

**DESIGNING STRATEGY-SUPPORTIVE REWARD
SYSTEMS**

BY

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**Submitted in partial fulfillment of the requirements for the
degree of
MASTERS IN BUSINESS ADMINISTRATION**

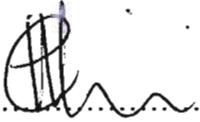
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SEPTEMBER 2003

DECLARATION

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

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STATEMENT 1

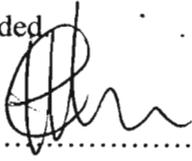
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STATEMENT 2

This dissertation is the result of my own independent work/investigation, except where otherwise stated. Other sources are acknowledged by giving explicit references. A bibliography is appended

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Valentine, my dearest husband. I know how thrilled you are that this dissertation has been completed. It's for US!

ABSTRACT

This study looks at designing strategy-supportive reward systems and the benefits that an organisation can obtain from such a system. Aligning the reward system to the company's strategy is one way that an organisation can gain a competitive advantage. In the literature review section of the study, the author looks at strategy formulation and its link to human resources activities. The implementation process of a selected strategy is crucial as it relies upon the human resources skills base. Therefore, employee retention and motivation is important in ensuring correct strategy implementation.

Theories of motivation are highlighted as it is important to understand what motivates your workers and managers, and ensure that the reward system is congruent with the employees' motivational needs. Different performance management systems are highlighted to show how important it is to measure performance if you are to reward that performance. A case study of Chemplex Corporation shows that the company needs to improve on its communication of the chosen strategy through the hierarchy down to shop floor workers. Furthermore, Chemplex Corporation does not have a performance management system resulting in a reward system that is not aligned to the company's strategy.

Recommendations are made using a model of strategy formulation and implementation that ensures participation at all levels of the organisation. The Balance Scorecard concept designed by Norton and Kaplan is recommended for performance management and ensuring that the reward system is in line with the company's strategy. Finally, guidelines on implementing a strategy-supportive reward system are given so that management knows what pitfalls to avoid.

TABLE OF CONTENTS

ACKNOWLEDGEMENTS.....	III
ABSTRACT.....	IV
CHAPTER ONE.....	1
1.1 INTRODUCTION	1
1.2 BACKGROUND OF THE RESEARCH.....	1
1.3 PROBLEM STATEMENT	8
1.4 OBJECTIVES OF THE STUDY.....	8
1.5 RESEARCH METHODOLOGY	9
1.5.1 <i>Sampling Design</i>	9
1.5.2 <i>Data Collection Method and Instrument</i>	9
1.5.3 <i>Data Analysis</i>	10
1.6 LIMITATIONS OF THE PROJECT	10
1.7 STRUCTURE OF THE STUDY.....	10
1.8 SUMMARY	11
CHAPTER TWO.....	12
LITERATURE REVIEW	12
2.1 STRATEGY FORMULATION.....	12
2.2 THEORIES OF MOTIVATION.....	17
2.2.1 <i>Maslow’s Hierarchy of Needs</i>	17
2.2.2 <i>Herzberg’s Two-Factor Motivation Theory</i>	19
2.2.3 <i>The Job Characteristic Model</i>	21
2.2.4 <i>Expectancy Theories</i>	23
2.2.4.1 Vroom’s Expectancy Theory	23
2.2.4.2 Porter and Lawler’s Expectancy Theory.....	24
2.2.5 <i>The role of Goal Setting in Motivation</i>	25
2.3 MOTIVATING MANAGERS.....	25
2.4 PERFORMANCE MANAGEMENT	27
2.4.1 <i>Purposes of Performance Management</i>	30
2.4.1.1 Administrative Purpose.....	30
2.4.1.2 Developmental Purpose.....	30
2.4.1.3 Strategic Purpose	30
2.4.2 <i>Performance Measures Criteria</i>	31
2.4.2.1 Strategic congruence.....	31
2.4.2.2 Validity	32
2.4.2.3 Reliability.....	32
2.4.2.4 Acceptability	33
2.4.2.5 Specificity	33
2.4.3 <i>Approaches to Measuring Performance</i>	33
2.4.3.1 The Comparative Approach.....	33
2.4.3.2 The Attribute Approach.....	35
2.4.3.3 The Behavioral Approach.....	36
2.4.3.4 The Results Approach.....	38
2.4.3.5 The Quality Approach.....	39
2.5 COMPENSATION AND BENEFITS PROGRAMMES.....	40
2.5.1 <i>Reinforcement Theory</i>	40
2.5.2 <i>Expectancy Theory</i>	41
2.5.3 <i>Agency Theory</i>	42
2.5.4 <i>Compensation Programmes</i>	43
2.5.4.1 Merit Pay.....	43
2.5.4.2 Individual Incentives.....	43
2.5.4.3 Profit Sharing and Ownership.....	44

2.5.4.4	Gainsharing, Group Incentives, and Team Awards	46
2.5.4.5	Balanced Scorecard.....	46
2.6	STRATEGY-SUPPORTIVE REWARD SYSTEMS	47
2.7	SUMMARY AND CONCLUSION	48
CHAPTER 3.....	50	
CASE STUDY OF CHEMPLEX CORPORATION LIMITED.....	50	
3.1	INTRODUCTION	50
3.2	THE ZIMBABWE ECONOMY	50
3.3	STRATEGY FORMULATION AND IMPLEMENTATION AT CHEMPLEX CORPORATION	51
3.4	PERFORMANCE MEASUREMENT	52
3.5	COMMUNICATING ORGANISATIONAL PERFORMANCE	54
3.6	REWARD SYSTEM	54
3.6.1	<i>Non-managerial Employees</i>	54
3.6.2	<i>Managerial Employees</i>	56
3.7	TOTAL QUALITY MANAGEMENT.....	57
3.8	SUMMARY AND CONCLUSION	58
CHAPTER 4.....	59	
RESEARCH PLAN.....	59	
4.1 INTRODUCTION	59	
4.2	RESEARCH METHODOLOGY	59
4.2.1	<i>Target Population and Sample</i>	59
4.2.2	<i>Questionnaire Design</i>	60
4.3	SUMMARY	62
CHAPTER 5.....	63	
RESULTS OF THE RESEARCH.....	63	
5.1	INTRODUCTION	63
5.2	SAMPLE SIZE AND QUESTIONNAIRES SENT OUT	63
5.2.1	<i>Response rate</i>	64
5.3	RESULTS FROM QUESTIONNAIRES SENT TO NON-MANAGERIAL EMPLOYEES.....	65
5.5	RESPONSES FROM DIVISIONAL HEADS ON INTERVIEWS HELD	77
CHAPTER 6.....	81	
RECOMMENDATIONS AND CONCLUSION.....	81	
6.1	INTRODUCTION	81
6.2	STRATEGY FORMULATION AND IMPLEMENTATION	82
6.2.1	<i>Developing strategic vision</i>	82
6.2.2	<i>Establishing objectives</i>	83
6.2.3	<i>Crafting a strategy</i>	84
6.3	PERFORMANCE MANAGEMENT	85
6.4	APPROACHES TO MEASURING PERFORMANCE	87
6.5	STRATEGY-SUPPORTIVE REWARD SYSTEM.....	87
6.6	BALANCED SCORECARD (BSC)	88
6.7	GUIDELINES FOR DESIGNING STRATEGY-SUPPORTIVE REWARD SYSTEMS	90
6.8	SUMMARY AND CONCLUSIONS	91
6.9	OPPORTUNITIES FOR FURTHER RESEARCH	92
BIBLIOGRAPHY	93	

TABLE OF FIGURES AND TABLES

Figure 1.1 Chemplex Corporation Limited Organogram	2
Fig 2.1 Strategy Formulation	12
Fig 2.2 A Model of the Strategic Management Process	14
Fig 2.3 Maslow's Hierarchy of Needs	18
Fig 2.4 The Job Characteristic Model	22
Fig 2.5 Vrooms Expectancy Theory	23
Fig 2.6 The Porter and Lawler's Model	24
Fig 2.7 Model of Performance Management in Organisations	28
Fig 2.8 Basic Concepts of Expectancy Theory	41
Fig 6.2 The Strategy Making Pyramid	85
Fig 6.3 A Model of Performance Management in Organisation	86
Fig 6.4 Managing Strategy: Four Processes	89
Table 1.1 Benefits to Employees	3
Table 2.1 A Comparison of Maslow's Needs Hierarchy and Herzberg's Two Factor Theory	20
Table 5.1 Questionnaire Responses	64
Table 5.2 Responses from Heads of Divisions	78

CHAPTER ONE

1.1 Introduction

The study assesses the impact of reward systems as a means of motivating employees to achieve the identified strategic objectives of the organization. The management dilemma is that how can employee motivation be increased through utilization of a reward system and at the same time achieve organizational objectives. The research objectives seek to analyse whether designing a strategy-supportive reward system will result in increased commitment to executing corporate strategy.

The study looks at the current reward system at Chemplex Corporation and assesses its success at achieving corporate goals as well as the failures. The case study will also look at whether employees at Chemplex value the current reward system and whether it's a source of motivation for them. Furthermore, the study will look at the corporate and divisional strategies of Chemplex Corporation and the knowledge that employees have of these strategies as this will be vital in assessing the impact of the current reward system.

