

UNIVERSITY OF KWAZULU NATAL

**THE IMPACT OF REMUNERATION ON THE
PERFORMANCE OF SENIOR MANAGERS: A CASE
STUDY OF THE SWAZILAND ELECTRICITY
COMPANY LIMITED**

By

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DECLARATION

I **Bonginkosi Max Mkhonta** declare that

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GLOSSARY OF ACRONYMS USED

CEO – Chief Executive Officer

EdM – Electricidade de Mozambique

FDI – Foreign Direct Investment

GoS – Government of the Kingdom of Swaziland (Swaziland is also referred to as eSwatini)

GDP – Gross Domestic Product

KPA's – Key Performance Areas

kV - Kilovolt

MW – Mega Watts

MOTRACO – Mozambique Transmission Company

PE's – Public Enterprises

PEU – Public Enterprise Unit

SACU – South African Customs Union

SCOPE – Standing Committee on Public Enterprises

SEB – Swaziland Electricity Board

SEC – Swaziland Electricity Company Limited

SPSS – Statistical Package for the Social Sciences

TQM – Total Quality Management

ABSTRACT

The Swaziland Electricity Company Limited (SEC) is the only electricity utility company in Swaziland tasked with the provision of electricity services and products. It is 100% owned by Government of the Kingdom of Swaziland and is managed via an appointed Board of Directors. The Company has generally performed well in the past. However, since 2010, a number of factors have contributed to the profitability levels not being entirely satisfactory. Coincidentally at about the same time, the Government introduced through Circulars No. 3 of 2010 and No. 4 of 2013, new regulations meant to control the remuneration of managers within public enterprises. Since then, SEC's employee turnover has increased necessitating the need to review the extent to which the new remuneration regulations have impacted on performance management within the company including the ability of employees to stay and remain productive within the Company. Pay differentiation models are multifaceted and are generally a combination of goal setting, skills and qualifications, increased employee loyalty and performance. Ultimately, the reasons employees choose to stay in organisations is not reflective of any one theory but a combination of factors. Using the mixed method approach with a bias towards qualitative research and premised on purposeful sampling, perceptions of SEC managers were obtained via a semi structured questionnaire. The study targeted 60% of the sample population i.e. SEC managers. The findings highlighted their views on; the new pay regulations, the impact of the new pay regulations on their performance and that of the company, as well as on reward management and employee retention. Ultimately, 85% of SEC managers that participated in the study, perceived the new pay regulations as extremely detrimental to their performance and that of the Company. They not only disagreed with the rationale for the new pay regulations but also indicated that they were badly conceived and are ineffectual in driving the Company to higher performance levels. SEC managers prefer that pay regulations are the product of consultation between management, Boards as well as Government and that the current regulations, are the key driver of employee turnover within the company which has also negatively affected talent management. In designing pay systems for PE's, Government is urged not to adopt a '*one glove fits all approach*' as public enterprises are different and their underlying operational imperatives complex. Nevertheless it is recognised that the new pay regulations have formed the basis for effective control of remuneration within public enterprises, a necessary intervention to address concerns on '*out of control*' executive salaries.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

According to Core *et al* (1999), debate around the level of compensation for executive teams and senior management in organisations, has reached fever pitch in recent years. Governments, shareholders, Boards of Directors, academics, the business community in general and employee representative bodies, have all demanded a say in how senior managers are compensated and rewarded for their performance as well as input in organisations. Essentially, the debate has centred around two key questions, according to Core *et al* (1999); who should correctly set pay policy and how can superior performance be rewarded.

Filatotchev & Allcock (2010), argue that in the past two decades, executive compensation has moved from fixed pay structures to remuneration schemes that are predominantly linked to performance and share ownership structures. They further argue that the role played by shareholders (as principals) and Boards of Directors in determining the structure and shape of executive compensation, is pivotal to the debate around what constitutes fair and value adding compensation, particularly the need for increased accountability.

This research seeks to explore the phenomena on executive compensation and in particular, how it affects the performance of organisations as well as related issues of employee retention and motivation. The research is based on a case study of the remuneration of senior managers of the Swaziland Electricity Company Limited (SEC) and how it has affected the performance of the Company. Before we explore the rationale for this research and what it seeks to achieve, it is necessary that we create a context for the study, beginning with an appreciation of Swaziland as a country and its economic outlook. We will thereafter highlight the public enterprise environment of Swaziland given that SEC is a public enterprise as well as detail the history of SEC. Given that the core subject matter is remuneration, we will then proceed to explain the evolution of the remuneration policy of public enterprises in Swaziland. By doing so, we will hopefully create the context of understanding the rationale for the research and why it became necessary to investigate the extent to which the remuneration of senior managers has affected (or not affected) the performance of SEC.

1.2 Overview of Swaziland

According to the Renewables Readiness Assessment Report (2013), the Kingdom of Swaziland is a landlocked country located in the Southern African region and covers an area of 17,364 km². Countries that border Swaziland, are the Republic of South Africa (RSA) and Mozambique. RSA shares about ¾ of its boundary with Swaziland and the rest is shared with Mozambique. As contained in the Central Statistics Office Report (2011), Swaziland's population is about 1,080,337, with an annual growth rate of about 1.2%. The report further highlights that at least 29% of the people live below the poverty line. The Central Bank of Swaziland Report (2012/13) indicates that Swaziland's estimated Gross Domestic Product (GDP) per capita is about USD 3,186 which categorises the country as a lower middle-income country. Furthermore, that Swaziland's economy is fairly differentiated with the following features:

- a) The dominant sector being agriculture (mainly sugar related processing and forestry) and manufacturing (mainly textiles, metal works and light manufacturing) representing about 51% of the GDP;
- b) The mining sector which contributes a paltry 0.5% to GDP;
- c) The services sector, particularly government services provided predominantly via public enterprises, which constitutes the outstanding 48% of GDP.

According to the Central Bank of Swaziland Report (2013/14), most goods and services are sourced from the South African Customs Union (SACU), with over 94% of imports coming from the Republic of South Africa. Swaziland's economy is therefore inextricably linked to that of the RSA.

1.3 Public Enterprises in Swaziland

Given the dominance of the services sector which effectively contributes about 48% to Swaziland's GDP, the Government of the Kingdom of Swaziland (GoS), has remained active in owning most organisations that provide services to the population. In this regard, the GoS maintains effective control and management of public enterprises (PE's) through the Public Enterprises (Control and Monitoring) Act, No. 8 of 1989, hereinafter referred to as the PEU Act, which authority is exercised through the Public Enterprises Unit or Directorate which is located under the Ministry of Finance. In terms of the Public Enterprises Unit Report (2013), there were at least forty-two (42) PE's as at the end of March 2013.

The PEU Act (1989) defines PE's as public enterprises or bodies that are either owned in full by Government or where the Government has majority control or where the enterprise is largely reliant upon Government subvention for its financial support. The current categorisation of PE's is detailed in *Table 1-1*, below:

Table 1-1: List of Public Enterprises in Swaziland (Source: PEU Report, 2013)

CATEGORY A PUBLIC ENTERPRISES

- | | |
|--|--|
| <ul style="list-style-type: none"> • Central Transport Administration (CTA) • Commercial Board* • Swaziland Development Finance Corporation (FINCORP) • Motor Vehicle Accident Fund (MVA) • National Agricultural Marketing Board (NAMBOARD) • Swaziland National Housing Board (SNHB) • National Industrial Development Corporation of Swaziland (NIDC) • National Maize Corporation (NMC) • Piggs Peak Hotel • Swaziland Posts and Telecommunications Corporation (SPTC) • Royal Swazi National Airways Corporation (RSNA) • Sebenta National Institute • Small Enterprises Development Company (SEDCO) • Swaziland Cotton Board (SCB) • Swaziland Dairy Board (SDB) • Swaziland Development and Savings Bank (Swazi Bank) • Swaziland Electricity Company (SEC) • Swaziland Investment Promotion Authority (SIPA) • Swaziland Water And Agricultural Development Enterprise (SWADE) • Swaziland National Provident Fund (SNPF) • Swaziland National Trust Commission (SNTC) • Swaziland Railway • Swaziland Television Authority (STVA) • Swaziland Tourism Development Company* • Swaziland Water Services Corporation (SWSC) • University of Swaziland (UNISWA) • National Emergency Response Council On HIV/Aids (NERCHA) • Swaziland Standards Authority (SWASA) • Swaziland Tourism Authority (STA) | <ul style="list-style-type: none"> • Central Bank of Swaziland • Manzini City Council • Mbabane City Council • Swaziland Royal Insurance Corporation • Public Service Pensions Fund • Financial Services Regulatory Authority (FSRA) • Macmillan • Swaziland Energy Regulatory Authority (SERA) • Swaziland Industrial Development Company (SIDC) • Lulote – BMEP • All Town Councils • Financial Intelligence Unit • Swaziland Environmental Authority (SEA) • Swaziland National Youth Council (SNYC) • Swaziland National Sports Council (SNSC) • Youth Enterprise Fund (YEF) • Swaziland National Council of Arts and Culture (SNCAC) • Swaziland Revenue Authority (SRA) • Swaziland Civil Aviation Authority (SWACAA) • Siteki Good Shepherd Hospital • Swaziland Nazarene Health Institutions (RFM) • Swaziland Competitions Commission (SCC) • Swaziland Christian University (SCU) • Swaziland Red Cross • National Disaster Management Agency • Swaziland Public Procurement Regulatory Authority • Royal Science and Technology Park |
|--|--|

- Conciliation Mediation Arbitration Commission (CMAC)

- Swaziland Communications Commission
- South African Nazarene University

*Dormant

The Swaziland Electricity Company (SEC) falls under Category A as noted in *Table 1-1* above and as highlighted in the SEC's Annual Report 2013/14, the company is wholly owned 100% by the GoS and is the sole provider of electricity services in Swaziland. The SEC business model focuses on the entire electricity value chain which includes generation, transmission, distribution and systems operations.

1.4 History of the Swaziland Electricity Company

As contained in the SEC's Annual Report (2012/13), the organisation came into existence in 1963 and was known as the Swaziland Electricity Board. The Company therefore turned 50 years on the 1st April 2013. Prior to this, electricity in Swaziland was a very scarce commodity and was restricted only to the historical and colonial bases of Mbabane and Manzini. The history of electricity in Swaziland is a very interesting one. As contained in the SEC's 50th Anniversary Commemoration publication (2013), the first electric bulb to light up the skies of the Kingdom of Swaziland was mounted at the Mlilwane Game Reserve by James Weighton Reilly in the 1920s. This generator was later relocated to the Mbabane River just below the Mountain Inn, an old hotel located in the Mbabane town. The Mbabane town had been developed by the colonial British Government as the administrative capital of Swaziland and thus the relocation of the generator provided the town, much needed energy. Mbabane has remained Swaziland's capital till today. According to the SEC's 50th Anniversary Commemoration publication (2013), the power plant relocated to Mbabane by the Reilly's, was sold to Mercer Coz who after a couple of years, later sold it to the Swaziland Government.

As highlighted in the SEC's 50th Anniversary Commemoration publication (2013), the Reilly family also brought electricity to the second biggest town in Swaziland, Manzini, which plant was later used to form the base of what was then later known as the Bremersdorp Electricity Company. It is further reflected that the Swaziland Government bought this company in 1955 for 50,000 British pounds, which later led to the formal establishment by the Government, of the Swaziland Electricity Board in April 1963. Since then as reflected in the SEC's Annual Report (2013/14), the construction of the following power stations have occurred: -

- a) Edwaleni Power Station which was inaugurated by Harry Oppenheimer and His Majesty, King Sobhuza 11, in September 1964. The installed capacity of this hydro power plant is 15MW.
- b) Ezulwini Power Station in 1985 with the installed capacity of this hydro power plant being 20MW.
- c) Maguduza Power Station which started commercial operations in 1969, with an installed capacity of this hydro power plant being 5MW.
- d) The 400kV line that runs through Swaziland and supplies the Mozal Aluminum Smelter in Mozambique. This specific line is owned equally by a joint venture between Eskom in the Republic of South Africa, SEC in Swaziland and EdM in Mozambique via a company called MOTRACO.
- e) Maguga Power Station which was completed in 2001 with an installed capacity of 20MW. The Maguga Dam that feeds the hydro power station actually won the “South Africa Institute of Civil Engineering Award for most outstanding civil engineering achievement in the international category in 2001”, SEC Annual Report (2013/14: p3).

SEC was transformed into a fully-fledged company in 2007 through Legal Notice No. 31 of 2007. All assets, rights, obligations and liabilities of the SEB, were transferred to SEC at the vesting date including employees. The Legal Notice No. 31 of 2007 introduced three critical pieces of legislation that would give rise to the current legal and regulatory framework of the company, namely:

- a) The Swaziland Electricity Company Act of 2007.
- b) The Energy Regulatory Authority Act of 2007.
- c) The Electricity Act of 2007.

As already indicated, SEC has always been 100% owned by the Government of the Kingdom of Swaziland both when it was known as SEB and subsequent to its transformation to a fully-fledged company. The implications for this as reflected in the SEC Act (2007) and the PEU Act (1989), are summarised below:

- a) The Government of the Kingdom of Swaziland as sole shareholder, appoints a total of nine (9) Board Members into the SEC Board of Directors. This includes the Chief Executive Officer who is the only Executive Director. The SEC Board of Directors is responsible on behalf of the shareholder for the management of the company.

- b) The shareholder also approves the recruitment of two Executive Directors, namely, the Chief Executive Officer and the Financial Director. The rest of the members of the company's executive management, are appointed by the Board of Directors on the recommendation of the Chief Executive Officer.
- c) That as long as the Government is the sole shareholder, the Minister of Natural Resources & Energy performs the functions and exercises the responsibilities assigned to the Assembly of Shareholders by the Company's Act, of 2007 with regards to the management of the company, payment of damages and approval of annual accounts. This also includes approval of the dividends policy and the external auditors.
- d) That unlike most public enterprises, SEC is liable for the payment of company tax.
- e) That given the reality that the Government of the Kingdom of Swaziland remains the sole shareholder, SEC remains a Class A public enterprise and as already indicated, is subject to the provisions of the PEU Act of 1989. Thus all major decisions about investments, expansion plans, tariffs, employee and organisational changes, remuneration of employees, are subject to the approval of the Government of the Kingdom of Swaziland through the Standing Committee on Public Enterprises (SCOPE). Members of SCOPE consist of the entire Cabinet of the Government of the Kingdom of Swaziland.

1.5 The historical performance of the Swaziland Electricity Company

As is reflected in the SEC Annual Report (2007/8), the reasons for the transformation of SEC from a public enterprise to a fully-fledged company were two-fold. Firstly, the Government's desire was to lay the basis for the company to begin to attract private capital through equity ownership mainly to fund its capital and expansion requirements. Being a developing country, Swaziland's financial budget is hugely burdened with socio-economic development priorities thus the need to explore alternative sources to funding the growth of the company. Secondly, through the diversification of ownership, Government hoped to attract strategic partners with experience in transforming public enterprises to high performance organisations.

It is however critical that as part of creating a context to this research, the historical performance of SEC is analysed. As highlighted in *Figure 1-1* below, SEC has experienced various levels of performance in the past eleven (11) years, i.e. from 2004 to 2014.

SEC Profit (2004 - 2014)

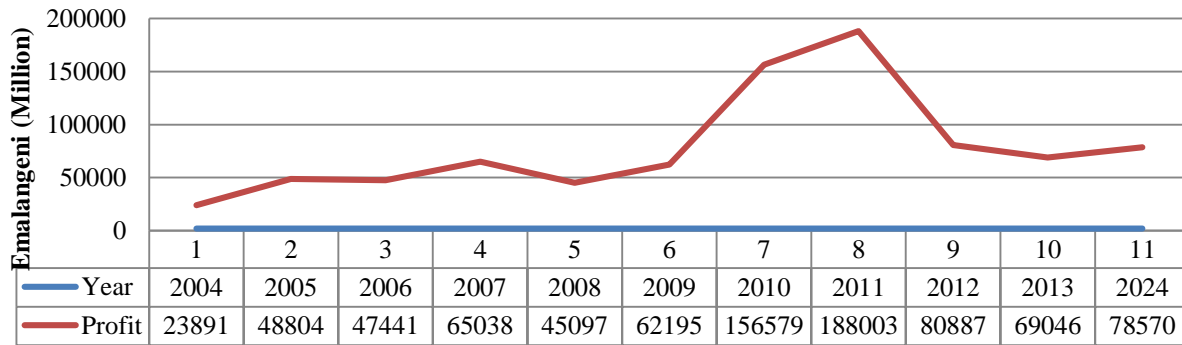


Figure 1-1: SEC’s performance for the past eleven years from 2004 to 2014 (Source: SEC Annual Reports 2002-14)

The reduced profitability of SEC in the last four (4) years in particular, has been a source of much debate and consternation particularly amongst management. Nevertheless, the focus of this research is not how SEC has performed in the past 11 years. The research has its roots in the desire to explore the relationship, if any, between the remuneration of SEC managers on the one hand and the performance of the company on the one hand. It however can be deduced that the performance of the company (in terms of profits) of 2010 to 2011, has not been repeated in the past three (3) years. The extent that this performance drop could be attributable to the remuneration of management in general will be the explored in Chapter Four.

1.6 Problem Statement

Through Circular No. 3 (2010), attached as *Annexure A*, government introduced guidelines on executive remuneration for all PE’s in Swaziland. Boards of Directors and Remuneration Committees of Government owned entities, were directed to use the guideline to remunerate Chief Executive Officers, Chief Financial Officers and Executive Teams of PE’s. The guideline further directed that the remuneration of the rest of the employees in PE’s must be aligned to Circular 3 of 2010. By issuing the guideline, government sought to control how PE’s remunerated their employees in general and their executives in particular, underpinned by the need to “establish a clear relationship between key executive performance and remuneration”, Circular 3 (2010: p2).

Whilst *Figure 1-1* above, highlights how the company has performed before and after the introduction of the guidelines on executive remuneration, *Table 1-2* below, reflects the actual turnover experienced by the company before and after the period of the introduction of Circular 3 of 2010.

Table 1-2: SEC's Turnover Rate from 2009 – 2013 (Source: SEC Annual Report, 2013/14)

Financial Year (FY)	Manning Levels Per FY	Turnover (excluding VR)	Voluntary Retirement (VR)	Total Turnover as a % of Manning levels	Total Turnover as a % of Manning levels excluding VR
2009/10	587	20	88	18.40%	3.41%
2010/11	571	9	25	5.95%	1.58%
2011/12	587	17	0	2.90%	2.90%
2012/13	640	22	0	3.44%	3.44%
2013/14	637	32	0	5.02%	5.02%

The conclusion from *Table 1-2* is that there has been an unfortunate increase in SEC's turnover rate since the advent of Circular 3 of 2010. This specific guideline was reviewed by the Government with the publication of Circular No.4 of 2013, attached as *Annexure B*. The effect of Circular 4 of 2013 was that salary caps were slightly increased to cater for inflation. This however must be understood in its proper context. Between September 2010 when Circular 3 of 2010 was implemented and August 2013 when Circular 4 of 2013 was implemented, salaries for senior managers were not reviewed to keep up with inflation. Circular 4 of 2013 was therefore a welcome relief as it adjusted the 2010 rates for at least two cycles of inflation i.e. 2012 and 2013.

