

## Appendix 6: Interview schedule

Case Study A	Respondent 1	45 minutes 04 January 2014
	Respondent 2)	1.15 minutes 04 January 2014
	Respondent 3	30 minutes 04 January 2014
	Respondent 4	50 minutes 04 January 2014
	Respondent 5	1.45 minutes 04 January 2014
	Respondent 6 <b>Policies Unit)</b>	55 minutes 04 January 2014
	Respondent 7	35 minutes 05 January 2014
	Respondent 8	45 minutes 05 January 2014
	Respondent 9	45 minutes 05 January 2014
	Respondent 10	45 minutes 05 January 2014
	Respondent 11	1.00 minutes 05 January 2014
	Respondent 12	45 minutes 05 January 2014
Case study B	Respondent 1	45 minutes 19 December 2013
	Respondent 2	1.15 minutes 19 December 2013
	Respondent 3	40 minutes 19 December 2013
	Respondent 4	50 minutes 19 December 2013
	Respondent 5	50 minutes 19 December 2013
	Respondent 6	1.0 minutes 19 December 2013
	Respondent 7	
	Respondent 8	

	<p>Respondent 9</p> <p>Respondent 10</p>	<p>2013</p> <p>55 minutes 19 December 2013</p> <p>35 minutes 19 December 2013</p> <p>45 minutes 19 December 2013</p> <p>45 minutes 19 December 2013</p> <p>1.0 minutes 22 December 2013</p> <p>1.0 minutes 22 December 2013</p> <p>40 minutes 22 December 2013</p>
Case study C	<p>Respondent 1</p> <p>Respondent 2</p> <p>Respondent 3</p> <p>Respondent 4</p> <p>Respondent 5</p> <p>Respondent 6</p> <p>Respondent 7</p> <p>Respondent 8</p> <p>Respondent 9</p> <p>Respondent 10</p>	<p>45 minutes 09 January 2014</p> <p>1.20 minutes 09 January 2014</p> <p>50 minutes 10 January 2014</p> <p>55 minutes 10 January 2014</p> <p>1.30 minutes 10 January 2014</p> <p>55 minutes 13 January 2014</p> <p>1.15 minutes 13 January 2014</p> <p>40 minutes 13 January 2014</p> <p>45 minutes 05 January</p>

		2014  1.00 minutes 05 January 2014  40 minutes 05 January 2014
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