1.2 Background of the Research

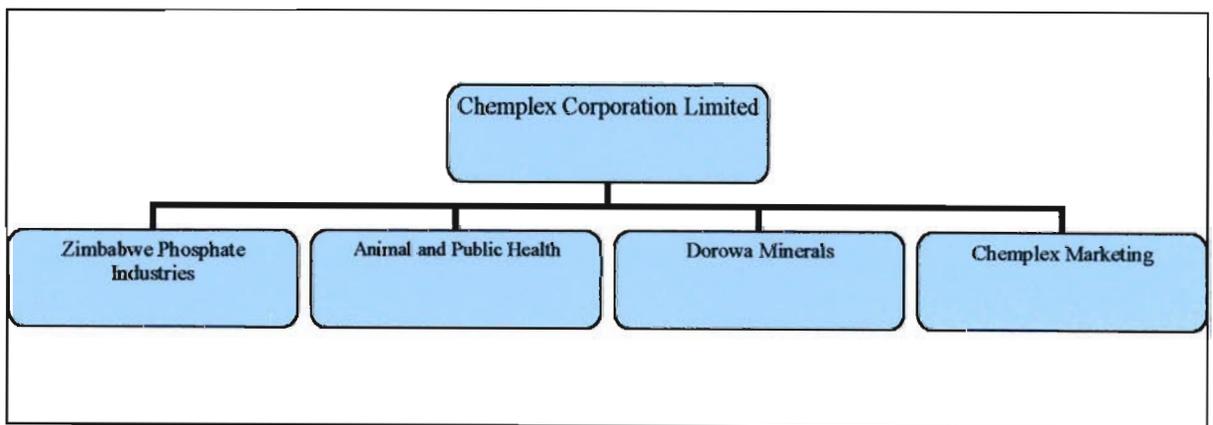
Chemplex Corporation Limited has four divisions namely, Zimbabwe Phosphate Industries, Animal and Public Health, Dorowa Minerals and Chemplex Marketing. The holding company is Chemplex Corporation Limited (to be referred to in this study as Chemplex). Dorowa Minerals is involved in the mining of phosphate rock which in turn, it supplies to Zimbabwe Phosphate Industries (referred to in this study as ZimPhos). Therefore, ZimPhos is its sole customer. ZimPhos is involved in the manufacture of superphosphates which it then supplies to the manufactures of phosphate-based fertilizers who are Windmill and Zimbabwe Fertiliser Company. ZimPhos also manufactures acids, and water treatment chemicals for supply to various industries within Zimbabwe. ZimPhos also has a Sales Division that is involved in the marketing of its water treatment products to the various water authorities throughout Zimbabwe.

Chemplex Marketing is the marketing Division of Chemplex Corporation Limited, and markets some of the products manufactured by ZimPhos such as acids. However, the majority of Chemplex Marketing's business lies in its marketing of imported chemicals sourced from all over the world. These chemicals are supplied to the manufacturing industry as well as the mining industry throughout Zimbabwe

Animal and Public Health is the fourth division of Chemplex and it was formed in 2001. It is involved in the manufacture and selling of animal as well as public health products.

The organizational structure of Chemplex Corporation Limited is as follows:

Figure 1.1 - Chemplex Corporation Limited Organogram



The biggest division is ZimPhos with over 600 workers, followed by Dorowa Minerals which has about 300 workers. Chemplex Marketing has a staff complement of 40 workers, and lastly Animal and Public Health has about 10 workers. Each division has its own Workers' Committee with Animal and Public Health Division employees' being represented by the ZimPhos workers' committee as they are still a new division with small numbers.

Most of the workers at ZimPhos and Chemplex Marketing are affiliated to the National Employment Council (NEC) in the Chemical and Fertiliser Division. The NEC is responsible for the welfare of its members and determines the different grades that

workers must fall in, as well as the minimum wages set for each grade. However, these workers also belong to the different workers' committees at each division who are responsible for not only the welfare of the members, but are also involved in the negotiation of wages, salaries, and benefits on the behest of their members.

Each division has its own divisional strategy that flows from the corporate strategy. Strategies are defined and agreed upon by the divisions' management team, and these are supposed to be articulated to members of staff at various levels.

The reward system at Chemplex Corporation takes the following forms:

- For non-managerial staff, the Workers' Committee is involved in negotiating the salary increases for its members, and once agreed upon, it's implemented across the board regardless of individual performance.
- Managerial employees' salary increases are agreed upon based on a once a year appraisal system and depending on the results, a certain percentage is given to the manager as an increase. For example, if the percentage salary increase is 20%, 15% is guaranteed to the manager and the other 5% is based on the appraisal as per the manager's boss.
- Non-monetary incentives such as free use of holiday cottages, payment of school fees and personal loans, are available to employees and management and these vary as per the level of the employee or manager. All non-managerial employees are in Grades 3 to Grades 11. Lower and upper middle managers are in Grades 11 to Grades 14 and top management is Grades 15 and 16. The following table shows the different perks applicable to each grade:

Table 1.1 – Benefits to employees

BENEFIT	GRADE						
	3-8	9	10	11	12	13	14+
Pension Fund. 11% Company Contribution. 7.5% Own Contribution.	x	x	x	x	x	x	x

Voluntary contributions allowed to boost pension							
2. CIMAS ¹ & Private Hospital Scheme and Drug Scheme	x	x	x	x	x	x	x
3. Group Accident Life Assurance 3 x Annual salary	x	x	x	x	x	x	x
4. Payment of Bond and Insurances off salary	x	x	x	x	x	x	x
5. Payment of shortfalls on CIMAS Drug Scheme	x	x	x	x	x	x	x
6. Priority Access to Avenues Clinic ²			x	x	x	x	x
7. Leave Days 20 days 20 days + 5 casual 25 days Dorowa has it's own conditions	x	x	x	X		x	x
8. Study aid scheme	x	x	x	x	x	x	x
9. Car purchase scheme at an interest rate determined by the corporation, 2 years of service required				x			
10. a) Home ownership – interest free loan for transfer and registration. 1 year service requirement	x	x	x	x			
10. b) Home ownership, transfer and registration fees paid, write off over 5 years. 3 months service requirement						x	x
11. ³ a) Kariba Cottage b) Inyanga Cottage			x	x	X	X	X
						x	x

¹ CIMAS is a medical insurance company that Chemplex employees pay subscription to.

² The Avenues Clinic is a privately owned hospital situated in the capital city- Harare

³ Kariba and Inyanga are holiday resorts in Zimbabwe

12. Educational Assistance				X	X	X	X
13. Professional Association fees, max of 2 per year				X	X	X	X
14. Home security whilst on business or leave (all staff whilst away on business)					X	X	X
15. Company car scheme Mazda 323 or similar (tool of the trade) ⁴ Nissan Sunny sedan or similar Mazda 626 sedan or similar Executive type				X	X	X	X
16. Low interest/interest free loans 2% for max \$20 000,00					X	X	X
17. Purchase of vehicle given as a benefit, after 6 years of use. To pay 35% of original purchase price					X	X	X
18. Club fees (by negotiation with Managing Director)					X	X	X
19. Boat at Kariba (5 days per year access)					X	X	X

- Depending on the performance of the corporation, a monetary reward is awarded to all employees based on audited results of the corporation. The amount is authorized by the Board of Directors' for Chemplex Corporation.

Of late, there has been disgruntlement at the type of reward system currently existing at Chemplex Marketing. The type of disgruntlements emanated from management as well as sales representatives. The sales representatives who had been with the organization for

⁴ All sales representatives use a car deemed a "tool of the trade" as it is due to the nature of their business that they are allocated company cars. All sales reps fall in Grade 11.

long periods (over 4 years) complained that when new sales representatives were recruited, they were immediately put on the same salary as those that had been with company for long periods. This was regardless of the whether the old sales representatives had actually been performing well or not. This, they claimed, was a major demotivator as their salaries were determined not by their performance, but were due to negotiations by the workers' representatives (the workers' committee).

Management, especially middle managers have also been complaining about their salaries as well as benefits. For example, one of the benefits for all management employees is the provision of school fees for up to two of your children. This benefit is given regardless of whether one has children or not, and if it's of little use to you, that's unfortunate. Furthermore, managers especially those in middle management positions have complained of the nature of their salaries and how more often than not, the percentage increases are 'suspiciously' similar to those negotiated by workers.

Chemplex management is wondering how best to design a strategy-supportive reward system that can make everyone within the division happy and motivated as well as committed to executing the chosen strategy and achieve performance targets.

The study will focus on all the four divisions within Chemplex Corporation as it is believed that through measuring the perceptions of employees on current reward system as well as obtaining feedback on what is deemed as a worthy reward system, management at Chemplex will be able to devise a strategy-supportive reward system that is beneficial to both the employees and the organization as a whole.