However, the interpretation of Circular 4 of 2013, had the impact of making executive remuneration worse in that the bonus benefit was now included in the salary computation whereas Circular 3 of 2010 had excluded bonus as part of guaranteed salary. In addition and as reflected in Circular 3, "where there are existing contractual arrangements which are not in line with these guidelines, there should not be an adverse effect on such obligations. At the expiry of an existing contract, the guidelines should be applied in determining the remuneration terms in the event that re-appointments occur", Circular 3 (2010: p9). There direct implication of this specific provision of Circular 3 of 2010 was that at contract renewal, the majority of managers will be subject to salary reduction so as to comply fully with the provisions of this Circular. Except where existing managers decided to exit the organisation, remaining managers had to be subjected to this untenable situation if they wished to stay and work for SEC. The remuneration guidelines, did not have any provision for impact mitigation measures to cushion affected managers against the resultant drop in pay.

1.7 Research Objectives

Perkins and White (2011) aver that reward management is a powerful means of communicating value to employees in a manner that underscores direct reward versus criteria which is regulated over time and is linked to the business objectives of that organisation. The reality however is that reward in this context, occurs in the framework of an ongoing employment relationship and is intended to compensate effort. Therefore in order to limit subjective conclusions on whether the employee's effort did indeed match organisational expectations, it becomes necessary to implement a clear performance management mechanism. Nevertheless, even with performance management, there is still no guarantee that the choices employees make, will complement the reward given. Dale-Olsen (2012) somehow concurs with the view espoused by Perkins and White and argues that generally, there is a minimal relationship between how a company remunerates its executives and its productivity. In his study premised on companies in Norway, Dale-Olsen found that companies that distinguished pay between fixed and productivity based pay, paid more for underperformance based pay than under fixed pay, and that how top management was paid, was linked more to the choice of remuneration schemes rather than the performance of the companies themselves.

According to the SEC Act (2007), the company's remuneration policy is determined by the Board of Directors on the recommendation of the Board's Remunerations Committee. In addition, the governing board represents the shareholder. As in the case of SEC, the Board is appointed by the only shareholder, the Government. As highlighted by Circular No. 3 (2010), the Board did not have any input into the design of the remuneration guidelines as this was done by government itself and the new regulations are applicable on all PE's in Swaziland. Fels (2010) puts forth the point that in order to address remuneration more effectively, the shareholder must increase its influence over the executives of the enterprise as a means of protecting the long-term sustainability of the company. Fels however, also argued that this must be done in conjunction with other interventions including improving overall corporate governance.

Given the foregoing review of remuneration and its link to performance, it is clear that an understanding of performance management will provide us a better appreciation of how these two concepts interact. Performance management according to Lucica (2010) is a methodology which defines the key practices, attitudes, actions or approach to the enhancement of performance that are developed at the point of contact with the organization and are re-inforced throughout his/her tenure. Houldsworth & Jirasinghe (2006) go further and indicate that performance management occurs in a specific organising framework that includes performance processes, reward architecture, monitoring metrics and leadership capability.

This research will therefore draw from the rich literature that is available on the topics of remuneration and performance. This will further be enhanced by the available literature from journal articles on the impact of remuneration on performance, particularly, how it aids or abates the latter. Therefore, the key research objectives are the following:

- a) To what extent do the new regulations on remuneration affect the performance of the Swaziland Electricity Company?
- b) To what extent does the Swaziland Electricity Company's remuneration system affect the retention of new talent?
- c) How can SEC's remuneration system effectively contribute towards the sustainability of the company?

1.8 Motivation for the Research

Given the foregoing, this research was conceived primarily to examine the extent to which the government pay regulations had affected performance of managers within the company. Through examining the perceptions of senior managers, insight will be derived and conclusions made on the existence or non-existence of a direct relationship between remuneration and performance. The performance of SEC prior and after the introduction of the guidelines on remuneration, with particular reference to the company's ability to attract and retain key talent as well as on employee motivation, will be used to give a context to this research.

Generally, this research is motivated by the desire to see PE's being transformed to truly high performance organisations where talent management and retention, lies at the heart of each organisation's human capital strategy. As reflected in the analysis of SEC's performance highlighted in the *Figure 1.1*, the performance of SEC since the organisation was transformed to a limited liability company in 2007, does not bode well for the future viability of this critical PE. Given the reality that countries the size and profile of Swaziland have historically struggled to attract foreign direct investment (FDI) to address the developmental needs of its people, PE's like SEC have tended to play a very critical role not only in providing employment but also in addressing the infrastructure requirements of the country. The findings of this research will therefore: -

- a) Assist in providing a coherent context on the unintended impact of Government policies on the performance of public enterprises in general;
- b) Contribute towards a better understanding of the impact of remuneration on the performance of SEC particularly since 2007;
- c) Be used as feedback to Government and the SEC Board of Directors, on the impact of the new pay regulations on employees generally and SEC managers in particular;
- d) Be useful to the Board of Directors of SEC in fully comprehending the views of the management collective with regards to remuneration policies and practices as well as their impact on enabling the development of the company to a high performance organisation;
- e) Enrich the knowledge base of the remuneration policies of PE's and may be useful input into the development of a more sustainable regulatory approach to remuneration of PE's in Swaziland; and;
- f) Be considered as input into the development of an alternative remuneration philosophy and mechanism for public enterprises.

1.9 Research Design and Methodology

A literature review will be done in order to fully understand the theoretical foundation for this research. Empirical research will then be performed in order to determine the extent to which SEC managers perceive the Government initiated pay guidelines to be aiding or undermining their performance within the Company.

1.10 Literature Review

1.10.1. Data Collection

Primary data will be collected from the company's annual reports from 2004 to 2013, the government regulations on executive remuneration, relevant literature on remuneration systems particularly in public enterprises as well as journal articles on the subject. Secondary data will be gathered through the use of semi-structured interviews and from the focus group discussions.

Once the data is collected from both the interviews and the focus group discussions, the information will be collated, grouped and transcribed. Thereafter the researcher as indicated by Creswell (2009) will attempt to understand the logic of the information gathered so that taken as a whole, its overall meaning is unambiguous. The data will then be coded and analysed using Statistical Package for the Social Sciences

(SPSS). The key themes or categories that emerge will be discussed and qualified through direct quotations, supported by figures and tables. Finally, lessons drawn from the findings will be highlighted and contrasted with the available literature on remuneration and performance. It is the researcher's intention that the findings will be used as useful input into the development of an alternative remuneration model for all PE's in Swaziland.

1.10.2 Empirical Research

Essentially, the rationale for undertaking this research is to explore and to fully comprehend the perspectives of senior managers within the company on the question of remuneration, how it affects their performance and retention within SEC. As highlighted by Yin (2009), focused research makes it possible for researchers to make a holistic inquiry into real life events in a manner that allows for in-depth analysis of a particular phenomenon whilst at the same time ensuring that the context is fully represented.

1.10.3 Use of Questionnaires

Consistent with the views expressed by Creswell (2009), the research will therefore use the mixed method approach although with a greater leaning towards the qualitative approach. The data will be obtained from the participants own natural setting through semi structured questionnaires. However, given that the research will also exploit the use of figures and tables which are statistical in nature, the presentation of the results will lend itself to a mixed method approach. Therefore, the presentation of your data will use mixed methods which according to Creswell (2009), is often used for numerous reasons. The quantitative and qualitative representation of data strengthens each perspective and to a large extent, provides profoundness to fully appreciating the phenomenon. As a researcher, I will thus derive certain insights and general themes from what the SEC managers have espoused and make interpretations from the meaning of the information gathered. Vithal & Jansen (2010) emphasised that in social science research, exploring and understanding implies that the study is qualitative in nature, as opposed to determining which suggests that the study is quantitative in nature. The sentiments expressed by the managers and their viewpoint on the extent to which the new remuneration regulations inhibit or enables their performance, will provide the researcher with a good basis from which to draw insight and to make certain conclusions about the new remuneration regulations. In particular, their views on whether or not the new regulations have affected their desire to stay within company, is central to the research objectives.

The questionnaires will be divided into four sections as reflected below: -

- a) **Section A** – Biographical data
- b) **Section B** – their perspective of the new remuneration guidelines (their understanding on how the new guidelines were formulated and the objectives of the new guidelines)
- c) **Section C** – How the new remuneration guidelines have impacted on their performance
- d) **Section D** – How the new remuneration guidelines has affected their retention within the company

A Likert four point scale will be used in the semi-structured interviews as indicated below:

- a) **Knowledge of the new regulations:** 1 = Strongly aware, 2 = aware, 3 = somewhat aware, 4 = not aware
- b) **Impact of the new regulations:** 1 = Hugely influential, 2 = influential, 3 = somewhat influential, 4 = not influential
- c) **Satisfaction with the new pay regulations:** 1 = Strongly satisfied, 2 = satisfied, 3 = dissatisfied, 4 = very dissatisfied

1.10.4 Sampling Population

The sampling population will essentially consist of all sixty (60) managers of the company. The aim is to solicit the views of at least thirty six (36) managers and that this will be at least sixty percent (60%) of the targeted sample population. Their views on key issues around remuneration and its impact on performance as well as retention, will be solicited through a questionnaire. Given that this is a case study on the perspectives of SEC managers on the key issues of remuneration and its impact on performance, it is vital that a majority of the managers are given an opportunity to explore this phenomenon of the new remunerations regulations. Moreover, this approach to sampling is considered adequate for qualitative research because as argued by Leedy & Ormrod (2013), purposeful sampling's key advantage is that it allows the researcher to focus on individuals that will provide the most information about the subject under review.

It is expected that the managers will provide a holistic and objective view of the key issues being canvassed especially given that they are best positioned as managers of SEC, to comment on matters that affect their performance. Whilst they are the beneficiaries of the remuneration system, their views are not

expected to be subjective enough to disqualify them from providing an honest assessment of the impact of the new remuneration guidelines. The identities of the sample population will be protected so that they give information willingly and as objective as possible.

1.11 Study Location

This research is a case study of the views of managers of the Swaziland Electricity Company, on the impact of remuneration on the performance of the company. It is therefore located within SEC, which is domiciled in Mbabane, Kingdom of Swaziland.

1.12 Structure of the Dissertation

The dissertation will be structured to include the following chapters: -

- a) **Chapter One** – Introduction, background about Swaziland and SEC, the problem statement and significance of the study.
- b) **Chapter Two** – Literature Review with emphasis on remuneration, performance management and employee motivation.
- c) **Chapter Three** – will outline the research methodology used in the study.
- d) **Chapter Four** – will highlight the research findings and analysis, supported by graphs and tables and directly linked to the literature review.
- e) **Chapter Five** – conclusion and recommendations will be covered in this chapter.

1.13 Limitations of the Research

Any research of this nature, would have certain limitations, particularly given that it is being undertaken in a closed environment i.e. case study setting. Findings and lessons from the study, will be extrapolated to cover other parastatals given that the pay regulations are not unique to SEC but affect all public enterprises in Swaziland generally. Regardless of the value of the feedback from SEC managers, it is not necessarily a given that the same factors could be prevalent in other public enterprises. Whilst time constraints and resources were the key determinants in restricting this case study to SEC, it is fair to conclude that focusing on SEC only has deprived the research of multiple perspectives that would have enriched the findings if more than one public enterprise was covered. Despite this limitation, the

experiences of SEC managers on the impact of the new pay regulations on their performance and that of the Company, will be useful feedback to the SEC Board of Directors in making decision on pay issues.

Furthermore, the researcher is an active employee of the company and has been affected negatively by the implementation of the new remunerations regulations. In addition, the managers in the targeted population, have also been affected negatively by the new remuneration regulations. In the researcher's view, this may pose concerns of bias. Matters affecting remuneration tend to be very emotive. This is so given the reality that most members of an organisation, tend to have very exaggerated views on the value of their effort including how such effort should be rewarded. Nevertheless, the nature of this study is subjective in nature. Thus the structure of the questionnaire has been designed to counteract this bias and to mitigate it as much as possible. It is however accepted that bias is inherent in employee perceptions as predominantly, the intention is to gather views based on the employee's own experiences and judgement on a specific phenomenon.

Lastly, the manner in which the new pay regulations were initially implemented in 2010/11, particularly the lack of adequate consultations, lack of clarity on the rationale and criteria used in the categorisation, has given rise to the erosion of trust especially on the part of the people it was designed to affect i.e. managers of public enterprises. Managers generally distrust the motives of the shareholder in implementing the pay regulations. Juxtaposed against how government itself manages pay within government particularly with regards to how remuneration for politicians in Swaziland has been reformed, this research could not have happened at a worse time. In the researcher's view, the erosion of trust may undermine the effective participation of the managers especially if they entrench perceptions that government is unlikely to take their feedback into consideration. It therefore will be vital that the researcher's establishes a fair measure of buy-in so that this exercise is not viewed as an effort in futility. In addition to the piloting the questionnaire, the researcher will randomly select participants to attend an informal discussion on the need for such a study. It is hoped that through doing so, the participants will connect emotionally with the objectives of the research and hence improve their qualitative participation in the exercise.

The next chapter will explore the theoretical underpinning of reward, motivation and performance management so as to create an objective context to the research.

1.14 Conclusion

The objective of Chapter One, was to provide a context to the research . In this regard, an overview of Swaziland was highlighted including key statistics about the country. A historical background of SEC was elucidated emphasising the historical performance of the Company and why it was necessary to undertake this research, what the objectives are, what motivated the study. In addition, this chapter covered how the research will be conducted, focusing on the research design, methodology, how data will be collected as well as the sample population. Lastly, Chapter One covered the structure of the dissertation as well as limitations of the study.

The next chapter, will deal with a review of the theoretical concepts that underpin the research, with emphasis on reward theory, motivation and performance management.

CHAPTER TWO

REMUNERATION AND ITS IMPACT ON THE PERFORMANCE OF MANAGERS

2.1 Introduction

Chapter One basically covered an overview of the study with a brief summary of each of the chapters. In addition, the objectives and significance of the study were discussed in detail particularly in the context of how the research aims to enrich existing literature on remuneration with specific reference to the Swaziland Electricity Company. The purpose of Chapter Two is to explore the theory that underpins the concepts of rewards in the context of employee retention, motivation, performance and organisational success. This chapter will review literature on pay models utilised to attract and retain employees thus improving the performance of a company. Furthermore, the chapter will look into remuneration as a motivator in aggregation to the traditional theories of motivation. In the researchers view, it is only through fully appreciating the theoretical underpinnings that a proper foundation to meet the objectives of the study can be established. Consequently, the information to be explored in this chapter will enrich the existing knowledge base of remuneration particularly in public sector organisations, and may result in the development of a more sustainable approach to remuneration. This is one of the key objectives of the study.

2.2 Overview

Within modern day organisations, there is no doubt that many of them are challenged with matters related to attracting, motivating and retaining high performing employees. Without highly motivated and productive employees, organisations will generally not be able to achieve their objectives nor to grow their business in a sustainable and viable manner that outperforms their competitors. As summarised by WorldatWork (2007), “from the simplest barter systems of centuries past, to the current complex incentive formulas of today, the organisational premise has been the same: provide productivity and results to an enterprise, and the enterprise will provide its employees with something of value”, WorldatWork (2007, p GRI – 1.3).

Throughout the history of the evolution of organisations, managers have consistently been confronted with the question of how to attract and retain highly productive and motivated employees. The evolution of the concept of rewards is thus clearly intertwined and interwoven with the history of the evolution of organisations themselves, and is underpinned by the battle for talent. As demonstrated through *Figure 2.1* below, as organisations have continued to evolve, so has the notion of rewards - all this being underpinned primarily by the need to attract and retain talent.

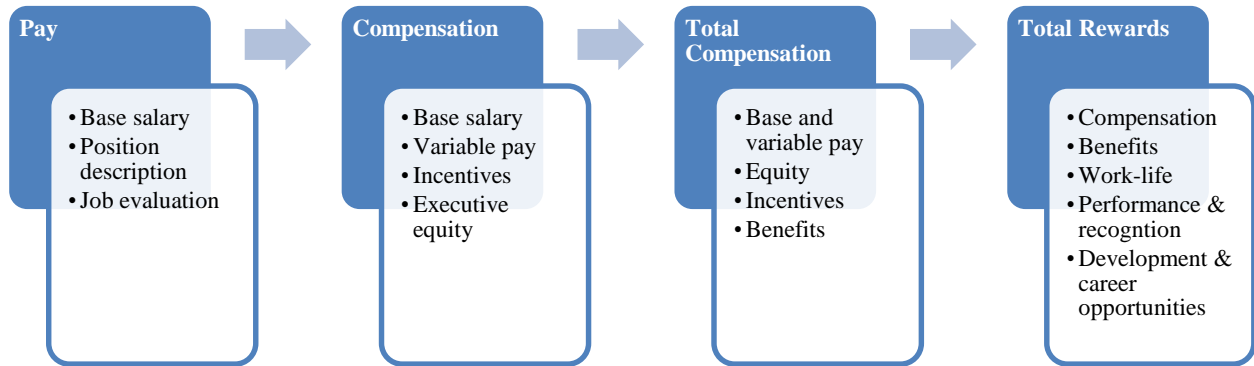


Figure 2-1: The Evolution of Rewards – Source: WorkatWork (2007) Total Rewards Management. The Total Rewards Association

As argued by Jiang *et al* (2009), modern reward management concepts have therefore developed in the context of managing transforming organisations and essentially relate to much more than focusing on the contribution of employees to the wellbeing of his/her organisation including their compensation. They have also argued that non-direct pay elements have been playing an increasing role in reward structure design. “Generally, modern reward management is carried through Total Reward Management which matches with the work ethic and pursuit of the present employees, and it is an important reflection of emphasizing the relationship between enjoyment of reward elements and performance”, Jiang *et al* (2009: p 178).

A summary of definitions for the key concepts used in this Chapter in the context of reward management, are provided in Table 2.1 below:

Table 2-1: The Five Phases of Rewards – Source: Jiang, Z. Xiao, Q. Qi, H. Xiao, L. (2009) Total Reward Strategy: A Human Resource Management Strategy Going with the Trend of the Times. *International Journal of Business and Management*, 4 (11), 177 – 183

The Modalities of Reward	Specific Description
<i>Wage</i>	A wage is usually a financial compensation received by a worker in exchange of their labour
<i>Salary</i>	A salary is a form of periodic payment from an employer to an employee, which may be specified in a contract. It is contrasted with piece wages where each job, hour or other unit is paid separately, rather than on a periodic basis
<i>Compensation</i>	Compensation is something similar with pay or salary, typically a monetary payment for services rendered, as in an employment. Some benefits may be included.
<i>Total Compensation</i>	Total compensation includes pay, benefits, flexible schedules, education assistance, training courses and workplace opportunities to help you get the most out of your career and personal life.
<i>Total Reward</i>	Total reward covers all the elements that employees value in working for their employer. It emphasizes the integrity of remuneration and is put forward in contrast to total compensation. Although at most times it is thought as the same as total compensation, total reward remains the new word in the category of remuneration or reward

Given the foregoing background, this chapter will address the various components to remuneration and how remuneration links to business success. Through the literature review, a basis for understanding the rationale for this research will be established.