According to Thompson and Strickland (2001), "the role of the reward system is to align the well-being of the organization members with realizing the company's vision, so that organization members benefit by helping the company execute its strategy competently and fully satisfy customers". Examples of strategy-supportive motivational strategies include the following:

- Stock options given to employees (Cisco Systems, Procter and Gamble, Merck). Employees feel that they also own part of the company and thus will work towards its success.
- Paying hourly wages that are higher than prevailing rates in the industry (Nordstrom).
- On the spot bonuses for exceptional performance (Cisco Systems).
- Providing attractive perks and benefits including subsidized cafeterias, profit-sharing plans, college scholarships for children, etc
- Ensuring that employees' ideas and suggestions are respected.

It has been noted that the use of incentives and rewards is the single most powerful tool that management has to win strong employee commitment to diligent, competent strategy execution. In order to create a reward system that promotes good strategy execution, a company has to come up with strategy driven performance targets for every manager, every team or work group and even every employee. For example, if a company's strategy is to be a low cost producer, then the incentive system should reward actions that result in lower costs. There is no point in setting up targets that are not in line with the company's strategy.

Guidelines for designing incentive compensation systems include:

- Performance payoff should be a major piece of the total compensation package. These should be at least 10-12% of base salary in order to have much impact.
- The incentive plan should be for everyone, workers as well as management, not management only.
- The reward system must be fair and performance targets should not be unrealistic.
- The incentives must be linked to only those targets spelt out in the strategic plan
- The performance target for each individual should involve outcomes which each individual can personally affect.
- The time between performance review and payment should be short
- The rewards should include monetary and non-monetary incentives.
- One should avoid finding ways to reward non-performers.

According to Noe et al (2000), the design of compensation programs needs to be coordinated with the business and human resources strategy. This in turn will assist with the nature of the programme that the company chooses to embrace.

1.3 Problem Statement

The management dilemma is how employee motivation can be increased through implementation of a reward system, and still ensure that organizational objectives are met. Management normally tries to enlist organization wide commitment to carry out the organizational plan by motivating people and rewarding them for good performance.

The study will analyse the current reward system at Chemplex, and see how best the organization can motivate its employees whilst at the same time achieve the company's goals.

1.4 Objectives of the study

The purpose of the research is to discover whether reward systems have a bearing on employees' commitment to achieving the organizational goals. The management question therefore is whether a well-designed strategy-supportive reward system results in achievement of performance targets and increase in commitment to strategy execution, as well as motivation of employees.

The study, in light of the concerns raised by employees, will look at the following:

- analyse the current reward system
- analyse the communication of the corporate and divisional strategies to all employees
- assess whether the current reward system is in line with the corporate strategic plan
- assess the shortcomings, if any, of the current reward system
- investigate whether a strategy-supportive remuneration system results in increased organizational commitment

1.5 Research Methodology

The research methodology will consist of the sample design and target population, the data collection and survey instrument to be used as described below.

1.5.1 Sampling Design

The relevant population in this study is all persons employed by Chemplex Corporation, and the sampling frame will be the internal personnel records held by the Human Resources Department of Chemplex Corporation.

Stratified random sampling will be used to segregate the population into mutually exclusive subpopulations. The variable used to draw the stratified sample will be the employees' grade. At Chemplex Corporation, employees are in grades depending on the nature of the job. All non-managerial employees are in Grades 3 to Grades 11. This will consist of one stratum. Lower and upper middle managers are in Grades 11 to Grades 14 and top management is Grades 15 and 16. A simple random sampling design will be used on the strata for non-managerial employees.

1.5.2 Data Collection Method and Instrument

A combination of self-administered questionnaires and interviews will be used. The interviews will be used on the Heads of Divisions for all the four divisions within Chemplex Corporation. This will assist in getting in-depth answers to questions on the current reward system at Chemplex, and their views on its effectiveness in getting commitment to the organisation's strategy. Appointments will be set out with top management through an internal memorandum advising them of the nature of the interview.

The questionnaires will be used for all the other members of staff including upper and middle management. This will enable them to complete them at their own pace. The questionnaire will also provide the privacy that is required in answering any questions that might be deemed sensitive and will help to allay fears that there could be victimized for expressing their opinion. The questionnaires will be sent via e-mail to all members of staff at Chemplex Corporation who will be in the sample, as well as the internal mail

system such as overnight mailbag for centers that are not in the same town as the researcher. This will cut down on the costs of mailing the questionnaires, as this methodology is relatively cheap and easy to use.

1.5.3 Data Analysis

Once the data has been collected, it will be coded and then analysed. Statistical packages such as NVIVO and SSPS will be used for quantitative and qualitative data collected from questionnaires and interviews.

After the data has been analysed, conclusions and recommendations will be made based on the study's findings.

1.6 Limitations of the project

In studying the reward system at Chemplex Corporation Limited, failure to obtain all relevant information pertaining to the current reward system is likely to be a limitation of the study. Due to the sensitive nature of the information, management is likely to withhold information on current salary structures, the nature of perks and benefits for different grades of employees among other things.

Furthermore, as the writer of the paper is also a management employee of the organization, Chemplex Corporation might feel that disclosing the nature of the current rewards system might violate the privacy of the other members of the management staff especially if there are perceived differences in the nature of benefits received by any member of the management staff.

1.7 Structure of the Study

The structure of the study will be as follows:

- Chapter 2 - Literature Review
- Chapter 3 - Methodology and Data Collection
- Chapter 4 - Results
- Chapter 5 - Recommendations and Conclusions

1.8 Summary

This chapter looked at the background to the study, what prompted the writer to pursue the study, as well as the relevance of the study to Chemplex Corporation and other companies that might have access to reading it. The chapter also highlighted the methodology to be used by the writer in undertaking this study, and the limitations likely to be encountered in the investigations.

The following chapter reviews literature on:

- The strategic importance of reward systems
- The importance of performance management systems in the design of reward systems
- The criteria required in the design of performance management systems
- The different approaches to measuring performance
- The various forms of performance pay/reward

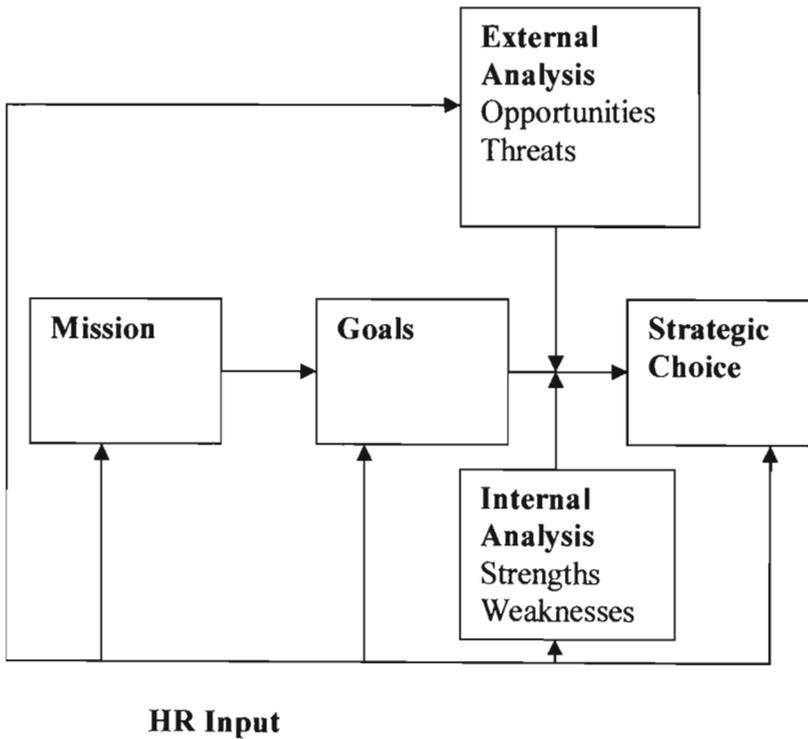
CHAPTER TWO

LITERATURE REVIEW

2.1 Strategy Formulation

Most firms go through strategy formulation to decide on the strategic direction of a company. They define the company's mission and goals as well as strengths and weaknesses, opportunities and threats. They then generate various strategic alternatives and eventually select the strategy to achieve the company's mission and goals, which is then implemented. Figure 2.1 below illustrates strategy formulation.