2.3 Reward and Performance Management: A Theoretical Perspective

This section explores reward management, including more elaborate definitions of the terms used when understanding rewards, from various theories. This section will be concluded by offering a critique of all theories used.

Why is it that the issue of pay attracts so much emotional responses from people generally? Whether one looks at private organisations or public ones, the bottom line is the same – general disdain for decisions those in control take with regards to remuneration. Shareholders of private companies have often argued that the remuneration of employees in the organisations they own, does not equate to the value they create nor the returns they receive from their shareholding. In public organisations, it is worse as people or citizens generally view public servants with indifference especially in relation to the remuneration they receive. Remuneration is as fascinating in as much as it is complex. As argued by Perkins & White (2011), ‘people – managers and employees - in all their diversity, interpret and act on their impressions of

the world and organisation, and ways of bringing order to these socio-economic institutions, influenced in turn, by their unique character and situations”, Perkins & White (2011: p2).

Thus in order to fully engage with the concept of remuneration, it is necessary to begin by exploring the different views and notions people have on a matter as difficult but as necessary as remuneration.

2.3.1 Theory of Reward Management

The work of Perkins & White (2011), underscores the argument that employee compensation, forms a key foundation that anchors the employment relationship. To an extent that how remuneration is implemented, tends to influence the character and quality of the work relationship and its outcomes. Perkins & White (2011) further argue that the term employee compensation, is often used interchangeably in most literature with words such as remuneration or reward, and that the term has now generally come to be associated with all forms of financial returns, tangible services and benefits employees receive in return for the services they render in organisations. Lastly, they put forth the suggestion that employee rewards can be differentiated into two, namely extrinsic rewards and intrinsic rewards. Whilst in their view, extrinsic rewards relate to the salary, incentive pay and benefits employees receive in recognition for the value they contribute in organisations, intrinsic rewards are manifestations of work and employment, for example, positive and caring attitude from an employer or even job rotation after attaining a specific goal, developmental opportunities, acknowledgement for outstanding work or feelings of achievement.

Aktar, Sachu & Ali (2012) also concur with this definition of extrinsic and intrinsic rewards and confirm that traditionally, both extrinsic and intrinsic rewards have been used to compensate employees for the value they offer their organisations with the assumption that this will then create increased loyalty and commitment to that entity. They however also advance the proposition that rewards do not create a lasting commitment to an organisation but merely create temporary compliance. Furthermore that when it comes to producing lasting change in attitudes and behaviour, rewards are ineffectual in that they work like punishment. Once the rewards run out, employees revert back to their old behaviours. Whether or not rewards achieve their intended purpose will be investigated in this chapter so that the notion of the inter-relatedness between rewards, motivation and performance is placed in its proper perspective.

Ballentine *et al* (2012) aver that the underlying premise in the concept of reward is based on the need to recognise exceptional performance, deliver feedback, enable business objectives to be achieved, motivate

employees to fully appreciate their role in the enterprise including the realisation that without them playing their part effectively, the enterprise will not exist. Therefore employee reward embodies all the principal pillars supporting an employment relationship, a view also espoused by Kessler (2005). Zingheim and Shuster (2000: p13) state that there are four reward components that an organisation can implement to be effective and efficient and these are outlined in *Table 2-1* below. As illustrated in *Table 2-2*, it is informative that total reward and pay including enabling the creation of an enabling work environment, are fundamental to the concept of reward management. It is also apparent that in order for any organisation to succeed, all these mechanisms should be present in the workplace.

Flowing from the preceding views on what constitutes reward and appreciating the different components of reward, one can surmise that reward management encapsulate “the combined actions an employer may take to specify at what levels employee reward can be offered, based on what criteria and data, how the offer will be regulated over time and how both the intended links between organisational goals and values should be understood and acted on by the parties to the employment relationship”, Perkins & White (2011: p5).

Zingheim and Schuster (2000) observed that a total rewards strategy has at least four components. Therefore, to be truly effective, a reward system should not just be about monetary incentives but must also be concerned about non-financial rewards. This view, reflected in *Table 2-1* below, complements the views for the existence of both intrinsic and extrinsic motivators.

Table 2-2: Total Reward Components: The Better Workforce Deal, Source: Zingheim, P.K. & Schuster, J.R. (2000) *Pay People right! Breakthrough reward strategies to create great companies.* Jossey-Bass, San Francisco, p13)

<p style="text-align: center;"><u>Individual Growth</u></p> <ul style="list-style-type: none"> • Investment in people • Development and training • Performance Management • Career Enhancement 	<p style="text-align: center;"><u>Compelling Future</u></p> <ul style="list-style-type: none"> • Vision and Values • Company growth and success • Company image and reputation • Stakeholder ship • Win-win over time
<p style="text-align: center;"><u>Total Pay</u></p> <ul style="list-style-type: none"> • Base pay • Variable including stocks • Benefits or indirect pay • Recognition 	<p style="text-align: center;"><u>Positive Workplace</u></p> <ul style="list-style-type: none"> • People focus • Leadership • Work itself • Involvement and Communication • Trust and Commitment

According to Perkins and White (2011) there are different theoretical approaches to managing employee reward all of which can be classified in terms of their emphasis either on structuring reward or on the process of reward determination.

The following section reviews at least four (4) alternative theories derived from various disciplines that can be utilised to address the basis of reward management.

2.3.1.1 Labour Market Theory

Labour Market Theory is underpinned by the “reality that there is competition for labour in the same way that within a capitalist’s society, goods and services are traded in a market”, Perkins and White (2011: p35). Thus as Perkins and White continue to argue, whilst employers may want to procure labour at the best price, employees as well will attempt to sell their labour within that given market, at the best price. As indicated by Black (2002), the supposition is that pay will be fixed in the labour market where the demand for workers equates exactly to the supply. This theory, according to Gerhart & Rynes (2003) advances the hypothesis that there is little point in employers attempting to differentiate themselves from their competitors by paying different or higher wages because, in the final analysis all organisations have to pay the same as everyone else and that the effective strategy is to pay what others do.

2.3.1.2 Human Capital Theory

Abercrombie *et al* (2000) view human capital as another economic theory that is pertinent to reward management. This theory is premised on the fact that individuals accrue human capital by investing time and money in education, training, experience and other qualities that augment their productive capacity and thus are worth something to their employer. While, all employees bring some skill and experience to the performance of their tasks, “accumulated educational achievement and experience give rise to differentiation in the level of reward necessary to secure and retain certain people”, Perkins and White (2011: p41). Competition prevalent in organisations across national boundaries due to higher labour value content, presents a need for reward management system regulation beyond simple market clearing mechanisms.

2.3.1.3 Efficiency Wage Theory

According to Perkins and White (2011) efficiency wage theory is a managerial strategy to achieve more efficient employment contracts over the medium term. The theory is underpinned by the assumption that employers would rather pay higher reward levels than to lose employees who use their human capital to secure alternative work at improved rates. Employers therefore believe it is better to pay higher wages to sustain an ongoing relationship, than to lose critical skills to a competitor organisation. Therefore, efficiency wages are an investment in organisation specific knowledge to maximise on loyalty and minimise opportunistic employee behaviour. Higher levels of reward are offered to employees in the expectation that they will in turn see the higher reward as an incentive to perform better than the external market standard.

2.3.1.4 Internal Labour Markets Theory

As advanced by Doeringer (1967) cited in White (2000), the theoretical construct of the internal labour market could be explicitly referred to as a processing unit wherein the market functions of determining product value, allocating of responsibilities and ensuring that employees are able to perform certain tasks, are performed. It is essentially managed via a unique set of rules which demarcate the limits of the internal market and determine its internal structure. The process of recruiting employees into the organisation as well as defining work rules, delineate the access points into the internal market. In addition, the characteristics of the internal market include the relationship between various jobs for purposes of internal mobility and the privileges which accrue to workers within the internal market.

As averred by Hendry (2003), in instances where an organisation wants a constant relationship with their personnel, this may be possible if a controlled internal labour market is created and maintained so as to insulate some or all the organisations employees from the vagaries of external market forces which impact on an organisation's ability to retain its employees. Examples of internal labour markets would be armed forces or police where entry is limited to particular grades.

Having reviewed at least four (4) basic theories of reward, *Table 2-3* below, therefore summarises these theories and contrasts their approaches:

Table 2-3: Comparison of the theories of reward management

Theory	Key Features	Advantages	Limitations
<i>Labour Market Theory</i>	<ul style="list-style-type: none"> • Within a given labour market, labour maximises return (purchase of labour at the best price) 	<ul style="list-style-type: none"> • Good for setting minimum wages to address socio-economic challenges 	<ul style="list-style-type: none"> • In a capitalist environment, labour differentiated based on skills, qualifications and experience • Not normal to pay rates regardless of these variables
<i>Human Capital Theory</i>	<ul style="list-style-type: none"> • Where employees invest in better skills set, which in turn improves productivity and thus they are able to negotiate higher wages from a better platform 	<ul style="list-style-type: none"> • Differentiation based on overall skills set, qualifications and experience (simple and easier to implement) 	<ul style="list-style-type: none"> • Labour market is now global & cuts geographical boundaries and thus poses very difficult questions on regulation of wages
<i>Efficiency Wage Theory</i>	<ul style="list-style-type: none"> • Where employers pay higher wages to secure continued tenure of employees 	<ul style="list-style-type: none"> • Pay directly correlated to increased loyalty – with hope for higher performance • May work towards addressing opportunistic employee behaviour (spot bargaining) 	<ul style="list-style-type: none"> • Paying higher wages does not always result in improved productivity • Difficult to reverse pay as it becomes part of personal right once earned
<i>Internal Labour Market Theory</i>	<ul style="list-style-type: none"> • Defined by key set of rules which demarcate boundary • Institutional hiring and work rules define access points 	<ul style="list-style-type: none"> • Works better where organisation requires constant relationship with employees • Protects members from external market volatility • Allows members to have extensive knowledge about members • Internal culture prevents spot bargaining over wages 	<ul style="list-style-type: none"> • Works better in armed forces or police with strong hierarchy of control • Difficult to apply in other work situations

From the above discussion on reward management it may be concluded that a multifaceted approach has to be followed in understanding reward management.

The consequent section will address performance management, a process which is one of the principal elements of reward management.

2.3.2 Theory of Performance Management

A clear definition of performance management has not been established because the meaning varies from one organisation to another. According to Gronfors (1996), the term means different things to different people depending on their position in the organisation. A number of authors have however investigated performance management and have therefore suggested what the term means. An appreciation of

performance management will assist this study in contextualising how the performance of employees in an organisation is influenced by amongst other things, reward and motivation.

Swanepoel *et al* (2003) argue that performance management is a continuous practice that involves the planning, managing, reviewing, rewarding and development of performance, through entrenching the culture of performance appraisals as a key part of a supervisor's responsibility in an organisation so as to achieve the overall goals of that entity. They argue that whilst performance appraisals are the actual system of measuring performance, performance management is much broader encompassing not only measuring performance, but allocating adequate resources, problem solving, facilitating employee feedback and enabling integrated planning, to achieve business success. As a concept, performance management surfaced in the late 1980s, initially as an extension of performance appraisal, a practice used to evaluate an individual employees' past performance.

There is thus general consensus amongst a number of authors, for example, Lindholm (2000), and Anguinis (2009), that performance appraisal is but one of the various elements that are a key feature of the continuous performance management process. Vance & Paik (2006) and Briscoe & Claus (2008), actually aver that this process also involves other critical procedures such as the communication of company strategy through individual objective setting, setting performance standards, measuring actual performance against those standards and continuously re-designing jobs to achieve the overall objectives of the organisation. Moreover, job design, feedback and monitoring, links to training and development planning and more importantly, employee compensation.

Consequently, it can be deduced as Aguinis (2009) does, that performance management is a method of identifying, measuring and developing the performance of individuals and teams and aligning performance with the strategic goals of the organisation. Cascio (2006) agrees and actually underscores three key elements as underpinning performance management: goals, measures and assessment. Engle *et al* (2008), whilst concurring with this view, also contends that performance management typically also includes feedback to employees at all levels including consequences for employees as well as the development of skills. Tahvanainen & Suutari (2005) on the other hand suggests that strong goal setting and additional customary appraisals are significant components of performance management system that may also comprise performance related pay.

Organisations typically appoint employees so that they perform tasks with clear goals that are aligned to company's values. Against this context, the performance sphere thus tends to be multidimensional.

Rosenzweig (2006) contends that a performance evaluation system should incorporate developmental, result-based and behavioural measures. Performance measurement systems were traditionally established as a catalyst of monitoring and maintaining organisational control. As argued by Amaratunga & Baldry (2002), a lack of proper performance measurement can be a barrier to change and improvement. Skrivastava, (2005) concurs and avers that measurements actually ensure a connection between individual employees, with the vision and goals of the organisation. Whilst on one hand, this assists the organisation to attain excellence service levels, on the other hand it enables the organisation to achieve employee satisfaction and the personal growth of employees.

Accordingly Corcoran (2006) argues that performance management is about instituting a culture in which employees and teams take responsibility for the development of their own skills and the achievement of continuously evolving goals and objectives. Furthermore, that performance management should not be viewed separately but must embrace every component in which the company is organised; from strategy to daily operational issues and how to measure the efficiency of these efforts. Consequently, Vance & Paik (2006) contend that performance management can be understood as a cyclical process which leads to changes rather than a stagnant activity.

A typical performance management process involves the steps reflected in *Figure 2-2*, hereunder:

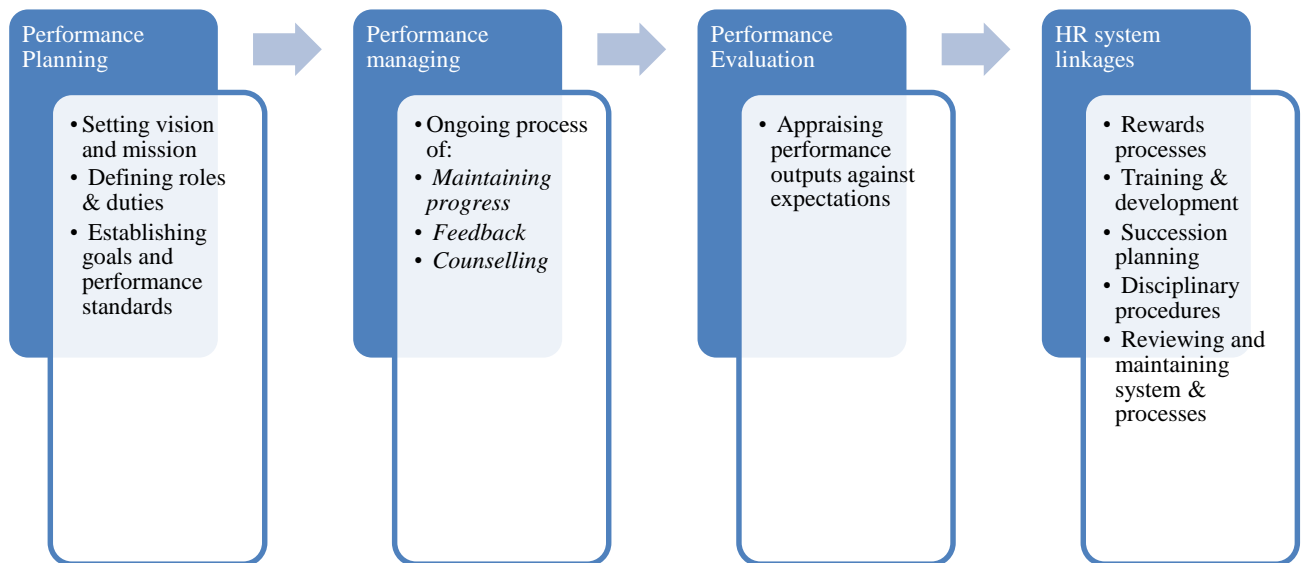


Figure 2-2: An Integrated Performance Management Cycle - Source: Swanepoel, B. et al (2003), *South African Human Resource Management – Theory and Practice*, 3rd Edition. Juta & Co Limited, Lansdowne. p375

The above process highlights the following steps:

- a) **Planning Performance:** setting Key Performance Areas (KPAs), objectives and standards that are linked to corporate strategy (mission, vision and values) and development plans
- b) **Maintaining Performance:** monitoring, feedback, coaching and mentoring and regular interactions regarding goal achievement
- c) **Reviewing Performance:** formal feedback done periodically normally twice a year and rating the performance.
- d) **Rewarding of Performance:** directly linking rewards (pay increases, bonuses, and incentives) to the performance results. This step may also encompass targeted training and development, disciplinary action and counseling (where appropriate and necessary), manpower planning and succession planning as well as reviewing the effectiveness of the performance management cycle.

2.3.1.2 Performance Management versus Performance Appraisal

Snell and Bohlander (2007) define performance appraisal as a process, normally performed by a supervisor to a subordinate, designed to help employees understand their roles, objectives, expectations and performance success. They also define performance management as the process of creating a work environment in which people can perform to the best of their abilities. Mondy & Noe (2007) define performance appraisal as a recognised system of review and evaluation of individual or team based performance. The focus of performance appraisal systems in most firms remains on the individual employees. Therefore and as averred by Prasad (2006), performance appraisal is considered as the key element or significant step in managing performance generally.

Vlachos (2008) notes that many scholars consider performance management as the new name given to the well-established concept of performance appraisal and that there is actually no difference between the two. This is true to a certain extent given that in most organisations, the words performance management and performance appraisals are used synonymously. Nonetheless, performance management is clearly more than a new name for performance appraisal. Performance management on the other hand is a cohesive process of performance planning, performance appraisal, performance feedback and performance counseling. Swanepoel *et al* (2003) for example, argue that there is more to performance management than there is to performance appraisals in that in the latter, the emphasis is on performance ratings and measurement yet in the former, the emphasis is on planning objectives in alignment to the company strategy, allocating of resources, capacity building, problem solving and performance

accountability. They furthermore argue that whilst performance appraisals are an end in itself, in the integrated performance management, the process is directly linked to strategic planning. As suggested by Pareek & Rao (2006), most organisations prefer to refer to their systems as performance management rather than performance appraisal and that this is the most welcome change of the last fifteen years.