Figure 2.1 Strategy Formulation



Source (Noe et al.2000. pp47)

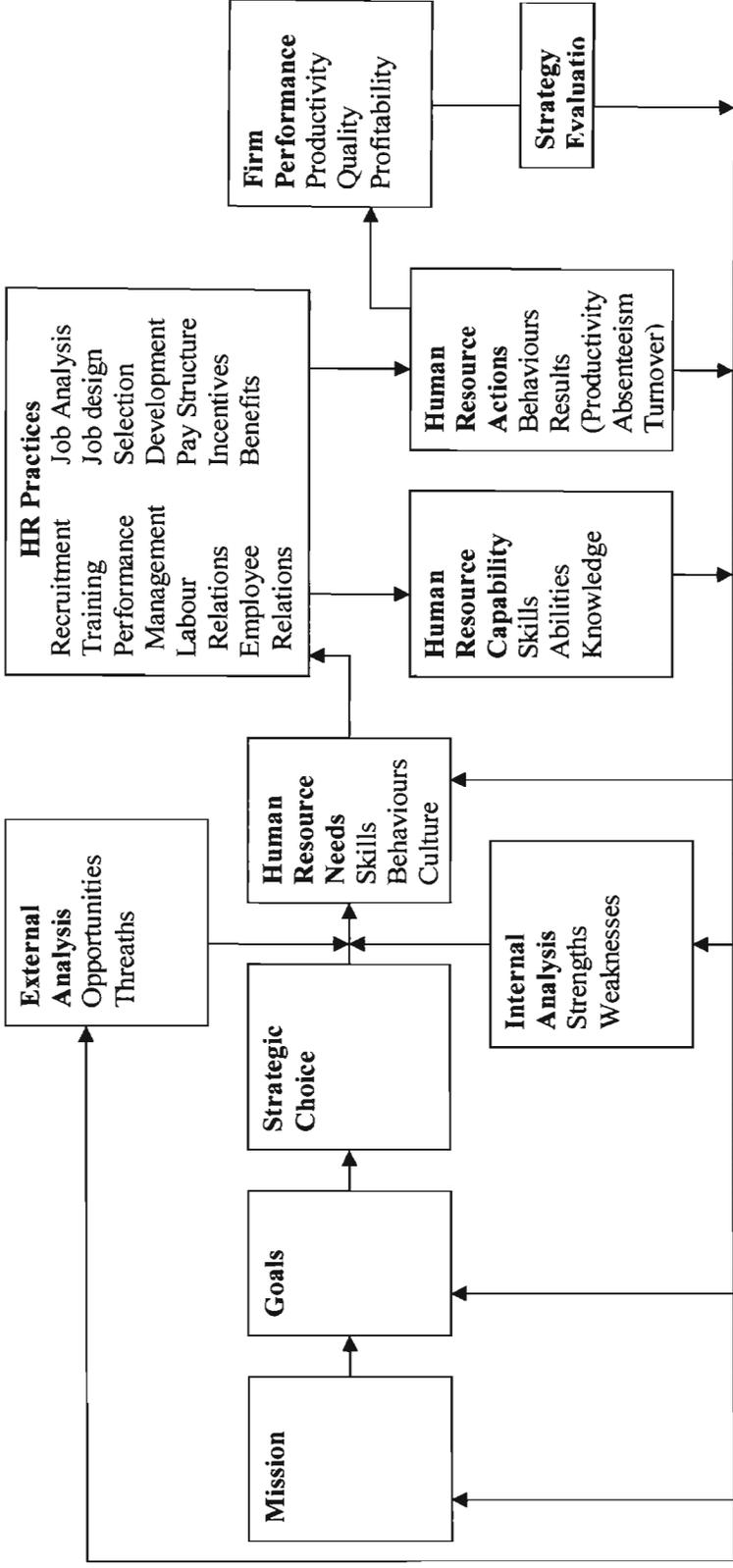
As much as setting up an organizational strategy is an important goal for the future direction of the organisation, ensuring that the adopted strategy is actually achieved by all members of an organisation is a much more difficult task. Many organizations both large and small have fallen into this ‘trap’ and the end result is an organizational strategy that gathers dust on the office shelves.

After going through a laborious task of identifying the strategy to be followed by the organisation, how does one ensure that the goal of the chosen strategy is achieved? There is now a wide consensus that involvement of Human Resources function in the strategic management process leads to successful strategy implementation. The strategic management process in **Figure 2.2** shows the link between strategy and the human resources management.

In an integrative linkage, the HR executive of a company is a member of the senior management team. Therefore, companies with intergrative linkage have the human resources function built into strategy formulation and implementation processes. The HR executive would thus provide the strategic planners with information about the company’s human resources capability. This information, in turn, helps top management to choose the best strategy as they can consider how well each strategic alternative will be implemented.

The type of strategy the company pursues dictates certain human resources needs. As stated by Noe et al (2000), “For a company to have good strategy foundation, certain tasks must be accomplished in pursuit of the company’s goals, individuals must possess certain skills to perform these tasks, and these individuals must be motivated to perform these skills effectively”. Therefore, the human resources function needs to have a strategic focus as it has a bearing on the success of the organisation’s strategy and success. Some organizations will talk on how ‘people’ are their most important asset, include ‘people’ as one of the company’s values, but the way they treat and approach ‘people’ issues do not exhibit this belief.

Figure 2.2 A Model of The Strategic Management Process



Source : (Noe et al 2000 pp44)

Some organizations now use reward systems as a way of gaining a competitive advantage over its rivals in the market. Noe et al (2000) gives an example of a company (Owens-Corning), that used a reward system called “Rewards and Resources” to turn around a poor performing company into a profit making entity with value to its shareholders.

Many organisations use the reward system as a way of ensuring that the identified strategic goals are realized. They align the reward system as a motivation to achieve the organisation’s goals. In this way, both the individual and the organisation benefit as the individual is rewarded both in monetary and non-monetary terms and the organisation benefits as its goals are met and its strategic shareholders are assured of a good return on their investment.

This study seeks to look at one factor of strategic importance to effective strategy implementation and success, which is the reward system. Paul Allaire, former CEO for Xerox Corporation said “if you talk about change but don’t change the reward and recognition system, nothing changes”.

Financial incentives make up the bulk of the type of incentive systems used by organizations. These include:

- Salary increases
- Performance bonuses
- Stock options
- Retirement packages

Non-monetary incentives include:

- Frequent words of praise
- Special recognition at company gatherings
- Job security
- Stimulating assignments
- Opportunities to transfer to attractive locations
- Rapid promotions

However, the reward system has to be used creatively and has to be tied directly to achieving performance that is necessary for good strategy execution

Different schools of thought exist on the effectiveness of reward systems as not only a motivational tool but on the aspect that it is an effective way of achieving the chosen strategy. There are those that strongly believe that rewarding people both in monetary terms will not necessarily result in motivating the worker.

We will briefly look at the different schools of thought on motivation, and then look at the criticism of each theory. Thereafter, the study will look at guidelines to the implementation of the reward systems by looking at the following:

- Performance management
- Criteria for measuring performance
- Approaches to performance management
- Different types of rewards and their strengths and weaknesses

2.2 Theories of Motivation

An important and often difficult material function is to motivate employees. Motivation is a very complex issue because of the uniqueness of human beings as well as the wide range of internal and external factors that impact on it. What exactly is motivation and how does one motivate people?

“Motivation can be described as intentional and directional “ (Nel P.S et al, 2001).

Intentional refers to personal choice whilst ‘directional’ refers to the presence of a driving force towards attaining a specific goal. Bateman and Snell (2002) refer to motivation as “forces that energise, direct and sustain a person’s office”. To be effective motivators, managers need to know what behaviours they want to motivate people to exhibit.

Motivational theories can be divided into content and process theories. Content theories focus on the needs and factors that motivate behaviour (the ‘what’ of motivation) whilst process theories focus on the origin of behaviour and the factors that influence the strength and direction of the behaviour (the ‘how’ of motivation). We will look at the Maslows Theory on motivation.

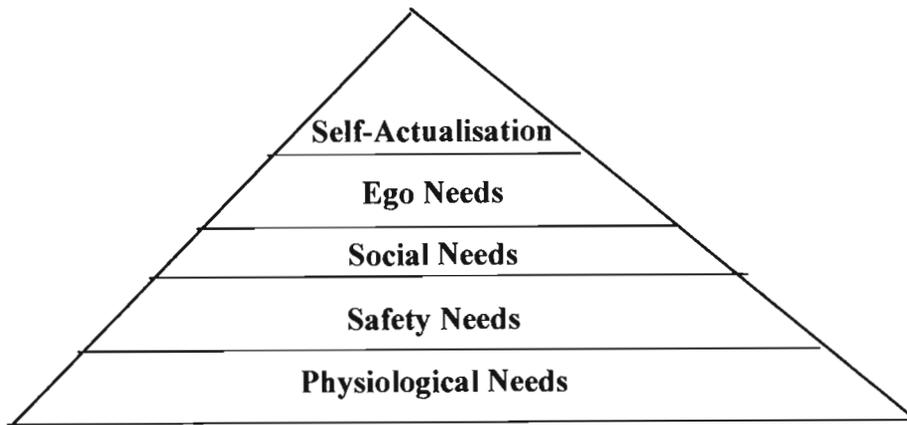
2.2.1 Maslow’s Hierarchy of Needs

Maslow believes that people continuously want things, they always want more, and that their wants depend on what they already have. Due to this people can never be satisfied and a satisfied need cannot act as a motivation of behaviour. Maslow divides human needs into five categories namely physiological needs, safety needs, social needs, ego needs, and self-actualisation needs. This is depicted in **Figure 2.3** below:

The lowest level contains the most basic needs that must be satisfied before higher-order needs emerge and become motivators of behaviour. The theory has many implications for individual performance. A common strategy used by management to motivate people, for example, money, service benefits, job security etc. is aimed at satisfying the physiological and safety needs. Once satisfied, a need no longer acts as a motivator so this strategy is not an incentive to perform and critics have said that because of this, performance bonuses often do not have the desired results.