2.3.1.2 Pay for Performance

Having defined rewards in the context of rewards management and fully appreciating the performance management process and principles, let us now proceed to review how both these two concepts come together. Whilst organisational processes may differ, ultimately, the link between these two critical processes, can best be illustrated in *Figure 2.3* below:

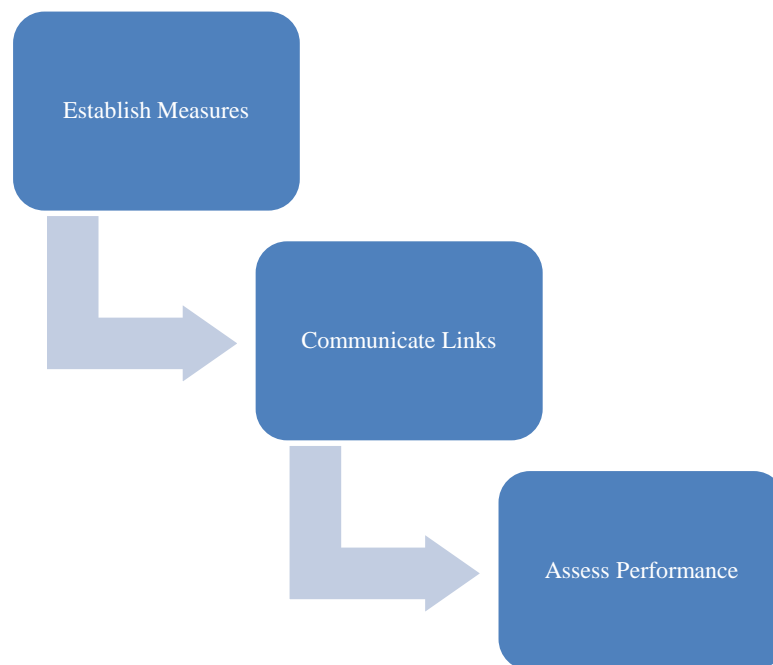


Figure 2-3: Pay for Performance – Source: WorkatWork (2007) Total Rewards Management - The Total Rewards Association. pGR4 -5.3

As reflected in WorkatWork (2007), each of the steps described above, are summarised below:

- a) **Establish Measures** – the organisation must define its measures of performance and link this with whatever performance management system it uses. There are a number of such systems that can be used for this purpose and include: balanced scorecards, shareholder value analysis, activity based costing, competitor benchmarking, etc. In reality, when reviewing the type of system that can be used, there is no one size fits all. Each system is appropriate for a given context.

- b) **Communicate links** – communication is the foundation for the success of most people interventions. As such the link between the established measures and the employee’s performance assessment, must be clearly articulated and known up front by employees.
- c) **Assess the performance** – this is the part wherein based on evidence, the employee’s performance is evaluated. Performance evaluation takes into consideration issues of individual performance, team performance as well as organisation performance and is aligned to the agreed upon performance measures. In addition and depending on the organisation’s appetite, assessments entail both informal and formal feedback, 360 degree assessments or feedback, reviewing actual performance against set targets/objectives and to a large extent, also includes coaching and mentoring.

Once the performance is measured, it is then aligned with the agreed and/or defined incentives. As suggested by WorkatWork (2007), rewards in this regard when linked with performance, can be any one or combination of the following:

- a) Performance based pay – where the reward is directly linked to the achievement of agreed performance targets i.e. commission based salaries;
- b) Performance based merit increases – where in addition to fixed pay, an employee’s pay increase, is then linked his/her ability to achieve defined performance levels;
- c) Performance based incentive – where in addition to fixed pay, an employee is rewarded with a lump sum once off payment in recognition to him/her having achieved defined performance levels.

In the foregoing sections, the theories and institutional approaches to reward management and performance management were discussed. These theories act as the reference point for the subsequent sections in this chapter and the study as a whole.

2.4 The Legal, Employment Relationships And Reward Management

Any study of remuneration and its impact on performance, will be incomplete without the review of the legal and employment relations including regulatory developments that affect reward management including the role of collective bargaining. Consequently, the following sections review this inter-relatedness.

2.4.1 The Legal Regulation of Reward Management

According to Perkins & White (2011), every reward strategy is implemented within the context of the legal, ethical, employment relations and labour market environment in which the organisation operates. In addition and as advanced by some authors, “no country operates in isolation and therefore international bodies and issues greatly impact on a country...of particular interest however are the laws governing employment relations which fall under the auspices of the International Labour Organisation”, Nel *et al* (2004: p81). ”, Brewster *et al* (2008) concurs with this view and argues that the world is becoming increasingly global resulting in human resources managers needing to educate themselves with not only their own regulatory framework but also those of other countries. Most countries have at some form of legislation or regulation that govern remuneration and general conditions of employment. Such legislation normally sets out minimum terms and conditions of service that constrain employers in designing their own remuneration systems.

In terms of what a number of authors have submitted, for example, Perkins & White (2011), Nel *et al* (2004), Brewster *et al* (2008), there are at least three main ways in which an organisation reward strategy may be limited and/or controlled:

- a) Firstly, by the constraint of statute or legal regulations which govern employment terms and conditions;
- b) Secondly, through voluntary agreements that are entered into by organisations and industry unions, normally via the process of consultation and negotiation. In employment terms, this is referred to as collective bargaining; and
- c) Lastly, through involuntarily being subjected to the dictates of the external labour market.

2.4.2 Collective Bargaining

According to Perkins and White (2011) employers may choose to consult with individual employees or groups of employees about the design and any changes to the reward system or they may decide that it is management’s prerogative to decide on these matters. On the other hand, where an employer recognises a trade union, this normally implies that there will be a more formal relationship including collective bargaining over pay conditions. Gennard & Judge (2002) define collective bargaining as a method of determining the price at which employee services are bought and sold through a system of industrial governance whereby unions and employers jointly reach decisions concerning the employment

relationship. In practice, collective agreements are applied to all employees within a collective bargaining unit, whether union members or not. It is also the case that organisations that do not recognise trade unions may still follow the collective agreement applying to workers in their sector or industry. For this reason, collective bargaining covers a larger proportion of the workforce than trade union membership.

As argued by Gennard & Judge (2002), four (4) prerequisites for collective bargaining are usually observed:

- a) There must be organisation on the part of the buyers and sellers of labour.
- b) There must be substantive agreement to bargain.
- c) There must be procedural agreement.
- d) Both the buyers and sellers of labour must be able to impose sanctions upon each other so that they can re-assess their positions towards each other in terms of demands they make to each other.

Perkins and White (2011) assert that the choice of employers whether to bargain collectively with trade unions is often constrained. In certain parts of the economy, especially in the public sector, trade unions are well represented among the workforce and even managers may be union members.

Whilst the major regulatory and contextual limits on the design of the reward system have been discussed, there is however the need to further explore the concepts of reward and how it is linked to other critical areas of skills and competency based pay, performance based pay as well as how these can motivate employee retention.

2.5 Pay systems – motivation and retention

It is not in doubt that employees constitute one of the driving forces that contribute to the success and sustainability of any company. It has also been advanced in the preceding discussions that proper administration of remuneration systems such as pay or performance and pay for skills and competencies, allows employees to be productive. Thus, if employees are productive this enhances the growth and profitability of the company.

The following section will therefore explore how financial rewards are utilised in encouraging and retaining employees to stay within a company and thus effectively contributing towards improving the company's success.

2.5.1 Base pay

Swanepoel *et al* (2003) define base pay as employment based because payment is incurred for the job. They further suggest that an employee is allocated a particular job and is rewarded for that job regardless of performance, and that base-pay design covers four basic tools: job analysis, job evaluation, market surveys, and pay structuring. These will be briefly discussed below:

- a) **Job analysis:** According to WorkatWork (2007), this is a process of identifying and documenting the duties of a job through the use of a job description. A job description is an essential factor when making pay decisions because in the absence of clear job descriptions, employees feel work overload, role conflict and ambiguity.
- b) **Job Evaluation:** As suggested by Swanepoel *et al* (2003) job evaluation involves the grading of positions using job specifications that flow from the job analysis process. Positions are ranked in order of importance thus determining the relative worth of each job within a given organisation. Job evaluation is also the basis for the design of pay structures which must be internally equitable and aligned to the goals of the organisation.
- c) **Market Survey:** WorkatWork (2007), suggests that when organisations offer salaries that are similar to what other employers in the same industry pay, in order to attract, retain and motivate employees, the use of market surveys helps organisations to make salary comparisons by structuring their pay levels on what other employers in the same industry pay their employees.
- d) **Pay Structuring:** Swanepoel *et al* (2003) argue that pay structuring occurs when organisations use information that is obtained from the job evaluation exercise and from market surveys to establish differentiated pay rates to be used per grade.

Shields (2007) and WorkatWork (2007), concur that base pay, also referred to as fixed pay, is guaranteed an employment and is paid in return for work done. Base pay is normally not dependent on an employee's performance. Base pay is determined by an organisation to take into consideration, their philosophy on pay, market conditions and affordability as well as external pay market realities. In most organisations, base pay is used to determine pay increases, pay incentives or any ex-gratia payment that is expressed as a percentage of salary.

2.5.2 Skills and competency based pay

Armstrong & Murlis (1994) as well as Shields (2007) argue that skills and competency based pay is a methodology that some organisations use to reward employees for the dexterity of their skills and their ability to use them effectively in order to achieve the objectives of that enterprise. It certainly can be argued that skills and competency are critical ingredients for an employee's value add in an organisation. Therefore, it can be extrapolated that the more employees possess both these attributes, the higher their potential value to the organisation particularly if the skills and competency are applied correctly and in line with the organisations expectations. Thus in organisations that utilise skills and competency based remuneration, this is normally done through paying for the horizontal acquisition of skills and the vertical development of skills needed to operate at a higher level by undertaking a wider range of tasks. There are a number of reasons why organisations gravitate towards this type of pay method. One of the key reasons is to ensure that organisations can keep pace with the rate in which technology evolves as well as improvements in production methods, thus requiring a high degree of flexibility from employees. Homan (2000) certainly agrees with the emphasis on skills and competency based pay. He argues that this method of remuneration is a good catalyst for changing organisational culture to one that puts value on its employees in that it accentuates the development of self-value amongst employees and increases the levels of job satisfaction, which in turn is the foundation for employee retention. Shields (2007) and Byars & Rue (2004) agree that skills based pay inspires self-driven individuals to continuously update their overall skills in line with the changing needs of the organisation. In addition, they argue that it enhances multi-skilling and places a premium on up-to-date skills that drive bottom line value, thus directly contributing towards innovation and creativity amongst employees. Thus employees, who subscribe to this reward method, become a critical part of that organisation.

According to Armstrong & Murlis (1994) not all organisations however, are capable of sustaining skills based pay. Therefore, organisations must be encouraged to fully apply themselves on the suitability of this payment method before it is executed. They advance the proposition that skills and competency based pay is more appropriate for organisations with the following conditions:

- a) Technologically inclined organisations where the level and range of skills needed is high.
- b) High technology companies such as the mobile manufacturing companies faced with innovative technologies.
- c) If organisations are high capital equipment intensive instead of labour intensive.

From the preceding section it can be concluded that that appropriate management of skills and competency pay method can convey affirmative results for organisations. By implementing this pay system an organisation can control employee turnover and enhance commitment levels. Competency based pay also inspires employees to improve their skills in line with organisational objectives and values.

2.5.3 Performance based pay

Flannery *et al* (1996) advance the argument that skills and competency pay systems are fundamental to the changing values of the organisation, but they do not address the fluctuating needs of people. Pay for performance such as bonuses and sales commission are general methods utilised solely for managers and sales staff. In their view, these types of pay method have evolved from being just for marginal groups to recognising everyone in the organisation, as the success of the organisation is not dependent on any one employee. Wilson (1995) concurs as he contends that traditionally, reward systems did not favour the direct linking of pay with performance. Skills based pay concepts have thus changed the remuneration landscape. He argues that pay for performance has gained prominence amongst managers because of the need to clearly distinguish those employees who through their efforts and toil, are a cut amongst the rest. Outstanding employees are thus encouraged by pay differentiation thus increasing their motivation and retention levels.

Niranjana & Pattanayak (2005) agrees that performance related pay is part of the key policy options and new approaches to human resources management in the public sector around the world. Furthermore that the use of incentives like bonuses or commission assumes that employee's actions are related to their skills and ability to achieve significant long term goals, even though many organisations, by choice or tradition or contract ,allocate incentives on non-performance criteria, rewards should be regarded as a pay-off performance. According to Flannery *et al* (1996), employers argue that traditional pay systems impede growth and success of an organisation and that this has incited organisations to contemplate new and improved compensation resolutions that manoeuvres and supports the new emphasis on organisation values such as quality, customer service, teamwork and productivity. They argue further that this change is fundamentally inclined towards performance-based and variable pay strategies. Farnham & White (2011) however suggest that even where performance-based and variable pay strategies are in place, there is still much debate about the suitability of such strategies and whether the remuneration or incentives received, actually mirrors the underlying performance of an organisation. They quote the example of

private companies where a larger proportion of pay is increasingly linked to some form of incentive or share scheme, which concept however, has in itself, come under severe criticism especially with the advent of corporate scandals on incentive schemes and share options.

Through the foregoing review of the various payment systems that can attract and retain employees, it is evident that organisations are tasked to choose a system that will be appropriate for them and be aligned with its objectives and goals.

In addition to remuneration, employees are known to stay in organisations even if the pay is low. What motivates an employee to stay in an organisation, is a key objective of this study. The subsequent section will therefore review reward systems and processes influence and/or affect an employee's motivation with specific reference to employee retention.

2.6 The theory of motivation in relation to reward management

According to Aktar, Sachu and Ali (2012) rewards constitute one of the significant components that motivate employees to contribute their best effort towards generating innovative ideas that lead to better business functionality and further improve company performance both financially and non-financially. Aktar, Sachu and Ali (2012) further assert that many researchers affirm that employees give their utmost effort when they have a feeling that their efforts will be rewarded by management and that there are various elements that affect employee performance for instance, working conditions, worker and employee relationship, training and development opportunities, job security and the company's policies and procedures for rewarding employees. This section will therefore review the various traditional theories of motivation i.e. Equity Theory Expectancy Theory and Goal Setting Theory, and how these are related to reward management.

Nel *et al* (2004) argue that motivation is both intentional and directional. Intentional in the sense that it refers to choices people make based on their personal circumstances including taking action regardless of the consequences. It is also directional specifically with respect to the existence of an overriding imperative to achieve specific goals. In other words, a motivated person is consistently cognisant of what they intend to achieve and thus will channel their energy towards reaching the desired end result. Hence the conclusion by Nel *et al* (2004) that motivation is the most fundamental aspect amongst all factors that affect employee performance and that motivation is an accumulation of different processes which influence and direct ones behaviour to achieve some specific goal.

Given that a number of the authors referred to in the foregoing text support the notion that not only is the motivation of employees enabled by properly structured reward systems, the remuneration itself is incomplete, if it is not designed to motivate employees to perform at the maximum potential, it is thus necessary for purposes of this research to review some theories of motivation. Reviewing some of the theories of motivation, will help the researcher clearly highlight why it is vital that managers in organisations must understand employee behaviour and how it is influenced by motivation. These theories are discussed below.

2.6.2 Equity Theory

According to Armstrong & Murlis (1994), in Equity Theory employees compare their pay with what other employees get as their pay. Satisfaction with pay is linked with the pay employees receive from their job equated with the amount acquired by others. The theory also pre-supposes that “pay satisfaction is hinged on the difference between the actual pay received by employees and what they perceive should have been received”, Armstrong & Murlis (1994: p38). Equity Theory is necessary to review as part of this research given that it emphasizes the view that employees do not view the rewards they receive in isolation of what occurs to others. Employees do compare the subjectivity of their rewards relative to what other employees receive. Any reward system must therefore by design, pass the principle of objectivity for it to have credibility amongst employees. This is the value of the Equity Theory.

2.6.3 Expectancy Theory

As advocated by Guest (2002), an ideal reward and compensation system may consider the principles of the Expectancy Theory. This theory suggests that in certain instances, employees are more likely to be motivated to perform to higher levels of productivity when they perceive a strong relationship between their own performance and the reward they receive. Kalleberg & Moody (1994) and Huselid (1995) also agree with this view i.e. that the compensation system (e.g. profit sharing) contributes to performance by linking the interest of employees to those of the team and the organisation, thereby enhancing effort and performance. They all argue that organisations should take time to fully appreciate what drives their employees and what do they need to pay special attention to. Specifically, that organisations must pay close scrutiny to the following:

- a) That for employees to be motivated, line managers must establish a clear link between effort and rewards including what behaviours must be complemented and rewarded;

- b) That people are not the same hence the need for innovation and creativity in designing incentives given that employees are not motivated by the same drivers; and
- c) Organisations can improve 'expectancy' by developing employees to eliminate any barriers to superior performance.

The underlying principle of the Expectancy Theory as argued by Lawler (2003) is that people are motivated by the promise of rewards that is linked to a specific goal. The theory is based on the knowledge that there are huge differences among people in their needs and as a result in the importance they attach to rewards.

2.6.4 Goal Setting Theory

Locke & Latham (2006) argues that this theory explains through a focus on the quality of performance objectives, how effort increases. The more the objectives are limited, clear and concise, the more the employee will be motivated to achieve them. Goal Setting Theory complements the Expectancy Theory in that it too links rewards to the attainment of specific goals, confirming that clearly articulated goals are the main basis why employees are motivated to achieve them. Goal Setting Theory has made understanding motivation, much easier given its simplicity and clear relationship between effort, productivity and reward.

2.6.5 Overview of all three theories

Having reviewed the Equity Theory, Expectancy Theory and Goal Setting Theory, it is also important that we compare and contrast them so as to fully appreciate their significance and value. This will also ensure that an organisation's choice of a reward system, at the very least addresses the key elements of these theories given that it has been argued in the preceding chapters that reward systems must have a clear rationale behind them if they are to fully be of value to the organisation and its ability to achieve its objectives.