Social needs are difficult to satisfy in a work environment and thus it becomes difficult to develop a strategy that translates these needs into an incentive to improve individual performance.

Figure 2.3 Maslow's Hierarchy of needs



Source: (Nel, P.S et al 2001)

Ego and self-actualisation needs provide the best opportunities for employee motivation. Self-esteem and self-respect are functions of the type of work people do, rather than of working conditions such as the interactions and good remuneration. Interesting and challenging work provides a solid foundation for the improvement of performance.

Another implication of Maslow's theory concerns the control function. People need to control their environment in order to manipulate it according to their needs. However, if people are controlled by their environment, and have a barrier towards satisfying their needs, they become frustrated, aggressive and all this can lead to resignation.

External incentives such as remunerations or punishment become less prominent as motivators, if a person's environment in itself is a source of satisfaction. Systems relying on external mechanisms to motivate people usually also require a control system to ensure continued employee performance. The maintenance of such mechanisms such as supervision, policy and rules requires a great deal of effort on the part of the organisation.

However, when people are motivated by challenging and interesting work, such control mechanisms are thus not required.

Maslow's theory has had a significant influence on management, approaches to motivation and can be related to Herzberg's two-factor theory of motivation. In applying his theory to the developed world, academic writers say that the first two basic needs of physiological and safety needs are usually met by the individuals themselves or through the country's social system. This leaves management with the ego and self-actualisation needs to be satisfied so as to motivate employees. However, in a developing country like Zimbabwe, most of the workforce still has physiological and safety needs. Thus management, if they subscribe to Maslow's needs, need to look at the bottom of the hierarchy needs first as a way of motivating the majority of it's workforce.

2.2.2 Herzberg's Two-Factor Motivation Theory

In his study on motivation, Herzberg identified two key factors that influenced motivation and job satisfaction namely hygiene factors and other motivators. Herzberg's defined hygiene factors as those closely related to the working environment and include:

- Organisation
- Equipment
- Supervision
- Interpersonal relationships with colleagues, supervisors and subordinates
- Salary
- Status
- Working condition
- Work security

Herzberg believed that hygiene factors do not motivate. If inadequately met, they cause dissatisfaction, however, if adequately met, the employee is neither dissatisfied nor satisfied. The employee is thus not motivated but remains neutral. Because a dissatisfied worker cannot be motivated, it is imperative that management address the hygiene factors before they introduce motivation into the employee's job. Examples of motivation in Herzberg's theory are:

- Achievement
- Recognition for what has been achieved.
- The job itself (how interesting and challenging it is)
- Progress or growth (Learning and developing)
- Responsibility
- Feedback

Herzberg believes that the answer to motivation lies in the job itself. Job enrichment is based on Herzberg’s theory. There is a link in Herzberg’s theory to Maslow’s hierarchy as shown in **Table 2.1** below.

Table 2.1
A Comparison of Maslow’s Needs Hierarchy and Herzberg’s Two-Factor Theory

Maslow’s Hierarchy of Needs	Herzberg’s Two-Factor Theory
Self -Actualisation	} Motivation
Ego	
Social	} Hygiene
Safety	
Physiological	

Source (Nel, P.S. et al. 2001.pp332)

The hygiene factors are similar to lower-level needs in the hierarchy, while motivators are similar to higher level needs. According to Mol (1990) employees enjoy their work when they take pride in attaining a goal. If the work itself is not a source of pride, the employee will never be motivated. This is based on the assumption that most workers have a basic need for self-actualisation and personal pride.

Mol (1990) says that in his South African experience many managers are successful in motivating their subordinates, particularly at lower levels. They concentrate on the task or job itself. One of the greatest mistakes made by management and trade unions is to think

that fair treatment, pleasant working conditions, above-average remunerations and outstanding fringe benefits, will motivate employees. Although these aspects are important, they seldom lead to an increase in productivity. As Herzberg noted, these are hygiene factors and once satisfied, the employee becomes neutral and not motivated.

Frederick Herzberg in his paper, "One More Time: How do you motivate Employees", stated that "the very nature of motivators, as opposed to hygiene factors, is that they have a much longer-term effect on employees' attitudes" (Harvard Business Review 2003, pp 96). In his studies, he has found that managers are quick to say to employees, "Do this for me/company and in return I will give you a reward, incentive, status, promotion etc."

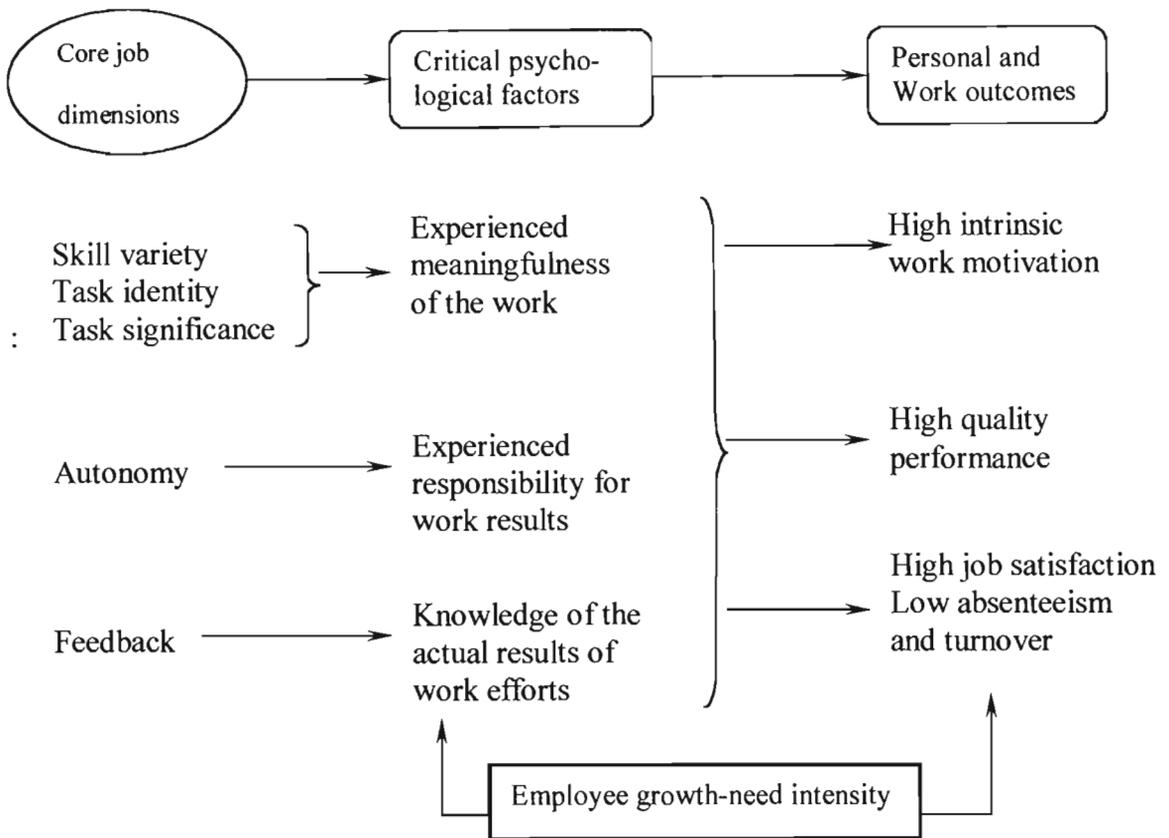
Investigations and studies done on hygiene versus motivators suggest that factors involved in producing job satisfaction (and motivation) are separate and distinct from factors that lead to job dissatisfaction

Thus, the opposite of job satisfaction is not job dissatisfaction but no job satisfaction and similarly, the opposite of job dissatisfaction is not job satisfaction but no job dissatisfaction. The growth or motivator factors intrinsic to the job are achievement, recognition for achievement, work itself, responsibility and growth or advancement. Therefore, motivators are the primary cause of satisfaction; hygiene factors the primary cause of unhappiness on the job.

2.2.3 The Job Characteristic Model

According to Hackman and Oldham, the task itself is seen as the key to motivation. Their model provides a framework by which jobs can be redesigned to make the incumbents feel that they are doing meaningful work. Enriching certain elements of the job leads to altered psychological states that influence employees work performance and satisfaction positively.

Figure 2.4 -The Job Characteristic Model



Source: (Nel P.S et al: 2001. pp 334)

- Skill variety – The extent to which a job requires a person to do a variety of tasks requiring different skills and talents
- Task Identity – The extent to which a person is responsible for a completely identifiable piece of work.
- Task Significance – The extent to which the job impacts on other people.
- Autonomy- The extent to which the job allows a person to experience the freedom and discretion to plan, schedule and execute the task
- Feedback- The extent to which the person receives factual information on how well the job is done.

The psychological factors influenced by the core job dimensions are experienced meaningfulness, experienced responsibility and knowledge of results.

Greenberg and Baron (1995;150) did a South African study and found that job enrichment led to significant improvements in internal motivation and job satisfaction.