Table 2-4: Comparison of the above theories of motivation

Theory	Key Features	Advantages	Limitations
<i>Equity Theory</i>	<ul style="list-style-type: none"> • Equal pay for equal work • If pay perceived to be unfair, employees may leave 	<ul style="list-style-type: none"> • If all the underlying variables are the same (qualifications, skills and work output), then it is a fair and consistent way of paying salaries (base can be easily justifiable) • Forces organisations to apply consistency and fairness in pay (even though legal considerations have made this mandatory) 	<ul style="list-style-type: none"> • If employees perceive their work to be the same but earn differently, may result in employees seeking greener pastures • Reality is that employees are not the same even if their skills set is the same, their impact differs • Merely paying employees based on the same set of skills or qualifications without a consideration of their attitude or general demeanour, may also result in alienation of some
<i>Expectancy Theory</i>	<ul style="list-style-type: none"> • Advocates for a strong link between pay and performance • Links interests of employees to that of organisation via rewards even though it recognises that people have different needs 	<ul style="list-style-type: none"> • Where reward system consists of base and variable pay, it is more justifiable to use (for the variable portion) • Emphasis team work and organisational cohesion given that goals are achieved in most instances where there is complete alignment between employees and the organisation. 	<ul style="list-style-type: none"> • Linking pay essentially with business objectives, assumes that pay will remain a changing variable. • If it was concerned with incentives, then it does make sense and in reality is used by most organisation (i.e. bonuses) • Otherwise the principle of guaranteed pay would pose challenges in this regard as you will end up paying even if that specific objective has been met
<i>Goal Setting Theory</i>	<ul style="list-style-type: none"> • Where goals are clear, few and clearly articulated with employee buy-in and distinct rewards the more employees will be motivated to achieve them. 	<ul style="list-style-type: none"> • Complements Expectancy Theory through the direct correlation between employee effort, quality of goals and rewards • Goals that can be realistically achieved, engender more effort from employees (given the promise of stated rewards) 	<ul style="list-style-type: none"> • Whilst realistic goals make the effort of achieving them simpler, not all goals can be broken down into ‘low hanging fruits’. • Given that employees are not the same nor have the same character traits, some high potential employees can be discouraged by goals that are too simplistic and achievable. • Stretch targets sometimes challenge and motivates on their own

No one theory of the four that have been reviewed as shown in Table 2-4 above, is more superior than the other. Instead, organisations with a combination of these theories, have a better chance of getting it right given that employees are not the same and the contexts they operate in changes continuously. When organisations develop reward systems, it is therefore vital that they take into considerations, aspects of all three.

2.7 Relevance of the theories of reward and performance management to the objectives of the study

It has been argued by some authors that reward management is a powerful means of communicating value to employees in a manner that underscores direct reward versus criteria which is regulated over time and is linked to the business objectives of that organisation. Others however, argue that there is a minimal relationship between how a company remunerates its employees and its productivity. The remuneration of executives as an example, has come under extreme scrutiny in recent years. The reasons for this are various and include; executives being paid high salaries when the share price of the companies they are employed to grow, dividends to shareholders not meeting expectations when managers bonuses are continue to grow etc. Some commentators have also advanced the argument that the reason executives get paid salaries that are not related to the value they supposedly create in the entities they manage, is because of lack of effective oversight by Boards of Directors including their inability to hold managers fully accountable. They also attribute this to the tendency of directors in Boards to be more loyal to the executive team than to shareholders, as they attribute their election into the Boards to them and not the shareholders. This has resulted in increased pressure from Boards of Directors to reign in executive pay. Thus shareholders are increasingly demanding Boards to demonstrate value add and to link this to various long term incentives. Given recent experiences with corporate performances, share schemes and share options, it is in the best interest of shareholders to increase their influence over Boards of Directors and the executives of the enterprise, as a means of protecting the long-term sustainability of the company. Board members qualifications and independence from management, are now very critical corporate governance imperatives. Long term incentives and share options, are now critical agenda items in shareholder meetings. Improved shareholder activism and effective oversight to Boards of Directors, improves accountability and protects the long terms interests of shareholders.

From the preceding review of theories, it has been advanced that the enhancement of performance is developed at the point of contact with the organisation and is re-inforced throughout an employee's tenure with an organisation. Furthermore, that performance management occurs within a specific organisation framework that includes performance processes, reward architecture, monitoring metrics and leadership capability.

Drawing from the rich literature that is available on both the topics of remuneration and performance management, and as highlighted in Chapter One, this research seeks to contribute towards a better appreciation of how these two concepts interact and influence each other (if at all). The background to

this study is that the Government of Swaziland introduced guidelines on executive remuneration in 2010 on all public enterprises including the Swaziland Electricity Company. Further guidelines introduced in 2011, froze pay increases for two years to 2012. Additional guidelines were issued in July 2013 ostensibly to update the 2010 guidelines. As has been demonstrated comprehensively in Chapter One, the guidelines issued by the Government of Swaziland have resulted in the following:

- a) None of the instruments introduced by Government from 2010 to date, are premised on any clear strategic intent or at the very least, any theoretical underpin.
- b) The remuneration of executives is not designed to improve performance given that a review of the guidelines, does not expressly seek to link pay and performance. As argued by the proponents of Expectancy Theory and Goal Setting Theory, there should be:
 - o A clear alignment of performance and the rewards (instrumentality) and managers should communicate to employees the behaviours that will be rewarded. SEC for example, has adopted the Balanced Scorecard performance management system which improves goal setting, line of sight and makes performance contracting much easier. In addition, SEC had developed a bonus system that rewards performance at three (3) levels i.e. company performance, divisional or departmental performance and individual performance. However, the new pay regulations have introduced stringent caps at the top of the organisation i.e. at executive level. These caps have unfortunately resulted in an un-even pay structure and undermined the implementation of the new performance management and bonus systems.
 - o Rewards should be created to meet different individuals' needs. This is not so much with regards to actual pay as this will be too costly, but with respect to some elements of pay. For an example, employees at the lower level are comfortable with pay levels agreed upon at collective bargaining forums. However, at professional or management levels, it becomes necessary to build in value based pay elements to recognise specific skills and to retain critical skills.
 - o Managers should increase expectancy by training employees to be more efficient and eliminating any barriers to performance. The duty of managers is to create an enabling environment for employees to work to their full potential. Where this is achieved, it must be recognised effectively.

- Performance objectives if clearly articulated to employees, would result in increased motivation, which will engender more loyalty to that organisation particularly if meeting these objectives, will result in clear rewards.

Given that the study aims to contribute towards a better understanding of the impact of remuneration on the performance of PE's in general as well as to enrich the knowledge base of the remuneration policies of PE's which in the author's view, may be useful input into the development of a more sustainable regulatory approach to remuneration of PE's in Swaziland, an appreciation of the theories of remuneration and how they affect the motivation of employees, is a critical building block in study. The extent to which the new pay regulations introduced by the Government of Swaziland have impacted on the performance of the Swaziland Electricity Company and the retention of employees, is therefore the focus of this research.

2.8 Conclusion

The objective of Chapter Two was to provide an overview of the existing literature related to reward management and performance management as a whole, how both concepts are grounded in the legal context, how pay systems are used to motivate and retain employees and what theoretical principles underpin the concept of motivation. This objective has been realized given that reward management and performance management, have been contextualized within the theoretical and empirical perspectives in aggregation to the concepts of pay systems and motivation. Ultimately an organisation's choice of reward systems will affect how the employees perform, how they perceive the organisation they work for and whether or not it is adequate enough for them to remain motivated and working for the organisation. Whether companies use the base pay approach only or whether their pay system is based on the competency model or whether their pay is based on performance, or a combination of all these systems, will ultimately determine the extent to which it is successful in achieving its objectives.

Given the sophistication of the employee in today's work environment, an appreciation of the drivers of motivation is a necessary competence for all managers. Issues of pay equity where employees do not perceive their remuneration to be fair, can greatly undermine organisational cohesion and employee loyalty. Similarly assuming that all employees have the same needs as the Maslow's Theory does, may not necessarily be accurate or beneficial particularly given that we now know as indicated through the Expectancy Theory, that there are huge differences among people in their needs and as a result in the importance they attach to rewards. Furthermore, the complexity of today's economies and the impact of

unemployment, calls for more innovative measures to improve the motivation of employees. For an example, do employees stay in jobs because of improved engagement levels with their organisation? Do they stay because of good pay systems or excellent wellness programmes? Or do they choose to stay because alternative jobs are hard to come by particularly where most economies, Swaziland included, are not experiencing adequate economic growth? Whatever the reasons, employees remain critical to the success of organisations. Leaders and/or managers are even more vital given the sophistication of the modern employee and the complexity of managing and leading modern day organisations. In the researcher's view, organisations that will be able to remain viable and sustainable in the long term, will succeed amongst other reasons, because of the way and manner it treats all its employees, managers included.

The next chapter will focus on the research methodology

CHAPTER THREE

RESEARCH DESIGN

3.1. Introduction

This research study is focused on examining the extent to which new government guidelines on pay for executives introduced from 2010, have impacted on the performance of the Swaziland Electricity Company Limited (SEC). The study will examine the observations of senior managers of SEC, solicit their understanding of how the pay regulations were developed including their impact on themselves as individual employees as well as on the organisation as a whole. Their views on the presence of a direct relationship between remuneration in general and performance in particular, are of vital importance to this research. Finally, their views will be analysed against the performance of the Company before and after the introduction of the regulations on executive pay.

3.2 Research Design

Whilst the preceding chapter dealt with the existing literature on remuneration, performance management and employee motivation, this chapter will focus on the methodological issues relating to conducting this research study. It will also discuss how the research was conducted with of SEC managers on the key issues of remuneration and its impact on performance in Swaziland.

Research design according to Collis & Hussey (2003), principally entails articulating the process a researcher will use in order to get the most valid findings and includes designing a comprehensive plan to achieve the research objectives. Terre Blanche & Durrheim (2002) emphasize that in research design not only must the research plan be properly highlighted, it must also cover how the researcher intends to collect and analyse the data. Principally, this study utilised a mixed method of undertaking research including using principles of case study research. These methods of inquiry allowed the researcher to generate in-depth accounts of the issues and principles related to the remuneration model of SEC. The research considered the perspective of managers of the SEC in Swaziland. Data collection took into consideration questions that relate to the employee's opinions and feelings about the remuneration phenomenon and the impact (or lack of it) in their jobs, including their retention within the company. This chapter therefore discusses procedures for gaining access and acceptance and sampling. In addition, this

chapter will cover data collection instruments, quality control and data analysis. The chapter concludes with detailed discussion of the coherence of the methodology and the conceptual frameworks.

3.3. Research Methodology

In the introduction, it was advanced that this study is an assessment of the perceptions of SEC managers on the new remuneration guidelines, how according to their understanding, these were formulated, and how they perceive the new guidelines have impacted on their performance and retention within the company. The perspectives of employers are based on this premise. It is for this reason that both qualitative and quantitative frameworks were considered. The reasons for utilising a mixed method of research design are discussed below.

To begin with, a qualitative interpretive approach enabled the researcher to get an in-depth understanding of how employees view the new remuneration package and its impact on their work as well as retention within SEC. Problems identified by the study are appropriate for qualitative research. As argued by Patton (2005), qualitative research explores what meaning people give to phenomena in their lives. Thus the understanding as well as the process of inquiry, are suitable for qualitative exploration.

In addition to the foregoing, quantitative research searches for universal explanations for phenomena. For example, scientific explanations, if correct, are assumed to apply equally well to all instances of the same problem. Explanation in quantitative research emphasises the quantification of outcomes, generalisability and prediction. This is quite different to the context-based nature of explanations from most qualitative research, where researchers often qualify their statements as applying only to the example under study. Quantitative social research involving the use of statistical measurement is familiar to the majority of people working in the human resource management and is suitable for investigating a phenomenon of this nature. The methods to collect data through questionnaires will ensure this “quality of understanding” is comprehensively ascertained.

Furthermore and as suggested by Babbie & Mouton (2001), qualitative research has also been used because it generates knowledge of events and situations by trying to understand what they mean to people. This enables the researcher to interpret findings and come up with recommendations on how the Company could attract and retain key talent as well as ensure employee motivation.

This study is also exploratory in nature in that it is being undertaken to gain a deeper understanding into the phenomena of the new pay regulations introduced by the Government that affect all public enterprises in Swaziland. As advanced by Babbie (2010) the need for such qualitative studies generally comes about as a result of the lack of basic information on an area of concern or alternatively, in order to become conversant with a new situation. Furthermore that qualitative research is primarily inductive, specific questions that were put to the SEC respondents, were therefore designed to obtain raw data as well as establish patterns. Based on the established trends, conclusions or theories (ibid.), will be firmed up. Thus, this study used this premise to understand the employee's perspectives in order to get a deeper sense of how they viewed the new remuneration model(s) for PE's. In this way new knowledge and conclusions will be generated.

The qualitative approach is embedded in the interpretive framework. As suggested by Radnor (2001), the purpose of explanatory research is to elucidate how explanations and considerations are expressed and given importance in real life circumstances. Furthermore, gaining in-depth understanding of how employers make meaning of the new remuneration guidelines and their impact on their daily work is a process that involves the use of multiple strategies to collect data in order to make sense of this phenomenon. These multiple methods are interpretive practices. As averred by Denzin & Lincoln (2003), the multiple methods create a picture of how we see the world, transforming it into a variety of illustrations including field notes, interviews, observations and conversations amongst others. Although, these reasons do not provide an exhaustive definition and outline of interpretive research, they however provide general requirements that this study meets.

3.4. Research Approaches/Paradigm

Whilst the researcher utilised the mixed method as highlighted in the foregoing, this was anchored in the case study paradigm. SEC was used as the case study as opposed to making conclusions drawn from all the PE's in Swaziland. The views of the SEC managers have been extrapolated to have resonance in all PE's generally. Yin (2009) emphasized that focused research creates the foundation for researchers to make an all-inclusive investigation into practical real life happenings. It critically allows for in-depth examination of a particular phenomenon, doing so in such a way that the background to the phenomenon is comprehensively highlighted and depicted. Therefore, selecting case study as the research approach, was appropriate in the circumstances because it fits the characteristic of the study's conceptual framework. As indicated by Cohen *et al* (2001), the case study paradigm frequently follows the

interpretive tradition of research of seeing the situation through the eyes of participants in this case, employers and managers.

Furthermore, case study approach is ideal for two supplementary reasons. The first is that the "...case study method allows investigators to retain the holistic and meaningful characteristic of real- life events..." (ibid, 2003, p2), and it allows the researcher to go deep. This in particular, fits the research goals of this study, especially of participants' making meaning of their experiences and roles as employees. Utilising the case study method has allowed the researcher to answer the question of "how" employees view the new remuneration model including their comments on how the model ought to have been developed. In the researcher's view, this is further enhanced through being able to further inquire into '*what*' ideally should have been done by the Government in developing the guidelines on executive remuneration and '*what*' level of consultations would have been sufficient. Yin argues that why and what questions favour case studies, and are thus a justifiable rationale for conducting a study which is an examination of a phenomenon in nature that also seeks to develop hypotheses and propositions for further and insightful understanding into the phenomenon.

The second reason for selecting the case study method is that as argued by Henning (2004), distinctive of qualitative case study, the context in which the phenomena is being investigated must be clearly defined and the role players must be well articulated. In this regard, this research is a single case study of the views of sixty (60) SEC managers with regards to the new remuneration model for SEC and the other related issues that they attach to the model. My decision to work with sixty (60) employers is because this will give me deeper statistical and interpretive data and this number will allow me to generate rich data. This will be further discussed under sampling later in this chapter.

The next section will discuss the methods that were used in the research study and the fieldwork.

3.5 Study Site

The study site is the Swaziland Electricity Company Limited, situated in the Kingdom of Swaziland. SEC as highlighted under Chapter One, is a public enterprise wholly owned by the Government of the Kingdom of Swaziland and its business is to generate, transmit and distribute electricity in the country. Whilst some of the electricity is internally generated, the majority (up to 70%), is imported from the Republic of South Africa and Mozambique. At the time of undertaking this study, SEC had about six hundred and forty (640) employees, sixty (60) of whom were in management roles.

3.6 Target Population

The target population is the entire management team of SEC. This target population works in the Operations, Customer Service, Support Services, Finance, Corporate Services and the Managing Directors Office which incorporates the Research & Development Unit as well as Internal Audit. This represents the entire management spectrum of the Company. Of these, twenty-one (21) are in senior management and eight (8) of these are executive directors. All the managers who work for SEC, are essentially based throughout the country and are collectively referred to as the management of the Company. Patton (2002) asserts that there are no rules for sample size in qualitative inquiry and further asserts that sample size depends on what you want to know, the purpose of the inquiry, what's at stake, what will be useful, what will have credibility and what can be done with available time and resources.

3.7 Sampling Strategies

Purposeful sampling has been used to select the participants in this study and according to Patton (2002), this serves the purpose of selecting a specific type of participants that will manifest the phenomenon intensely but not extremely. Accordingly, this is linked to the design of the research, as the researcher is trying to consider and anticipate the kinds of arguments that will lend credibility to the study. Henning (2002) concurs with this approach and averred that the sampling strategy researchers deploy, must ordinarily fit the purpose of the study and the questions asked.

Given that this is a case study on SEC particularly the perspectives of the SEC managers on the key issues of remuneration and its impact on performance, it is vital that a majority of the managers are given an opportunity to explore this phenomenon of the new remunerations regulations. Moreover, this approach to sampling is considered adequate for qualitative research because as argued by Leedy & Ormrod (2013), purposeful sampling's key advantage is that it allows the researcher to focus on individuals that will provide the most information about the subject under review. It is expected that the managers will provide a holistic and objective view of the key issues being canvassed especially given that they are best positioned as managers of SEC, to comment on matters that affect their performance. Whilst they are the beneficiaries of the remuneration system, their views are not expected to be subjective enough to disqualify them from providing an honest assessment of the impact of the new remuneration guidelines.

3.8 Sample Size

As argued by Leedy & Ormrod (2013), whilst it is correct that the larger the sample, the more realistic the results, this does not always apply. Each context is best judged on its circumstances which is why where the same is below 100, it is ideal to sample the entire population. In this specific instance, the entire population of senior managers at SEC were sampled.

3.9 Sample

The sample population consisted of all sixty (60) managers of the Company, the key aim being to solicit the views of all of them. The only exception was positions that were vacant in April and May 2014 when their views were solicited. Essentially their views on key issues around remuneration and its impact on performance as well as retention, were solicited through the use of semi-structured questionnaires.

3.10 Data Collection Methods

Primary data was collected from the company's annual reports from 2007 to 2013, the government regulations on executive remuneration, relevant literature on remuneration systems particularly in public enterprises as well as journal articles on the subject. Secondary data was gathered through the use of semi-structured questionnaires. It is the researcher's intention that the findings will be used as useful input into the development of an alternative remuneration model for all PE's in Swaziland. The data collection is summarised in *Table 3-1*:

Table 3-1: Data Collection Table

Type of data	Data collection instrument
Researcher's reference journal	Informal entries were made of telephonic conversations and interactions with the participants made from the time when requests were made for them to participate and other follow-up conversations to check on progress with the questionnaire.
Initial telephonic interview (pilot study)	Informal interviews which lasted about 5 minutes with participants who had queries on the questionnaire.
Questionnaire	A questionnaire filled in by participants of the study

The study employed the two models of the positivist and constructivist orientations. This is a pragmatic approach. This approach enabled the researcher to obtain the necessary information guided by the research objectives.