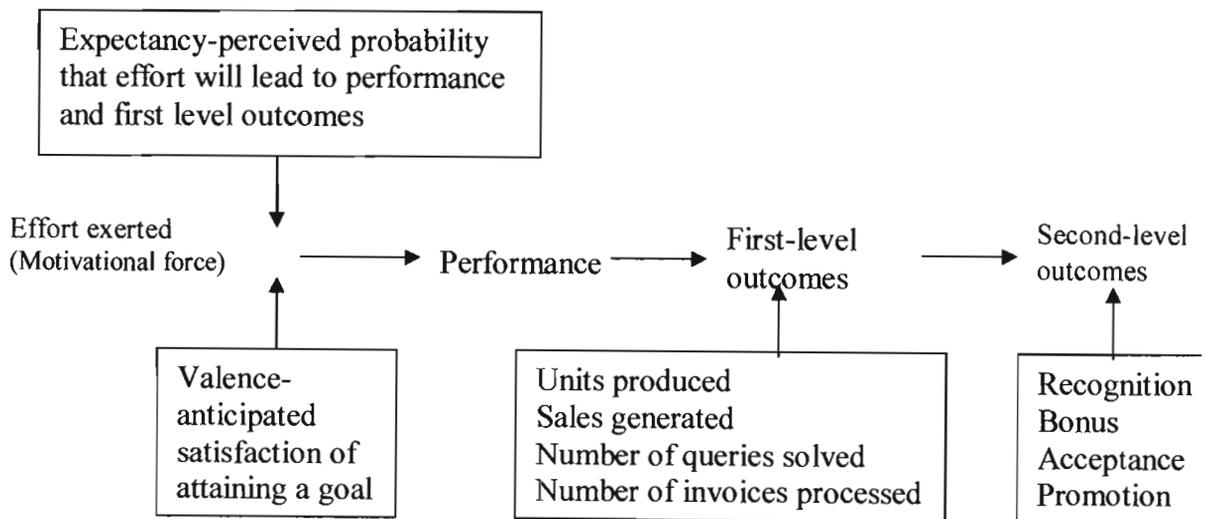
2.2.4 Expectancy Theories

The expectancy theories hold that people are only motivated to act in a specific way if they believe that a desired outcome will be attained.

2.2.4.1 Vroom's Expectancy Theory

In Vroom's theory, a person will exert a high effort if they believe that there is a high probability that the effort will lead to the attainment of an organizational goal, which in turn, will become a means by which the person will attain personal goals.

Figure 2.5 Vroom's Expectancy Theory



Source : (Nel, P.S et al:2001)

The three concepts in this theory are Valence, Instrumentality, and Expectancy.

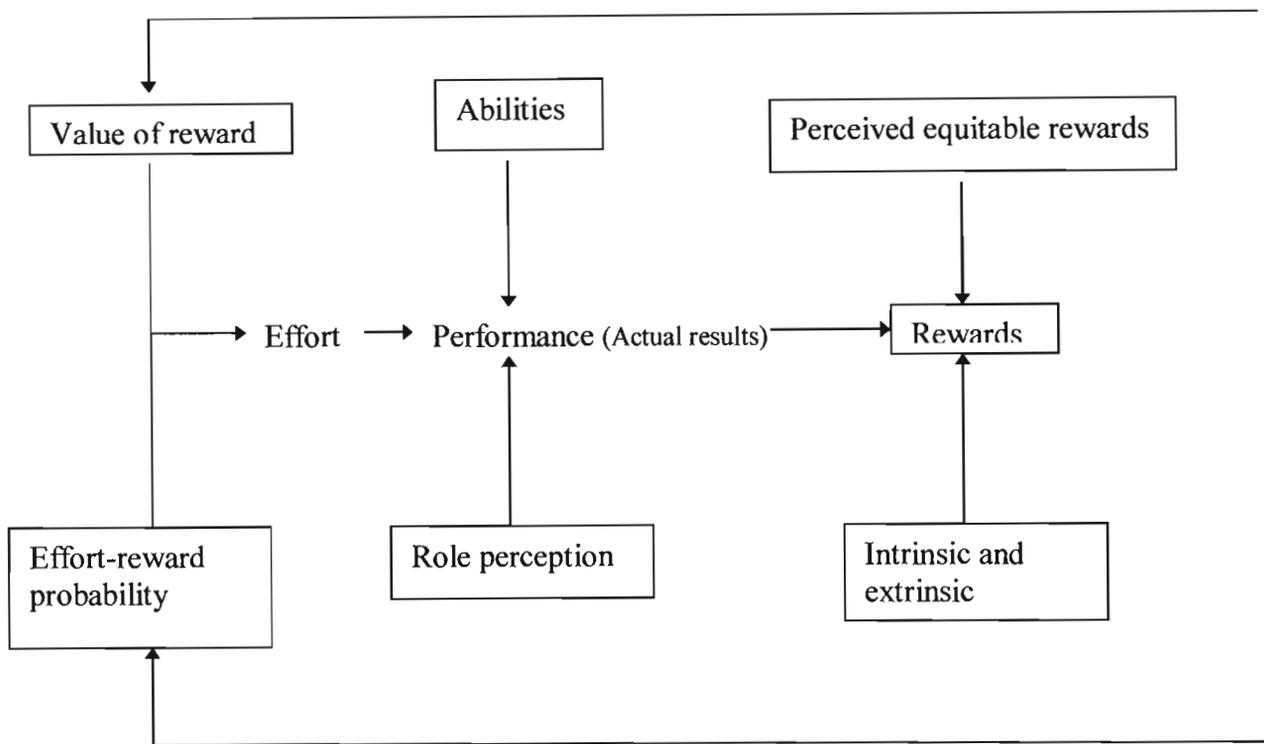
- Valence- this refers to how attractive a specific outcome is to an individual.

- Expectancy – this refers to an individual’s belief that a certain level of effort will lead to a certain level of performance.
- Instrumentality – this is the perception that performance will lead to the desired outcome.

2.2.4.2 Porter and Lawler’s Expectancy Theory.

Porter and Lawler extended Vroom’s theory into an expectancy model of motivation.

Figure 2.6 The Porter and Lawler Model



(Source Nel P.S et al: 2001. pp337)

Their model attempted to:

- Identify the origin of people’s valences and expectancies.
- Link effort with performance and job satisfaction
- Identify factors other than effort that influence performance
- Emphasize the importance of equitable rewards

2.2.5 The role of Goal Setting in Motivation

Motivation is described as a driving force aimed at attaining a specific goal. Management By Objectives (MBO) is a widely used technique that fosters employee participation in goal setting, decision-making and feedback. A motivated person is always aware of the fact that they are working towards a specific goal and thus directs their effort towards achieving that goal. Goal setting influences behavior in four (4) ways:

- Goals direct attention to what is most important
- Goals prompt us into action
- Goals increase our persistence.
- Goals direct strategies and action plans.

However, to apply goal setting, the key performance areas of jobs must first be identified. The key performance areas themselves must be aligned with the overall goals and strategies of the organisation. For commitment to be there, the manager and employee should set goals together, and these goals should be quantifiable, specific and difficult, yet attainable through effort and persistence. For example, by implementing stretch goals, Boeing cut the time needed to build an airplane from eighteen (18) months to eight (8) months. Finally, management must provide adequate support and feedback for employees to be successful.

Kreither and Kinicki believe that pay should only be linked to performance goals when

- Goals attainment is under the control of the employee
- Goals are quantitative and measurable
- Payments are frequent and substantial.

Goal setting works better under certain conditions. Individual performance goals can be dysfunctional if people work in a group and cooperation is essential to team performance. In a case such as this, team goals rather than individual goals, need to be established.

2.3 Motivating Managers

After looking at the theories of motivation, we now look at the managers themselves and what makes or motivates a good manager. It is normally assumed the motivation of

managers is well aligned with the organisation's goals and thus needs no further examination. In the Harvard Business Review (2003), McClelland and Burnham found that this is not so and managers fall into three motivational groups. The first group is affiliative managers. This type of manager needs to be liked more than they need to get things done, and therefore make decisions to increase their popularity more than achieving organizational goals. The second group is managers who are motivated by the need to achieve. They focus on setting goals and achieving them, but are not worried about what people think of them, but put their own achievement and recognition first.

The third group is the institutional managers interested above all in power. These managers focus on building power through influence rather than through their own individual achievement. From their research, McClelland and Burnham see this group as the most effective managers as they have a great sense of responsibility, see organizational goals more clearly and exhibit more team spirit. These two writers therefore view the best managers as those who like power and use it! They refer to "power motivation" not as dictatorial behaviour but as a desire to have an impact, to be strong, and influential. Therefore, institutional managers are high in motivation, low in affiliation and high in inhibition.

Organisations can get the best out of their managers by training them to exhibit the characteristics of an institutional manager as these characteristics are beneficial to achievement of the company's goals.

According to Herzberg and Maslow, money is not a motivator. Extrinsic rewards such as pay, benefits, working conditions or company policies do not motivate people. They merely bring performance to an acceptable level. However, motivated people perform at levels higher than the acceptable standard. They are thus motivated by intrinsic rewards such as responsibility, growth and opportunities. Lawler believes that if money as a reward can cause dysfunctional behavior, it therefore affects behavior, and thus performance. He sees the effect of money as a motivator being largely determined by the

pay systems used in the organisation. If pay systems are not designed well, they either do not motivate, or motivate the wrong behavior.