3.10.1 Informal Preliminary Session

A week before distributing the questionnaire, the researcher met some of the participants for an initial informal conversational interview. This was a necessary exercise because there is value in giving participants the semi-structured interview schedules so that they could fully understand the rationale for the questions. The additional purpose of this initial session was also to agree on the submission timelines given that the questionnaire was distributed in April 2014 which had a number of holidays. It was also imperative that the researcher met the participants beforehand, so that there was a discussion on other relevant issues that they felt should be addressed by the study. At this stage, the focus was more on the creating a platform to explain the objectives of the study and to establish its relevance to the employees themselves. In the researcher's experience at SEC, academic research undertaken on a part-time basis by employees, has often been viewed more as assistance to the employee to fulfil his/her academic requirements, than as an enquiry on relevant issues within the Company that could potentially offer valuable feedback to the organisation. Thus engaging some of the participants informally proved to be a beneficial exercise for the participants and the researcher because useful information and contributions emerged from this process, and buy-in was effectively established on the value of the study in assisting management and the Board of Directors of SEC to fully appreciate the underpinning variables of executive remuneration at SEC and its impact on performance. Hatch (2002) concurs with this approach and suggests that rather than formal interviews, engaging some of the participants in an informal setting has the distinct advantage of creating a climate where of trust and rapport building particularly taking into consideration that when you express interest in what other people do, then it is likely to increase their interest in what you have to say.

The researcher did not take down notes during the discussions because of the need to ensure that the process was casual and relaxed. In addition, the researcher made adjustments on the interview schedule in order to accommodate the questions that the participant employees added. However, the participants were made to understand beforehand that their informal conversations were part of the data collection process because sensitive information could be shared.

3.10.2 Pilot Study

Further to the informal discussion, a pilot questionnaire was sent to at least three (3) managers that were randomly selected. The main objective of the pilot phase was to simulate the questionnaire in order to address any perceived weaknesses in the design of the questions. The direct result of the pilot was that Section D of the initial questionnaire was found to be defective with regards to the rating scale and thus had to be varied. In addition, questions in Section D of the initial questionnaire, were amended to be aligned to the rating scale.

3.10.3 Objectives of the Study

The semi-structured questionnaire was designed and used to answer the key research objectives highlighted in Chapter One, which are reiterated, below:

- a) To what extent do the new regulations on remuneration affect the performance of the Swaziland Electricity Company?
- b) To what extent does the Swaziland Electricity Company's remuneration system affect the retention of new talent?
- c) How can SEC's remuneration system effectively contribute towards the sustainability of the company?

Consistent with the views expressed by Creswell (2009), the research used the qualitative approach as the data was obtained from the participants own natural setting through semi structured questionnaires. As a researcher, I thus derived certain insights and general themes from what the SEC managers espoused and made interpretations from the meaning of the information gathered. Vithal & Jansen (2010) emphasized that in social science research, exploring and understanding implies that the study is qualitative in nature, as opposed to determining which suggests that the study is quantitative in nature. The sentiments expressed by the managers and their viewpoint on the extent to which the new remuneration regulations inhibit or enables their performance, provided the researcher with a good basis from which to draw insights and to make certain conclusions about the new remuneration regulations. In particular, their views on whether or not the new regulations had affected their desire to stay within company, was also central to the research objectives.

The questionnaire was divided into four sections as reflected below: -

- a) **Section A** – General information and biographical data
- b) **Section B** – their perspective of the new remuneration guidelines (their understanding on how the new guidelines were formulated and the objectives of the new guidelines)
- c) **Section C** – their perspective on how the new remuneration guidelines have impacted on the performance of SEC and their own performance.
- d) **Section D** - their perspective on how the new remuneration guidelines have impacted on the reward management at SEC as well as on employee retention.

3.11 Data Quality Control

The semi-structured interview questions were determined deductively. The researcher entered the research field to collect data, with a pre-determined theory on reward and remuneration. The data was collected to match that theory in terms of allowing participants to respond to specific issues. This type of data collection allowed me to develop categories and questions, which factor enhanced the purpose for data collection.

Firstly the researcher used the pilot study to simulate the instrument to be used i.e. questionnaire as well as to verify it for obvious errors. The researcher used peer debriefing to verify the consistency of the findings. Leedy & Ormrod (2013), confirmed that this is one of the creative ways that researchers could use to improve reliability and validity of the research instrument. During the pilot study, the questionnaire was thoroughly evaluated for possible weaknesses and as stated under Section 3.10.2, the questionnaire was then amended to improve it. Secondly and at the end of the data collection stage and with the help of a work colleague, a post evaluation was undertaken to test the logic of the answers given by the respondents, specifically for consistency and logic. This entailed simulating what the SEC managers went through and whether their conclusions were logical and factual. This enabled the researcher to verify the accuracy of the information given as well as the reliability of the responses.

3.12 Data Analysis

Once the data was collected from the questionnaires, the information was collated. Thereafter the researcher as indicated by Creswell (2009) attempted to understand the logic of the information gathered so that taken as a whole, its overall meaning was unambiguous. The data was then be coded and analysed

using Statistical Package for the Social Sciences (SPSS). The key themes or categories that emerged were discussed and qualified through direct quotations, supported by figures and tables. The next chapter mainly deals with this. Finally, lessons drawn from the findings were highlighted and contrasted in Chapter Five, particularly with the available literature on remuneration and performance. The recommendations made in this regard, flow from these findings.

3.13 Ethical Considerations

In undertaking this research, a number of ethical considerations were appreciated and addressed by the researcher. Firstly, the University of KwaZulu Natal requires that all research initiatives, be considered by an independent panel for ethical implications. The researcher therefore duly submitted the research proposal to the University's Ethics Committee. Only once this formal approval was granted by the Ethics Committee, was the researcher able to proceed with the study. Secondly, in implementing the questionnaire, all participants were required to complete a consent form. This confirmed that all participants willingly took part and were not coerced to participate. All managers who participated signed the consent form. Lastly, all managers who participated were assured that their responses were provided in private and thus confidentiality was guaranteed. The introductory letter that accompanied all questionnaires clearly indicated that participation was voluntary, and that both participation and information given, would be done on confidential basis and anonymously. No participant was forced to declare their name or identity. The questionnaire design (refer to Annexure D, attached) ensured privacy, confidentiality and anonymity. The identities of the sample population will remain protected per the undertaking given prior to them participating in the study. Even though all the questionnaire participants consented to the data collection and voluntarily participated in this research, it is vital that their identities are not threatened particularly given that they are all employees of the Company. This has been ensured through the way their responses have been coded.

3.14 Limitations of the study

Concerns about case studies have often been raised. One of these is that case studies provide minimal foundation for over-simplification. Nonetheless, Yin (2009) argues that the goal in doing a case study is to be able to expand and generate theories. From the questionnaires completed by the managers, one can generate categories and theories that will in turn provide further insight into the existing phenomenon and illuminate its properties. With reference to this study, the researcher's concern is to offer a rich and in depth account of the phenomenon i.e. the new remuneration model and how SEC managers feel about its

responsiveness towards their reward, motivation and retention by the SEC, so that the Company, the Board of Directors and other relevant stakeholders can be informed by the findings.

Furthermore, another basic limitation of this study is the time spent in the field. People do not hold steadfastly to their opinions at times and so it would have been more desirable to stay in the field longer to be able to hold further interviews to substantiate conclusions. It is recommended that further research be carried out in the context of Swaziland to determine the extent to which remuneration affects employee performance particularly to extend this to include other public enterprises. Lastly, the researcher as well as all the participants in the study, all work for SEC and have been affected by the new pay regulations. To address this obvious limitation, the researcher validated their perception using a peer from another public enterprise with knowledge of the new pay regulations. This was done to test the logical reasoning of the participants as well as their accurate recollection of the events leading to the introduction of the new pay regulations. To a large extent therefore, their views have been validated to test the subjectivity of their responses. Subjectivity however, is inherent in the type of study undertaken particularly because it was based on SEC as the study site.

3.15 Conclusion

This chapter essentially discussed the methodology employed in this study. Both quantitative and qualitative approaches were used to elicit the necessary information for the study. The case study design was employed and was amenable in this context. The objective was to obtain an in-depth information on the perception of the senior employees of SEC and at the same time get quantitative information regarding the ratio of employees who hold different opinions.

The next chapter will focus on the results of the data collection stage.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

4.1 Introduction

In the previous chapter dealt with the approach to the research methodology and design. This chapter proceeds to present the findings, analysis and interpretation of the data collected by means of a questionnaire on impact of remuneration on the performance of senior managers at the Swaziland Electricity Company Limited (SEC). The data analysis was done using the package Statistical Package for the Social Sciences (SPSS). The presentation of the results will be in tables and figures which will be interpreted for statistical meaning. As argued by Creswell (2009), “interpretation of the results means that the researcher draws conclusions from the results for the research questions”, Creswell (2009: p152).

The information will be presented to address the following key elements which Creswell (2009) argues are vital in testing the validity of the interpretation of the research findings:

- a) Whether the results were statistically significant;
- b) How the key research questions were answered – was the hypothesis supported or not;
- c) Justification the results in terms of the reviewed literature or theories advanced or rational thinking;
- d) Implications of the results for current practice or future research.

4.2 Demographic Information

At least four elements of generic demographic information were obtained from the participants to the questionnaire i.e. age, gender, years of service, qualifications. The objective was to obtain some insights on how this relates to the substantive responses in the questionnaire as related to the key strategic objectives. These elements are analysed in detail below.

4.2.1 Response/Participation Rate

As reflected in *Figure 4-1* below, a total of forty-five (45) managers participated in the study out of a total sample of fifty four (54) managers, being the entire senior management population of SEC. Whilst initially the target was to cover 60 managers, the Company had vacancies in six (6) management positions at the time of the implementation of the data collection. Nonetheless, this confirmed a success rate of eighty-five percent (85%) which is above the acceptable threshold of 60% for an extrapolation of the statistical impact.

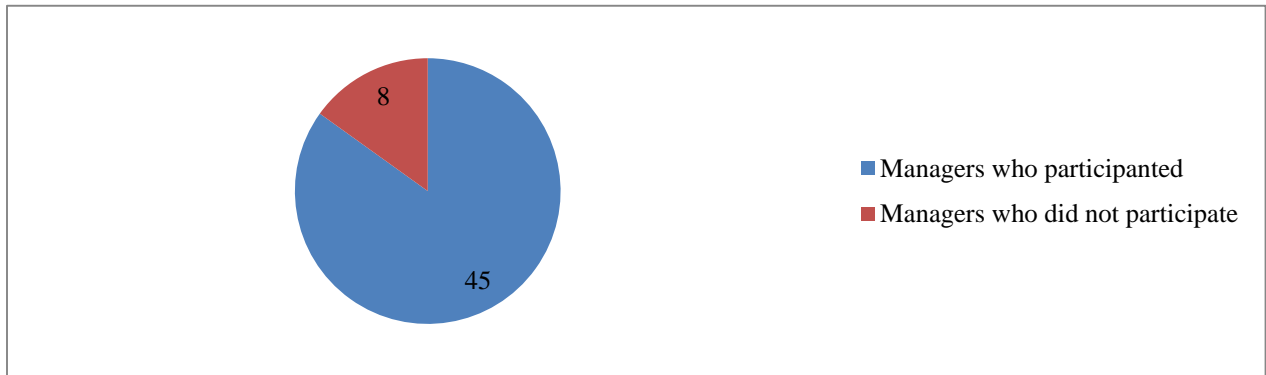


Figure 4-1: Participation Rate

4.2.2 Age

As reproduced in *Figure 4-2* below, the majority of the managers who participated in the completion of the questionnaire, were between the ages of 31 years and 50 years old (77.8%).

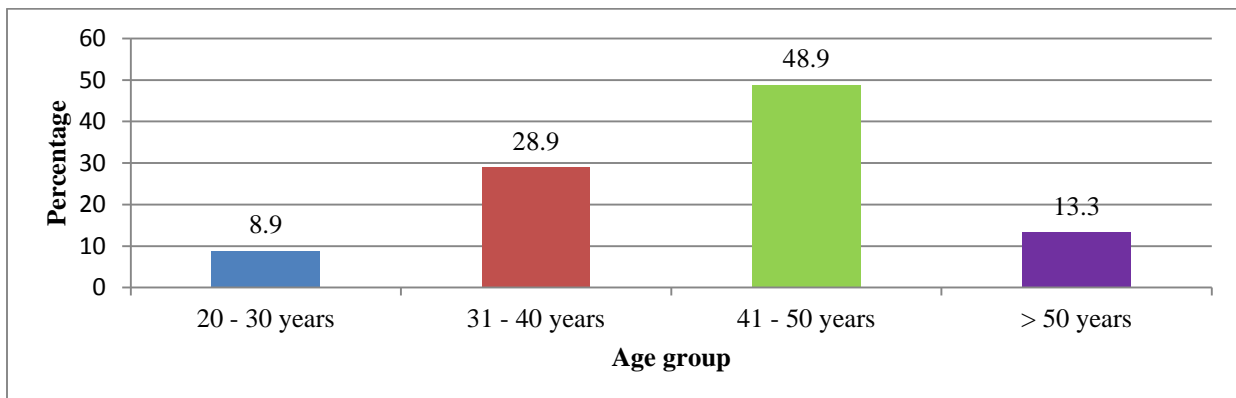


Figure 4-2: Age distribution of the managers who participated in the completion of the study

4.2.3 Gender

In terms of the SEC Annual Report (2013), SEC's gender distribution is generally biased towards males and this has its origins in Swaziland's traditional society where males were encouraged to pursue formal education whilst females stayed at home to look after the homestead. It is therefore not surprising that the Company's gender distribution at management levels, mirrors this reality. Thus, at least 78% of the SEC managers who responded to this questionnaire were male, whilst the rest were females (refer to *Figure 4-3*, below).

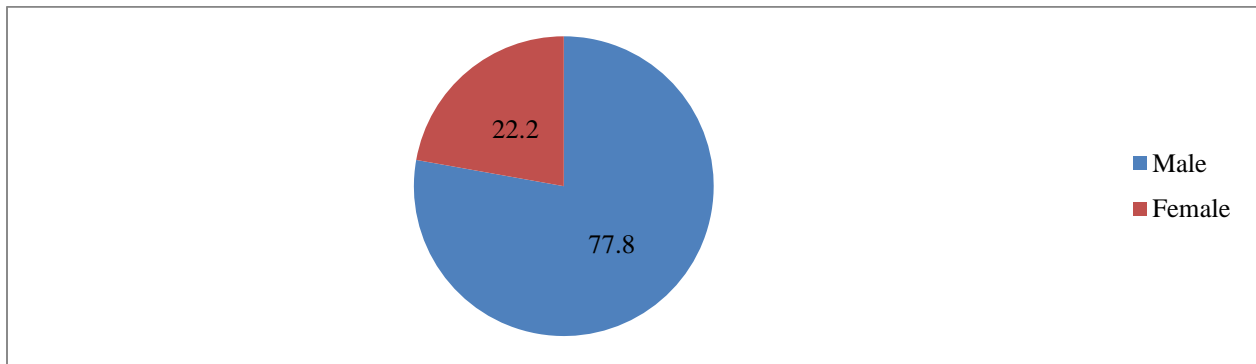


Figure 4-3: Gender Distribution of the SEC managers who participated in the study

4.2.4 Years of Service

As detailed in *Figure 4-4* below, more than a third of the participants (35.6%) have worked for the Company for more than 10 years in the company.

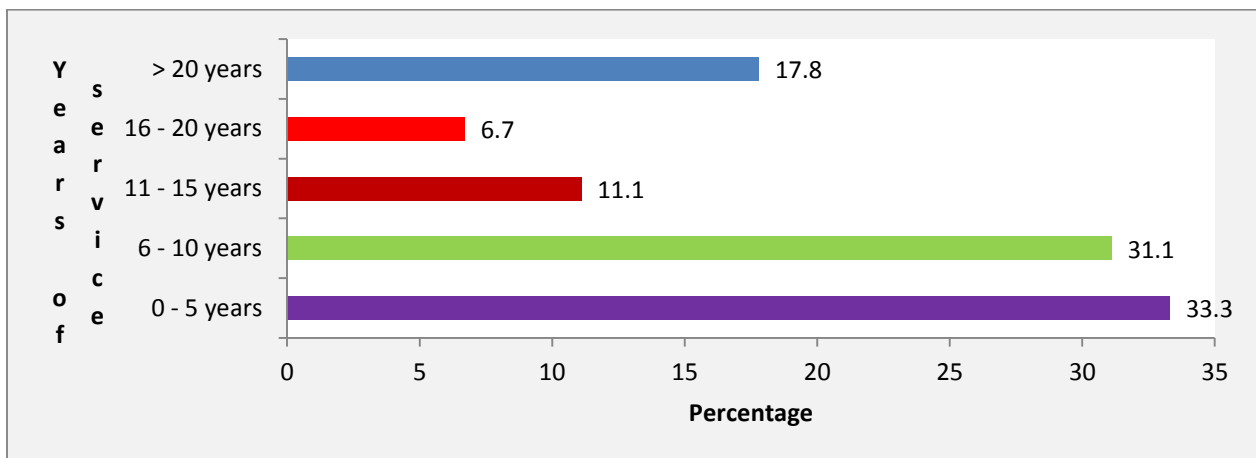


Figure 4-4: Years of Service of the SEC managers who participated in the study

4.2.5 Qualifications

As reflected in *Figure 4-5* below, it was found that almost all the participants (93.3%) had degree or postgraduate qualifications.

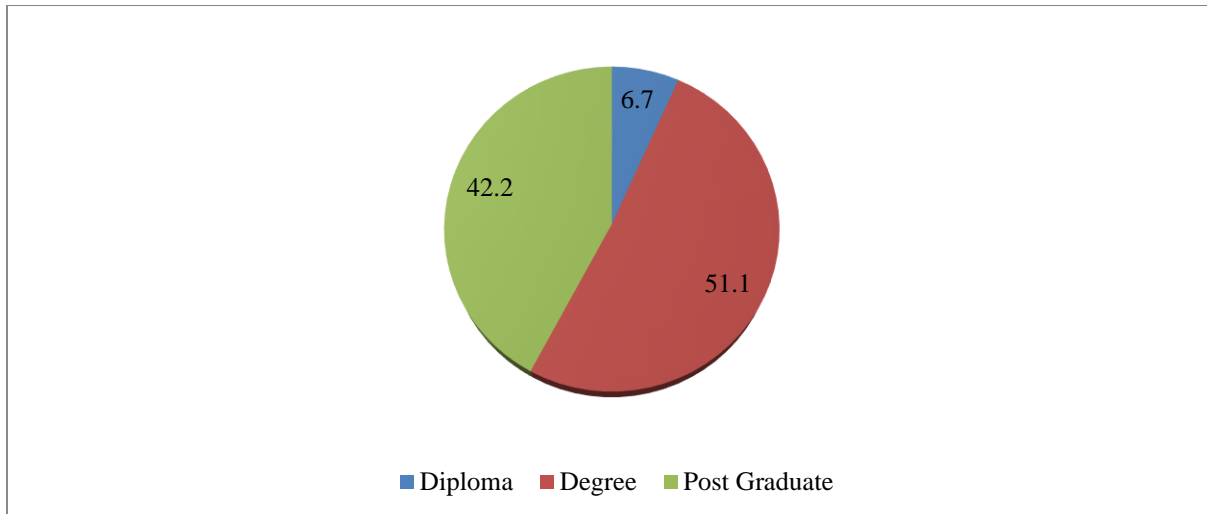


Figure 4-5: Qualifications of SEC Managers who participated in the study

4.3 Analysis and Interpretation

As indicated in the introduction, one of the key tests of data analysis as suggested by Creswell (2009), particularly in qualitative research is that the analysis must be directly linked to the theory. Babbie (2010) concurs and proceeds to advance the argument that “qualitative research, involves a continual interplay between theory and analysis. In seeking to analyse qualitative data, we seek to discover patterns such as changes over time or possible links among the variables”, Babbie (2010: p418). This section therefore seeks to establish the linkages not only in relation to the theory underpinning remuneration, motivation, retention and performance but also with regards to the research objectives.

All the statements were designed on a 4 points Likert Scale i.e. one point for agree to a large extent and four points for disagree to large extent. The mean score below two (2) meant that participants indicated positivity in the impact of the new pay regulations.

4.3.1 Research Objective One: To what extent do the new regulations on remuneration affect the performance of SEC?

SEC managers were asked to respond to ten (10) statements regarding the design of the new remuneration pay regulations and eleven (11) statements on how the regulations have affected the performance of the Company. *Table 4-1* below, refers to the design of the pay regulations and *Table 4-2* (also below), deals with how the pay regulations, have affected the performance of the managers as well as the Company.

Table 4-1: The new remuneration regulations (design process)

	Agree to a large extent	Agree to some extent	Disagree to some extent	Disagree to a great extent	Mean (SD)
PEs must be sensitive to the general remuneration market trends in Swaziland	46.7	28.9	13.3	11.1	1.89 (1.03)
PE's should be totally independent of Government in setting remuneration systems	63.0	23.9	8.7	4.3	1.54 (0.84)
Government may have been compelled to introduce the new pay regulations	23.9	28.3	28.3	19.6	2.43 (1.07)
The remuneration of executives in PE must be reflective of the performance of the respective PE	78.3	8.7	2.2	10.9	1.46 (0.98)
The remuneration of the managers in general within PE's must be reflective of the performance of the respective PE	69.6	15.2	8.7	6.5	1.52 (0.91)
The rationale behind grouping of PEs as the basis for pay differentiation	17.8	17.8	42.2	22.2	2.69 (1.02)
The boards of directors of PE's must be consulted in the development of pay	21.7	41.3	19.6	17.4	2.33 (1.01)
The management collective of PE's must also be consulted in the development of pay regulations	56.5	23.9	15.2	4.3	1.67 (0.90)
Consulting the management collective of PE's on remuneration systems would be undermined because of perceptions of conflict of interest	13.3	26.7	44.4	15.6	2.62 (0.91)
Any pay regulations, must by design, incentivize superior performance	62.2	24.4	2.2	11.1	1.62 (0.98)
Aggregate mean score (SD)					1.20 (0.51)

Out of the 10 statements in *Table 4-1* above, the majority of the participants responded positively in at least eight (8) of the statements.

Out of the 11 statements in *Table 4-2 (below)*, responses were evenly split between positive and negative responses.

Table 4-2: Impact of regulations on the performance of SEC

Statements	Agree to a large extent	Agree to some extent	Disagree to some extent	Disagree to a great extent	Mean (SD)
The new pay regulation have positively affected the performance of managers at SEC	15.6	6.7	22.2	55.6	3.18 (1.11)
The new pay regulation have introduced clear mechanisms to reward performance	6.5	6.5	26.1	60.9	3.41 (0.88)
The managers at SEC have been motivated to perform higher as a result of the new pay regulations	4.3	2.2	15.2	78.3	3.67 (0.73)
There is a direct correlation between financial reward systems and motivation of employees	39.1	32.6	15.2	13.0	2.02 (1.04)
Managers in particular, are not necessarily motivated to perform higher by direct financial incentives only	21.7	37.0	30.4	10.9	2.30 (0.94)
The work structure remains satisfying, pay becomes a secondary matter	13.0	43.5	32.6	10.9	2.41 (0.86)
The level of motivation of managers has affected the performance of the rest of employees within SEC	30.4	39.1	13.0	17.4	2.17 (1.06)
The development of a high performance organisation culture is not solely dependent on remuneration system	37.8	40.0	13.3	8.9	1.93 (0.94)
The profitability of SEC has been affected by the introduction of the new pay regulations	15.6	33.3	37.8	13.3	2.49 (0.92)
The long term sustainability of SEC has been enhanced with the advent of the new pay regulations	8.7	19.6	37.0	34.8	2.98 (0.95)
Commitment to the performance management culture of SEC has been made easier with the introduction of the new pay regulations	2.2	15.6	42.2	40.0	3.20 (0.79)
Aggregate mean score (SD)					2.71 (0.42)

Starting with *Table 4-1* which speaks to the design of the remuneration guidelines, 86.9% positively agreed that PE's should be totally independent of Government in setting remuneration systems. Whilst this view would seem to suggest that Government as shareholder, does not have a role to play in remuneration design, it is contrary to what occurs in practice. As advanced by Olivia (2012), matters around executive remuneration have become very contentious and vexed particularly in recent times owing to a number of factors amongst which are developments in regulation, media scrutiny and broader stakeholder pressures. Given the perception that PE's spend public money, it is perhaps unfair and to a large extent, inconceivable that managers of PE's would be immune to public scrutiny on matters related to pay.

It would therefore appear to the researcher that the overwhelming vote against scrutiny in this regard, may have been driven more by the general frustrations from the SEC managers, than actual reality on the ground particularly given that best practice favours more activism from the shareholder not less. The additional reason for this may be found in what Core *et al* (1998) defines as the general lethargy of Boards of Directors given that in most instances, boards tend to be controlled by the Chief Executive Officers (CEO) and thus become ineffectual. This is because board members tend to avoid confrontational positions or situations that may put them in conflict with the view of the CEO. Thus with the reality of ineffective Boards, shareholders like the Government of Swaziland, have no choice but to insist that remuneration policies be approved at shareholder level.

Eighty-seven percent (87%) agreed that the remuneration of executives in PE must be reflective of the performance of the respective public enterprise (PE) and 84.8% strongly agreed that the remuneration of managers within PE's, must in general be reflective of the performance of the respective PE. This finding seems to confirm the general literature as discussed in Chapter Two. For example, it was argued by Flannery *et al* (1996), that employers no longer favour traditional pay systems because they argue that it impedes growth and success of an organisation. They instead advocate what Niranjana & Pattanayak (2005) termed as the contemporary practices of performance-based and variable pay strategies, particularly in the public sector around the world.

Furthermore, the majority of the employees (86.6%) agreed that any pay regulations, must by design, incentivise superior performance. As was suggested by WorldatWork (200&) pay for performance has increasingly emerged as an answer to solve the problem of distinguishing poor and excellent performance, as a way of motivating and retaining employees. SEC managers clearly agree to '*put their money where their mouth is*' and to be held accountable to performance delivery.

About two-thirds of the employees (64.4%) disagreed with the logic behind the categorisation of PE's solely on the basis of Company assets. As was indicated in Chapter One, the Government of Swaziland initially introduced Circular No. 3 of 2010. This pay guideline introduced the notion of the categorization of PE's solely on the basis of Company assets. Circular No. 3 of 2010 was however superseded by Circular 4 of 2013. The perceptions of SEC managers vindicated the replacement of the initial guideline. However when both guidelines were designed by Government, PE's were not consulted either at Board level or management level. Given this, at least 63% of managers of managers felt that this was wrong and at least 80% felt very strongly that the management collective of PE's should have been consulted when the pay regulations were designed.

As was argued by Bendix (2005), consultation lies at the heart of good employee relations practice. Consultation in employment relations is explained in very distinct terms to negotiations. Whilst the latter refers to engaging another party with the intention to reach an agreement, the former merely relates to the process of taking into consideration the views and perceptions of the other party, particularly where terms and conditions of service are concerned. This may not necessarily result in agreement. Given this, SEC managers felt quite strongly that the lack of consultation in the development of the new pay regulations, undermined the intentions of the Government of Swaziland and rendered the new pay regulations, ineffectual. At least 40% actually felt that existence of a potential conflict of interest would not have undermined the quality of their input into the process of designing the new pay regulations. It is assumed that Government's intention in developing the new pay regulations was to address concerns on the high salaries of executives in the context of ensuring that PE's delivered more value for money for the state. Given this reasonable assumption, more than 86% of SEC managers confirmed that management pay, must be directly linked to the performance of PE's. It would therefore seem to the researcher, that the rationale for not consulting either the Board of PE's or the management, was not based on any logical or rational reasoning as the management of PE's agreed that they must be held accountable for the performance of PE's and that their remuneration must reflect this.

More than two-thirds of the employees (71%) positively agreed that there is a direct correlation between financial reward systems and motivation of employees. The results (69% of managers) also allude to the reality that the level of motivation of managers has affected the performance of the rest of employees within SEC. It would therefore seem to the researcher that despite the clear existence of massive literature on the link between pay and performance, by introducing the new regulations on remuneration of managers in the manner in which this occurred, Government has undermined the very noble objectives of

the regulations resulting in unintended consequences. It could not have been Government's intention to undermine performance within PE's and to a large extent, to even threaten the long term sustainability of the PE's. This is because in Government's own words, the role of PE's is to drive economic growth and to create employment. Therefore the reality that at least 72% of managers feel that the new pay regulations have emasculated SEC's long term sustainability, should worry the shareholder as this confirms that the regulations have had unpremeditated consequences.

How this can be addressed will be covered in the next chapter. Despite SEC managers generally feeling that the pay regulations have not been designed well and that they have not impacted positively on their performance and that of the Company, there is recognition that pay alone would not influence the development of a high performance culture. At least 78% of managers felt that the development of a high performance organisation culture is not solely dependent on remuneration system. This finding confirms the definition Maslow's theory of motivation as well as the Goal Setting theory. The former advances the argument that satisfaction of one need leads to the natural desire to seek satisfaction in a higher need. The latter theory links personal satisfaction to the attainment of the overall objectives of the organisation.

Considering all the 11 statements, the aggregate mean score was 2.41 (SD = 0.42) indicated that overall, the new remuneration regulations negatively affected the performance of the SEC.

4.3.2 Research Objective 2: To what extent does SEC's remuneration system affect the retention of talent?

The findings on the impact between SEC's remuneration system and talent retention are highlighted in *Table 4-3* below.

Table 4-3: SEC remuneration system and the retention of talent

Statements	Agree to a large extent	Agree to some extent	Disagree to some extent	Disagree to a great extent	Mean (SD)
Remuneration system design is vital when recruiting new employees to the company	4.3	6.5	23.9	65.2	3.50 (0.81)
Remuneration system design is also an imperative tool in the company's ability to retain skilled employees	2.2	2.2	13.0	82.6	3.76 (0.60)
Remuneration system design is essential in managing the company's turnover rate	2.2	17.4	43.5	37.0	3.15 (0.79)
SEC remuneration system design is perceived to be fair and does not contribute to increased turnover	4.3	17.4	41.3	37.0	3.12 (0.85)
Remuneration system design is perceived to be directly linked to the goals of the company	2.2	13.0	37.0	47.9	3.30 (0.79)
SEC's current remuneration design is hugely influenced by performance based pay elements	20.0	42.2	28.9	8.9	2.27 (0.89)
SEC's current remuneration design is hugely influenced by skills and competency based pay elements given the nature of the industry and operations of the company	2.2	15.2	28.3	54.3	3.35 (0.82)
Aggregate mean score (SD)					3.21 (0.41)

Table 4-3 above contained seven (7) statements on how SEC's remuneration effectively affected talent retention. Eighty-nine percent (89%) of managers did not agree with the statement that employees are attracted to an organisation because of pay only. An overwhelming 95% did not agree that employees stay in an organisation primarily because of pay nor that the pay system is an essential tool in managing an organisations turnover. A majority of managers (78%) however, felt that SEC's pay system was not fair and actually contributed to SEC's turnover rate. It must be recalled as was highlighted in Chapter One, that SEC's turnover rate has increased sharply since the advent of the new pay regulations. Now if as reflected in the preceding paragraph, managers feel that pay alone does not attract an employee to an organisation nor makes him/her stay, why then did SEC managers overwhelmingly believe that the Company's pay system, had directly contributed to the increase in turnover? The answer may lie in fully appreciating the avoidability illustration in Figure 4-6, below:

Figure 4-6: Abelson’s expanded avoidability breakdown of employee turnover, Source: Lee G, J. (2011) *HR Metrics – Practical Measurement Tools for People Management*. Knowres Publishing, South Africa. p. 210

		Employee Control	
		Yes/Voluntary	No/Involuntary
Organisation control	Yes/Avoidable	<ul style="list-style-type: none"> • Better pay elsewhere • Better working conditions elsewhere • Problem with leadership & administration • Better organisation to work for elsewhere 	<ul style="list-style-type: none"> • Dismissal • Layoff • Forced Retirement
	No/Unavoidable	<ul style="list-style-type: none"> • Move to another location • Mid-career change • Stay home to care for spouse or children • Pregnancy, did not return after limited period of time 	<ul style="list-style-type: none"> • Severe medical • Death

Figure 4.5 suggests that there are more reasons for employees to opt out of an organisation than issues of pay. Lee (2011) therefore suggests that there cause-effect relationship between pay and turnover, is non-linear which fact underlies its complexity. He proceeds to argue that “turnover has long been a central and enduring topic in HR and management and that in unlike other issues that are really transient fads, in a worldwide knowledge-based economy where skills shortages are a constant challenge, employee turnover shows no sign of ceasing to be an important HR issue”, Lee (2011: p209). It is therefore understandable that whilst on the one level managers share the view that employees are not necessary attracted by pay nor stay as a result of it, on another level, they however argue that SEC’s turnover rate can be directly attributable to the pay system. Pay issues by their nature, are complex which explains why understanding turnover is in itself, a complex matter.

The majority of managers (84%) nevertheless strongly agreed that remuneration system design was perceived to be directly linked to the goals of the company. No less than 82.6% of managers felt that SEC's current remuneration design must be hugely influenced by skills and competency based pay elements given the nature of the industry and operations of the company. This finding resonates with the skills and competency based pay approach of Armstrong & Murlis (1994), Homan (2000), Byars & Rue (2004) and Shields (2007), all of whom argued that competency based pay inspires employees to improve their skills in line with organisational objectives and values.

Considering all the statements, the overall mean score was found to be 3.21 (SD = 0.41) which indicated that the new remuneration system negatively contributed towards employee retention within the Company.

4.3.3 Research Objective 3: Impact of SEC's remuneration system on the sustainability of the Company.

As could be viewed from *Table 4-2*, some of the eleven (11) statements dealt with the perceptions of the managers on how the pay regulations had affected their performance and that of the Company. Only 22.3% of managers felt that the new pay regulations have positively affected the performance of managers at SEC. To make matters worse, only 13% of managers felt that the new pay regulations have introduced clear and coherent mechanisms to reward performance, with only 6.5% confirming that the pay regulations have impacted positively on their motivation.

Given the challenges that SEC is going through, the majority of which are beyond the control of the Company as detailed in Chapter One, it is an indictment that 82% of managers are of the view that the new pay regulations greatly undermine the Company's ability to create a high performance culture. The primary responsibility of managers in organisations is to drive performance and ensure the long term sustainability of their respective organisations. Bussin (2013) puts this assertion in its proper context when he opines that "high performance is a standard we strive for in all our life's activities. It implies doing a difficult thing well, whether personal or professional, and it often commands admiration and reaps rewards. The workplace is no exception and high performers often expect their achievements to be evident in their remuneration", Bussin (2013: p129).

The general views on the impact of the new pay regulations on the Company, would seem to have indeed affected the performance of the Company as can be gleaned from an appreciation of the results of SEC as reflected in *Figure 1-1* discussed in Chapter One. In the three years wherein the regulations were at play (2011, 2012, 2013, 2014), profitability reduced from a high of R188million in 2011 to R72m in 2013 and slightly improving to E78million in 2014. Whilst this could not be directly and solely attributable to the advent of the new pay regulations, it may be sufficient to say that the lack of motivation within the senior management team coupled with an analysis of the results of this research, strongly indicates that this may have been one of the contributors.

4.4 Conclusion

The preceding chapter dealt with the presentation of the results of the data analysis. Unfortunately, most participants in the questionnaire, did not respond to the written or open sections of the questionnaire. It therefore was not possible to make extrapolations and analysis on the very few comments hence it this approach was discarded so as not to lead to any bias in the analysis of the data.

The next chapter will deal with the conclusions to this process and recommendations. Based on the conclusions and the recommendations, lessons will be drawn from how the new pay regulations were implemented developed and implemented, and how this process can be improved going forward. Given that the rationale for this research was to contribute towards the development of a more sustainable regulatory approach to pay in PE's, it is hoped that the research findings will form the basis for future research.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The rationale behind this research was to evaluate the impact of remuneration on the performance of senior managers at the Swaziland Electricity Company.

The aim of chapter five is to integrate the results obtained in data analysis highlighted in Chapter Four, with the literature review in order to draw conclusions and inferences. In addition, recommendations from the research will be highlighted.

5.2 Motivation and rationale underpinning the study

The research was generally motivated by the desire to see PE's being transformed to truly high performance organisations where talent management and retention, lies at the heart of the organisation's human capital strategy. As reflected in the analysis of SEC' performance highlighted in the Annual Report (2012/13), the performance of SEC since the organisation was transformed to a limited liability company in 2007, does not bode well for the future viability of this critical PE. Given the reality that countries like Swaziland have historically struggled to attract foreign direct investment (FDI) to address the developmental needs of its people, PE's like SEC have tended to play a very critical role not only in providing employment but also in addressing the infrastructure requirements of the country. It is therefore the researcher's fervent hope that the findings of this research will: -

- a) Contribute towards a better understanding of the impact of remuneration on the performance of SEC particularly since 2007;
- b) Be useful to the Board of Directors of SEC in fully comprehending the views of the management collective with regards to remuneration policies and practices as well as their impact in enabling the development of the company to a high performance organisation and hence contribute meaningfully to the sustainability of the Company;
- c) Enrich the knowledge base of the remuneration policies of PE's and may be useful input into the development of a more sustainable regulatory approach to remuneration of PE's in Swaziland.

5.3 Conclusions from the findings of the data analysis

As was indicated in Chapter One, the Government of Swaziland introduced guidelines on executive pay in 2010 which affected the remuneration of senior managers in all public enterprises in Swaziland including the Swaziland Electricity Company. These guidelines were further amended in 2013. Prior to this period, PE's determined their own remuneration policies in line with their underpinning business fundamentals. Remuneration policies generally required only the approval of the respective Boards of Directors and required shareholder approval, only in very minimal and exceptional circumstances. In particular shareholder approval was only required when annual cost of living increases normally awarded to employees to compensate for the impact of inflation, exceeded the annual pay increase limit approved by the Public Enterprise Unit.