In conclusion, both extrinsic and intrinsic rewards are vital in motivating an employee. Most managers make the mistake of relying on extrinsic rewards as a source of employer motivation whilst leaving out or not adequately addressing the important role played by intrinsic rewards as a source of motivation. Some research findings have shown that the two kinds of rewards reinforce each other.⁵ Either one on its own as a source of motivation is likely to be inadequate. However, used together, employers could achieve having a workforce that is motivated and committed to attaining the organization's goals.

In order to implement a strategy-supportive reward system, you need to first be able to measure the performance of employees. Thereafter, the identified determinants of employee performance can thus be used to determine pay structure and incentives based on the identified performance measures and how they have been achieved. Therefore, without performance management systems in place, one cannot effectively implement a strategy-supportive reward system.

2.4 Performance Management

A lot has been written on performance management as well as its intended purpose. It has been used by many companies to gain a competitive edge in their industry through managing the behaviour and results of all employees. Traditionally, the performance appraisal system has been viewed as the primary means for managing employee performance.

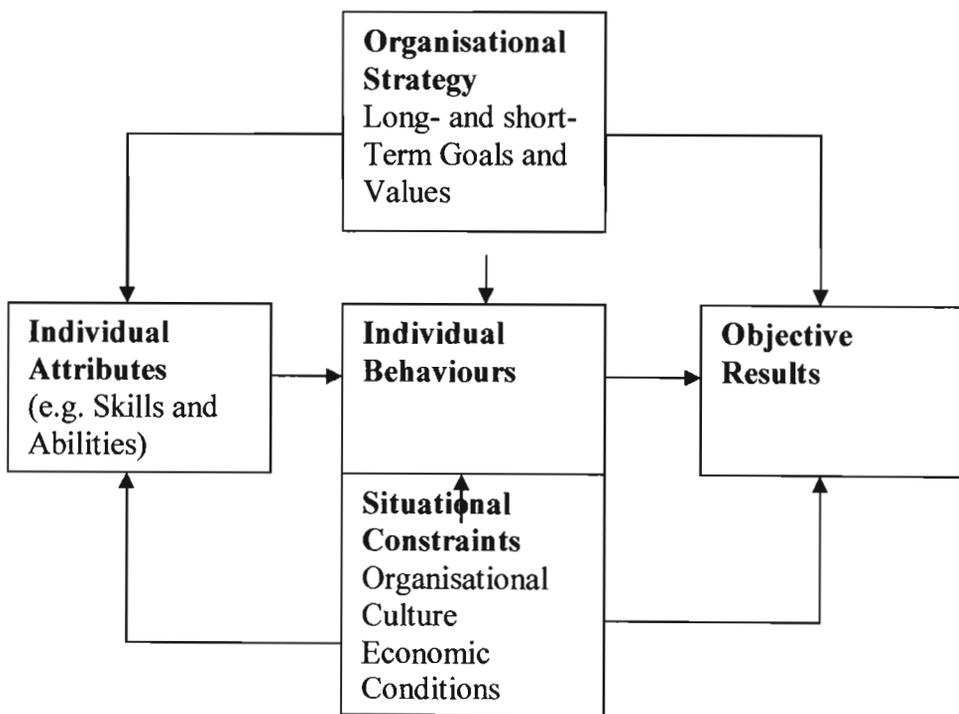
The duty of appraisal is performed by managers and is seen as the responsibility of the human resources department. What then tends to happen is that the performance appraisal becomes an 'annual ritual' dreaded by both the worker and the manager and becomes a case of completing forms. Since most managers fear to 'rock the boat' and feel that whatever negative feedback they give to the employee during a performance appraisal, they have to live with it for the remainder of the year, most managers give employees

⁵ B.F Skinner, *Contingencies of Reinforcement*. (New York: Appleton-Century-Crofts, 1969)

very little feedback and hate performing employee appraisals. The end result is that the performance appraisal tends to lack on-going review, lack employee involvement and also lack recognition for good performance. Most writers on performance management thus view performance appraisals as only a part of a broader process of performance management.

Performance management is defined as “the process through which managers ensure that employees’ activities and outputs are congruent with the organisation’s goals”.(Noe et al. 2000, pp 276).

Figure 2.7 Model of Performance Management in Organisations



Source: (Noe et al : 200)

As seen in **Figure 2.7**, the process of performance management starts off with the organisation’s strategy. At the beginning of a period, an organisation sets up its long and short-term goals and values. The other divisions and departments align their sections’ strategies to be in line with the overall organizational strategy. The individual attributes and behaviours of the employee are then put to work to achieve set objectives which are

in line with the chosen strategy. This is an aspect which sometimes is the missing link in some organizations whereas it is a vital part of the performance management system.

The link between the performance management and the organisation's strategy is made by specifying what needs to be accomplished and the behaviours required for the company's strategy to be effective. Within the model, situational constraints are also linked to the individual performance as they can deter the achievement of an individual. Situational constraints include issues such as an organizational culture that does not encourage creativity of the individual, work-group norms that dictate what an individual can or cannot do, or lack of motivation from individuals as they believe that whether or not they do work hard in achieving their objectives, they feel that they will not be rewarded or recognize. Added to these situational constraints could be the state of the economy. Whether the individual exhibits the correct attributes and behaviour, the end results would not be achieved if the economy is bad.

Therefore, **Figure 2.7** tells us that employees should have certain attributes to perform a set of behaviours and achieve some results. These attributes and behaviours must be linked to the organisation's strategy. It is also important to note that there are constraints within the work environment that often inhibit the employees from performing.

An effective performance management system should measure performance criteria as accurately as possible. Effective performance management should also serve as a strategic function by linking performance criteria to internal and external customer requirements, and should also include a process for changing the system based on the effects of situational constraints.

2.4.1 Purposes of Performance Management

The purpose of performance management systems is of three kinds namely strategic, administrative and developmental. Although this paper is directed at the strategic purpose, it is also important to discuss the administrative and developmental purposes as well.

2.4.1.1 Administrative Purpose

Most organizations use performance management information (performance appraisals in particular), in many administrative decisions such as:

- Promotions
- Retention-termination
- Lay-offs
- Recognition of individual performance

2.4.1.2 Developmental Purpose

In the developmental purpose, performance management seeks to develop employees who are effective or ineffective on their jobs. The feedback during the performance evaluation process often pinpoints the employee's weaknesses as well as the cause of the identified weaknesses. These having been identified, an employee can work on developing themselves or eradicating the weak points.

2.4.1.3 Strategic Purpose

As already mentioned earlier, a performance management system should link employees' activities with the organisation's goals. In strategy implementation, behaviours and to some extent, employees characteristics, are necessary for carrying out the strategy. It is also important to develop measurement and feedback systems that will maximize the extent to which employees exhibit the characteristics, and engage in behaviours that produce results.

To achieve this strategic purpose, the systems must be flexible because when goals and strategies change, so must the behaviour and characteristics of the employees. However, surveys done on Human Resources practitioners regarding the purposes of performance

appraisal suggest that most systems focus on administrative and developmental purposes, rather than a strategic thrust.

The next section will look at issues involved in developing and using different measures of performance.

2.4.2 Performance Measures Criteria

Prior to measuring performance, a company needs to determine what kind of performance it expects from employees. This is done through job analysis and design. Once job analysis and design are completed, a company needs to develop ways to measure that performance. First, this section will look at the criteria underlying job performance measures. Although there are different criteria used to evaluate performance management systems, this section will look at five (5) criteria namely:

- Strategic congruence
- Validity
- Reliability
- Acceptability
- specificity

2.4.2.1 Strategic congruence

“Strategic congruence is the extent to which the performance management system elicits job performance that is congruent with the organisation’s strategy, goals, and culture” (Noe et al. 2000, pp 280). It emphasizes the need for the performance management system to provide guidance so that employees can contribute to the organisation’s success. Therefore, the system should be flexible enough to adapt to changes in the company’s strategic posture.

Most of the criticism on companies’ appraisal systems has been that they remain constant over a long period of time. But it should be noted that when a company’s strategy changes, it’s employees’ behaviour needs to change too. If this does not change, there will be little impact on the success of the organisation’s goals.

2.4.2.2 Validity

This is the extent to which the performance measure assesses all the relevant aspects of performance – often referred to as “content validity”. If a performance measure is to be valid, it should not be deficient or contaminated. Validity looks at maximizing the overlap between actual job performance and the measure of job performance.

A performance is deemed deficient if it does not measure all aspects of performance. On the other hand, a contaminated measure evaluates irrelevant aspects of performance. Therefore a performance measure should seek to minimize contamination. An example of a contaminated measure is the use of actual sales figures for evaluating salespersons across different territories. A salesperson who works harder and better might not achieve the highest sales because their territory does not have as much sales potential as others. Use of these figures alone would thus be a measure that is strongly affected by things beyond the individual employee’s control.