Drawing from the findings in the data analysis in so far as the new pay regulations have affected senior managers at the Swaziland Electricity Company Limited, the following five (5) key inferences may be drawn:

- a) None of the instruments introduced by Government from 2010 to date, are premised on any clear strategic intent or at the very least, any theoretical underpin. The remuneration of executives is not designed to improve performance given that a review of the guidelines, does not expressly seek to link pay and performance. As advocated by the Expectancy Theory and the Goal Setting Theory, there should be:
 - A clear alignment of performance and the rewards (instrumentality) and managers should communicate to employees the behaviours that will be rewarded.
 - Rewards should be created to meet different group needs. Whilst this may be costly and difficult, remuneration design must take into consideration the collective needs of groups of employees particularly because at the lower levels, reward design is influenced mainly by collective bargaining whilst at the higher levels, this is not so.
 - Managers should increase expectancy by training employees to be more efficient and eliminating any barriers to performance.

Whilst certain sections of the guidelines refer to the need for public enterprises to establish performance incentive schemes, where payable, performance incentives would be made over and above guaranteed salary. However, for the recommended pay guidelines and pay ranges to be effective and to directly influence the performance of the various PE's, there is a need for clear

performance parameters to be established between the PE's and the Public Enterprise Unit. The design of the performance contract should be in the line of shareholder pacts, examples of which exist in private sector companies. These could be customized for the public sector given that profit and shareholder maximisation does not underpin the operation of most PE's. Shareholder pacts would generally refer to key financial and qualitative ratios that organisations then use as key performance targets. Examples of financial indicators would include return on investment (ROI), return on equity (ROE), liquidity ratios, debt equity ratio, activity ratio like debtor and creditor days, price earnings ratio, gross and net profit margin, earnings before interest, taxes and amortisation, dividend cover ratio, net cash from operating activities, return on net capital employed. Examples of qualitative indicators would include manpower productivity ratios, efficiency ratios, customer satisfaction index etc.

- b) There was no consultation between Government and all role players that are responsible for the running of PE's, on the new pay regulations prior to their introduction in 2010 and their review in 2013. Because of the lack of consultation between the Boards of Directors of PE's, the management teams of PE's and the Government of Swaziland, Swaziland as a country, has lost a very critical opportunity to positively influence the performance of PE's. Most PE's have a developmental underpin hence the need to ensure that they effectively make progress in the achievement of their mandate. Pay policy is a key leverage that shareholders can use to drive organisations to higher levels of performance. Whilst it may be suggested that financial incentives alone do not necessary drive superior performance, the absence of a clear rationale behind any policy has much more detrimental effect on employees particularly managers.
- c) SEC managers overwhelmingly confirmed through this research, that their emotional connection to the Company has been greatly undermined by the advent of the pay regulations. In addition, SEC managers have confirmed that manager morale and motivation, has been greatly affected since the advent of the pay regulations, to a point where company performance has begun to be negatively affected. This research has validated the views articulated by WorldatWork (2007) that compensation systems are key to eliciting and reinforcing behaviours that support firm strategy and that this can have a substantial positive or negative effect on performance.
- d) Whilst SEC managers confirmed that their performance and motivation has been affected, they also did clearly articulate and address the myth that excellent pay is the key driver of employee retention and loyalty. Despite having rejected the value of the new pay regulations, they did

however confirm that employee retention has more to do with working conditions and environment, than with a singular focus on pay. Despite the reality that SEC's turnover rate has increased in recent years, as demonstrated in Chapter One, the key driver of this is not necessarily the advent of the pay regulations. However, given that their emotional attachment to the organisation has now been undermined by the new pay regulations, it can be expected that their loyalty and sense of belonging to SEC will be greatly challenged going forward. The '*resign and stay*' culture is unfortunate if prevalent at management levels particularly because it will definitely begin to affect productivity and commitment.

- e) Employees in any work setting (managers included), are always in-ward looking when they deal with matters of pay. The findings indicated that SEC managers felt that the shareholder's involvement in the design of pay policies must be minimal. However, best practice and global experience indicates otherwise. Olivia (2012), suggests that given the contentious and vexed nature of compensation, no shareholder worth his/her salt, can leave this area purely to Boards of Directors and management. Shareholders have become very vocal and active in the determination of pay and incentives and this they do in approving or rejecting pay policies at annual general meetings. It therefore is the researcher's conclusion that the Government of Swaziland, was correct and within her rights to influence pay policy within PE's in Swaziland. Rather than the focus being the pay regulations themselves, questions must be raised on the process used to determine the pay regulations because if left to the devices of organisations, then chances exist that policies that do not have the long interests of shareholders may be implemented.

5.4 Recommendations

As reflected in Chapter Two and as suggested by Flannery *et al* (1996), employers have come to collectively conclude that traditional pay systems impede growth and success of an organisation and that this has caused many organisations to consider new and improved compensation resolutions that support the new emphasis on values such as quality, customer service, teamwork and productivity. One of the key objectives of the research study was to contribute towards a better understanding of the impact of remuneration on the performance of PE's in general as well as to enrich the knowledge base of the remuneration policies of PE's. In the author's view, the research findings may be useful input into the development of a more sustainable regulatory approach to remuneration of PE's in Swaziland. It is against this background that the following recommendations are being made:

5.4.1 Recommendations on the design of remuneration systems for PE's

The following recommendations can be made with regards to the design of remuneration systems for PE's:

- Government as a shareholder must engage PE's to develop clear strategic deliverables that are aligned to Government's programme of action and development agenda. Pay policies work effectively, when they directly aid the achievement of set objectives.
- Based on this interaction, shareholder compacts or agreements with the various Board's of Directors, must then be agreed upon and signed. These agreements will stipulate timeframes with respect to achievement of the set objectives and will also stipulate the type of support that will be necessary for the PE's to deliver on their mandate.
- Remuneration policies, must then be developed in alignment with the shareholder agreements. In particular and central to the remuneration policies, must be the development of a high performance organisation culture charter.
- Performance incentives and general pay policy will then be contextualized within the confines of the high performance organisation culture.
- This means that as a principle, Government must move away from designing pay policies that are a *'one glove fits all'*. PE's are different, their mandate differs and their underpinning operational environments significantly differ. Failure to take this into account, will result in the development of policies that do not promote best practice nor aid the achievement of the respective goals of the various PE's.

5.4.2 Recommendations on the role of Boards of Directors in the design of remuneration systems for PE's

The following recommendations can be made with regards to the design of remuneration systems for PE's:

- Ultimately, Boards of Directors are appointed by the shareholder to effectively represent their interests in running of PE's. The role of Boards must be to solely create shareholder value and to continuously increase return on equity. This commercial focus is necessary if delivering on the mandate of PE's, will become an eventuality. Therefore, Boards must be given the necessary

space and room to put in place measures that will enhance their ability to deliver on the shareholder's expectations. Shareholder agreements must therefore clearly articulate this. If Board's fail in their overall mandate, then they must be held accountable but this must not be undermined by shareholder interference.

- Pay policies lie at the heart of managing organisations given that they are suitable in sanctioning non-performance or rewarding superior performance. As such, the development of pay policies must be exclusive preserve of Board's of Directors although this may still be subject to the approval of the shareholder.

5.4.3 Recommendations on the types of remuneration systems that are suitable for PE's

The following recommendations can be made with regards to the types of remuneration systems that are suitable for PE's:

- Whilst traditional pay systems focus on guaranteed pay, best practice explored in this research, has indicated that progressive pay policies emphasize issues like sustainability of companies and achievement of return on equity.
- Government must therefore seriously consider long term value creation through implementing profit share schemes for senior managers or aggressive pay for performance schemes.
- The current trend of focusing purely on guaranteed pay negates the potential of long term value creation given that employees also tend to maximize guaranteed pay at the expense of driving superior performance.
- A combination of guaranteed and variable pay must form the basket of pay policies applicable in PE's. These have worked well in private companies and thus have the potential of delivering value for public organisations, provided enough checks and balances are incorporated into the design of the pay so that excesses are curbed.

Farnham & White (2011) summarise the call to action on remuneration of public service organisations quite well when they note that public sector pay reform must seriously consider “better performance management to ensure that failure is not rewarded; greater transparency so that taxpayers know who is being paid how much for doing what; more rigorous processes for setting public sector pay; more coherence in the way in which public sector pay is set, underpinned by a set of sector-wide principles; and the establishment of top pay commission to bring together and expand the remit of the existing pay review bodies”, Farnham & White (2011: p45). Developing remuneration levels for public enterprises must become a more refined art than it currently is and the fundamental performance and value created by

the PE's, must be taken into consideration with regards to remuneration systems. In this regard, the South African example of the Independent Commission on the Remuneration of Public Office Bearers, is a good example in point. This Commission is responsible for developing salaries, benefits and allowances of all public officials, but does so in a manner that takes the long term interests of all public sector organisations. The Government of the Kingdom of Swaziland will in the researcher's view, do well by benchmarking how other countries remunerate PE's as well as ensure that they fundamentally drive the economic and social agenda of their respective countries.

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- *Swaziland Electricity Company Limited Annual Report (2008/09)*, PrintPak, Mbabane
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Questionnaire / Interview Guide



Masters in Commerce Research Project
Researcher: Max Mkhonta (+268 – 7602 8566)
Supervisor: Thea van der Westhuizen (+27 71 3745093)
Research Office: Ms P Ximba 031-2603587

Title of Survey: *The impact of remuneration on the performance of senior managers: A case study of the Swaziland Electricity Company Limited (SEC)*

The purpose of this survey is to solicit information from managers regarding their views and perceptions on how the new government regulations on pay, have impacted on their performance and retention within SEC. The information and ratings you provide us will go a long way in helping us identify the link between remuneration policies and performance. The questionnaire should only take you between 10-15 minutes to complete. In this questionnaire, you are asked to indicate what is true for you, so there are no “right” or “wrong” answers to any question. Work as rapidly as you can. If you wish to make a comment please write it directly on the booklet itself. Make sure not to skip any questions. Thank you for participating.

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M.B. Mkhonta

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**QUESTIONNAIRE FOR THE MANAGER OF THE SWAZILAND ELECTRICITY COMPANY
(SEC)**

SECTION A: GENERAL INFORMATION

A1 Age

20-30	1
31-40	2
41-50	3
Older than 50	4

A2 Gender

Male	1
Female	2

A3 Years of service with SEC

0-5	1
5-10	2
11-15	3
16-20	4
More than 20 years	5

A4 Qualifications

Form 5 or Matric	1
Diploma	2
Degree	3
Post Graduate	4

SECTION B: NEW REGULATIONS ON REMUNERATION

Please indicate by marking an X, your most appropriate answer to the questions using the rating scale below:

Scale: 1 – Agree to a large extent

2 – Agree to some extent

3 – Disagree to some extent

4 – Disagree to a great extent

A5	To what extent do you agree that salaries in Public Enterprises (PE's) must be sensitive to the general <i>remuneration market trends</i> in Swaziland?	1	2	3	4
A6	To what extent do you agree that <i>PE's in Swaziland should be totally independent</i> of Government in setting remuneration systems?	1	2	3	4
A7	To what extent do you agree that the <i>Government may have been compelled to introduce the new pay regulations</i> (Circular No. 3 of 2010 and No. 4 of 2013) because of what it perceived to be high salaries within public enterprises (PE's)?	1	2	3	4
A8	To what extent do you agree that the <i>remuneration of executives</i> in PE's must be reflective of the performance of the respective PE?	1	2	3	4
A9	To what extent do you agree that the <i>remuneration of managers</i> in general within PE's must be reflective of the performance of the respective PE?	1	2	3	4
A10	To what extent do you agree with the rationale behind <i>grouping of PE's</i> as the basis for pay differentiation?	1	2	3	4
A11	To what extent do you agree that the <i>Boards of Directors of PE's must be consulted</i> in the development of pay regulations?	1	2	3	4
A12	To what extent do you agree that the <i>management collective of PE's must also be consulted</i> in the development of pay regulations?	1	2	3	4
A13	To what extent do you agree that consulting the management collective of PE's on remuneration systems would be undermined	1	2	3	4

	because of <i>perceptions of conflict of interest</i> ?				
A14	To what extent do you agree that any pay regulations, must by design, <i>incentivize superior performance</i> ?	1	2	3	4

Kindly provide any additional comments (if necessary) on the new pay regulations on public enterprises in Swaziland:

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SECTION C: IMPACT OF THE NEW PAY REGULATIONS ON THE PERFORMANCE OF SEC

Please indicate by marking an X, your most appropriate answer to the questions using the rating scale below:

- Scale: 1 – Agree to a large extent*
2 – Agree to some extent
3 – Disagree to some extent
4 – Disagree to a great extent

A15	To what extent do you agree that the new pay regulations (Circular 3 of 2010 and Circular 4 of 2013) have positively affected the <i>performance of managers</i> at SEC	1	2	3	4
A16	To what extent do you agree that the new pay regulations have introduced <i>clear mechanisms to reward performance</i> ?	1	2	3	4
A17	To what extent do you agree that managers at SEC have been <i>motivated</i> to perform higher as a result of the new pay regulations?	1	2	3	4
A18	To what extent do you agree that there is a direct <i>correlation</i> between financial reward systems and motivation of employees?	1	2	3	4
A19	To what extent do you agree that managers in particular, are not necessarily motivated to perform higher by <i>direct financial incentives</i> only?	1	2	3	4
A20	To what extent do you agree that if the <i>work structure</i> remains satisfying, pay becomes a secondary matter?	1	2	3	4
A21	To what extent do you agree that the <i>level of motivation of managers</i> has affected the performance of the rest of employees within SEC?	1	2	3	4
A22	To what extent do you agree that the development of a <i>high performance organisation culture</i> is not solely dependent on remuneration systems?				

A23	To what extent do you agree that the <i>profitability</i> of SEC has been affected by the introduction of the new pay regulations?	1	2	3	4
A24	To what extent do you agree that the <i>long term sustainability</i> of SEC has been enhanced with the advent of the new pay regulations?	1	2	3	4
A25	To what extent do you agree that <i>commitment to the performance management culture</i> of SEC has been made easier with the introduction of the new pay regulations?	1	2	3	4

Kindly comment (where necessary) on the impact of the new pay regulations on the general performance culture of the company:

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SECTION C: REWARD MANAGEMENT AND EMPLOYEE RETENTION WITHIN SEC

Please indicate by marking an X, your most appropriate answer to the questions using the rating scale below:

Scale: 1 – Not important

2 – Important to some extent

3 – Important

4 – Very important

A26	Remuneration system design is critical to the <i>recruiting</i> of new employees.	1	2	3	4
A27	Remuneration system design is also vital to a company's ability to <i>retain</i> skilled employees	1	2	3	4
A28	Remuneration system design is critical to managing the company's <i>turnover rate</i> .	1	2	3	4
A29	Remuneration system design within the company is perceived to be <i>fair</i> and does not contribute to increased turnover.	1	2	3	4
A30	Remuneration system design within the company is perceived to be <i>directly linked to the goals of the company</i> .	1	2	3	4
A31	SEC's current remuneration design is hugely influenced by <i>performance based pay elements</i> .	1	2	3	4
A32	SEC's current remuneration design is hugely influenced by <i>skills and competency based pay elements</i>	1	2	3	4
A33	SEC's current remuneration design must be based on base or guaranteed pay concepts. There is no need to build in <i>skills and competency based pay or performance based pay elements</i>	1	2	3	4

Questionnaire / Interview Guide



Masters in Commerce Research Project
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(SEC)**

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Female	2

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A4 Qualifications

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SECTION B: NEW REGULATIONS ON REMUNERATION

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2 – Agree to some extent

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4 – Disagree to a great extent

A5	To what extent do you agree that salaries in Public Enterprises (PE's) must be sensitive to the general <i>remuneration market trends</i> in Swaziland?	1	2	3	4
A6	To what extent do you agree that <i>PE's in Swaziland should be totally independent</i> of Government in setting remuneration systems?	1	2	3	4
A7	To what extent do you agree that the <i>Government may have been compelled to introduce the new pay regulations</i> (Circular No. 3 of 2010 and No. 4 of 2013) because of what it perceived to be high salaries within public enterprises (PE's)?	1	2	3	4
A8	To what extent do you agree that the <i>remuneration of executives</i> in PE's must be reflective of the performance of the respective PE?	1	2	3	4
A9	To what extent do you agree that the <i>remuneration of managers</i> in general within PE's must be reflective of the performance of the respective PE?	1	2	3	4
A10	To what extent do you agree with the rationale behind <i>grouping of PE's</i> as the basis for pay differentiation?	1	2	3	4
A11	To what extent do you agree that the <i>Boards of Directors of PE's must be consulted</i> in the development of pay regulations?	1	2	3	4
A12	To what extent do you agree that the <i>management collective of PE's must also be consulted</i> in the development of pay regulations?	1	2	3	4
A13	To what extent do you agree that consulting the management collective of PE's on remuneration systems would be undermined	1	2	3	4

SECTION C: IMPACT OF THE NEW PAY REGULATIONS ON THE PERFORMANCE OF SEC

Please indicate by marking an X, your most appropriate answer to the questions using the rating scale below:

Scale: 1 – Agree to a large extent

2 – Agree to some extent

3 – Disagree to some extent

4 – Disagree to a great extent

A15	To what extent do you agree that the new pay regulations (Circular 3 of 2010 and Circular 4 of 2013) have positively affected the <i>performance of managers</i> at SEC	1	2	3	4
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A22	To what extent do you agree that the development of a <i>high performance organisation culture</i> is not solely dependent on remuneration systems?				

A23	To what extent do you agree that the <i>profitability</i> of SEC has been affected by the introduction of the new pay regulations?	1	2	3	4
A24	To what extent do you agree that the <i>long term sustainability</i> of SEC has been enhanced with the advent of the new pay regulations?	1	2	3	4
A25	To what extent do you agree that <i>commitment to the performance management culture</i> of SEC has been made easier with the introduction of the new pay regulations?	1	2	3	4

Kindly comment (where necessary) on the impact of the new pay regulations on the general performance culture of the company:

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SECTION D: REWARD MANAGEMENT AND EMPLOYEE RETENTION WITHIN SEC

Please indicate by marking an X, your most appropriate answer to the questions using the rating scale below:

Scale: 1 – Not important

2 – Important to some extent

3 – Important

4 – Very important

A26	Remuneration system design is vital when recruiting new employees to the Company.	1	2	3	4
A27	Remuneration system design is also an imperative tool in the company's ability to <i>retain</i> skilled employees	1	2	3	4
A28	Remuneration system design is essential in managing the company's <i>turnover rate</i> .	1	2	3	4
A29	It is vital that remuneration system design is perceived to be <i>fair</i> and does not contribute to increased turnover.	1	2	3	4
A30	It is essential that remuneration system design is perceived to be <i>directly linked to the goals of the company</i> .	1	2	3	4
A31	SEC's current remuneration design is hugely influenced by <i>performance based pay elements</i> .	1	2	3	4
A32	SEC's current remuneration design must be hugely influenced by <i>skills and competency based pay elements</i> given the nature of the industry and operations of the Company	1	2	3	4