2.4.2.3 Reliability

This refers to the consistency of the performance measure. Interrater reliability refers to the consistency among individuals who evaluate the employee’s performance. A measure has interrater reliability if two individuals give the same or close to the same evaluations of a person’s job performance. Internal consistency reliability refers to the extent to which all items rated are internally consistent. Test-retest reliability refers to how reliable the measure is over time. If a measure results in drastically different ratings depending on the time at which the measure was taken, it is said to lack test-retest reliability.

2.4.2.4 Acceptability

This refers to whether the people who use the performance measure accept it. It has been noted that many performance measures are extremely valid and reliable but are so time consuming that managers then refuse them. Alternatively, those being evaluated by that measure may not accept. Research suggests that performance management systems that are perceived as unfair are likely to be legally challenged used incorrectly and decrease employees' motivation to improve.

2.4.2.5 Specificity

This is the extent to which the performance measure gives specific guidance to employees about what is expected of them and how they can meet these expectations. If a measure does not specify what an employee needs to do for the company to meet its strategic goals, it is then difficult for it to achieve its strategic purpose. Furthermore, the employees can not turn their performance to be in line with the company's goals as the performance management system does not provide guidelines for how to do this.

These five criteria on evaluating performance management systems are important in the design of these systems because if a system does not adhere to any of these criteria, this might lead to failure. The next section analyses the different approaches to performance measurement.

2.4.3 Approaches to Measuring Performance

This section looks at various approaches to measuring and managing performance, the techniques associated with each approach, and evaluation of each approach against the five criteria of performance management discussed earlier.

2.4.3.1 The Comparative Approach

This approach uses techniques that require the rater to compare an individual's performance with that of others. Three techniques to be discussed are:

- Ranking
- Forced Distribution
- Paired comparison

i) Ranking

In simple ranking technique, managers are required to rank employees in their department from highest performer to poorest performer. In alternation ranking, a manager looks at a list of employees and decides who is the best employee, then crosses that name from the list. From the remaining names, the manager decides who is the worst performer and crosses that name off the list, and so forth.

The criticism against ranking as a technique is that there is no way of knowing precisely what criterion of job performance is used by the manager or supervisor conducting the ranking.

ii) Forced Distribution

This technique uses a ranking format with the difference being in that the employees are ranked in groups. It requires that the manager puts a certain percentage of employees into pre-determined categories, for example, that 1% of employees should receive the highest rating. It has been noted that this technique forces managers to categorise employees based on the distribution rules rather than their performance. In view of this, the criteria used will mean that the performance measure is not in any way related to the goals of the organization but rather, is driven by the categorisation rules.

iii) Paired Comparison

This requires the managers to compare each employee with every employee in the work group, and giving the employee a score of 1 every time she/he is considered the higher performer. Once all the pairs have been compared, the manager computes the number of times each employee received the favourable decision, and this becomes the employees performance score.

A major criticism of the Comparative Approach has been the lack of strategic congruence between the techniques and the company's strategy. Furthermore, these techniques usually have vague performance standards that are open to different

interpretations by different raters. This then leads to different raters often providing extremely different rating and rankings. These techniques also do not provide specific guidance on how an employee can support the company's goals or on what to do to improve performance.

2.4.3.2 The Attribute Approach

This approach focuses on the extent to which individuals have certain attributes believed to be desirable for the company's success. The techniques discussed here are graphic rating scales, and mixed standard scales.

i) Graphic Rating Scales

A list of traits evaluated by a five point (or some other number of points) rating scale. The manager considers one employee at a time, circling the number that signifies how much of that trait the individual has.

ii) Mixed Standard Scales

In a mixed standard scale relevant performance dimensions are defined, then statements representing good, average, and poor performance, are developed along each dimension. The statements are then mixed with the statements from other dimensions on the actual rating scale.

The Attribute- based approach is a performance method that is very popular in most organizations. This is because they are easy to develop and can be generated across a variety of jobs, strategies and organizations. Furthermore, if much attention is devoted to identifying more attributes relevant to job performance, and carefully defining them on the rating instrument, they can be reliable and valid as more elaborate measurement techniques. However, the attribute- based techniques are an effective tool for performance measurement if the major purpose of the system is to differentiate employee performance. This is more so if the results of the measures are to be used to make administration decisions such as pay raises and promotions.

However, one of the problems with the comparative approach is the failure of the technique in linking performance measurement to the strategic goals of the organisation. Although raters can make their ratings based on the extent to which the individual's performance supports the strategy, this link is seldom made explicit. Feedback is also lacking in the comparative approach. Usually individuals are not aware of what they must do differently to improve their ranking. The manager then ends up with a problem of finding an alternative method of feedback that is beyond that of the rating instrument. Another criticism of the techniques in the comparative approach is that evaluations are based on employee's performance relative to other employees in a group rather than to absolute standards of excellent, good, fair, or poor performance.

2.4.3.3 The Behavioral Approach

This approach attempts to define behaviors an employee must exhibit to be effective in the job. Techniques to be discussed are critical incidents Behaviorally Anchored Rating Scales (BARS), Behavioral Observation Scales (BOS), Organisational Behavior Modification (OBM) and Assessment Centers.

i)Critical Incidents

This requires a manager to keep a record of specific examples of effective and ineffective performance for every employee. These incidents are then used to give feedback to employees on what they do well or badly, and they can be tied to the company's strategy by focusing on incidents that best support that strategy. Managers normally hate this approach as they are not keen to having to keep a daily or weekly log of employees' behavior.

ii)Behaviorally Anchored Rating Scales

This approach builds on the critical incidents approach. It is designed to specifically define performance dimensions by developing behavioral anchors associated with different levels of performance. One advantage of BARS is that they can increase interrater reliability by providing a precise and complete definition of the performance dimension. The disadvantage, however, is that behavior that closely approximates the anchor is more easily recalled than other behavior.

iii) Behavioral Observation Scales

This is a variation of BARS, although BOS like BARS, is developed from critical incidents, BOS uses a large number of behaviors that exemplify effective and ineffective performance. Furthermore, BOS requires a manager to rate the frequency with which the employee has exhibited each behavior during a rating period rather than assessing which behavior best reflects an individual's performance. This has led to both managers and employees preferring the BOS approach to BARS, as BOS is able to differentiate good from poor performer, maintain objectivity, provide feedback, suggest training needs and easy to use among managers and subordinates.

iv) Organisational Behaviour Modification

This approach entails managing the behavior of employees through a formal system of feedback and reinforcement. This technique is based on the behaviorist view of motivation, which is that individual's future behavior is determined by past behaviors that have been positively reinforced.

v) Assessment Centres

Although normally used for selection and promotion decisions, they have also been used for measuring managerial performance. At assessment centers, individuals usually perform a number of simulated tasks such as leadership group discussions, in-baskets and role-playing. Assessors observe the individuals' behavior and evaluate their skill or potential as managers.

The behavioral approach can be very effective in that it can link the company's strategy to the specific types of behaviors necessary for implementing that strategy. It also provides specific guidance and feedback for employees about the performance expected of them. Another plus for the behavioral approach is that those who will be using the system are involved in developing the measures thus acceptability is high.

2.4.3.4 The Results Approach

This approach focuses on managing the objective, measurable results of a job or work group. Two performance management systems that use this approach are management objectives and productivity measurement and evaluation system.

i) Management By Objectives (MBO)

In an MBO system, top management defines the company's strategic goals for the coming year. These goals are passed on to the next layer of management, who then define the goals they must achieve for the company to meet its goals and so on, cascading down the organisation. These goals are used as the standards by which an individual's performance is evaluated. The components of MBO are:

- They require specific, difficult, objective goals
- The goals are set with the participation of both managers and subordinates
- The manager gives objective feedback throughout the rating period to monitor progress towards their goals.

Harry Levinson (Harvard Business Review, 2003) says that "management by objectives ... as typically practiced are inherently self-defeating in the long run because they are based on reward-punishment psychology that serves to intensify the pressure on the individual while really offering a very limited choice of objectives". However, MBO can have a positive effect on an organisation's performance, if the manner in which goals are set, links individual performance with the firm's strategic goals.

ii) Productivity Measurement and Evaluation Systems (ProMES)

The goal of this approach is to motivate employees to higher levels of productivity.

The four steps in ProMES are:

- The organisation identifies the products or set of activities or objectives that it wants to accomplish
- The staff defines indicators of the products
- The staff establishes the contingencies between the amount of the indicators and the level of evaluation associated with that amount.

- A feedback system is developed that provides employees and work groups with information about their specific level of performance on each of the indicators.

The system has been found to be time-consuming in its initial development. However, research suggests that the system is an effective feedback mechanism.

One of the advantages of the Results Approach is that it minimizes subjectivity, relying on objective quantifiable indication of performance. This makes it highly acceptable to both managers and employees. A disadvantage of the Results Approach is that objectives may be contaminated by things that are not under the employee's control such as a bad economy. In addition this approach may be deficient because not all-important aspects of the job are amenable to objective measurement. Individuals also tend to focus on aspects of the job that are measured, and ignore those that are not. Even though the results measured provide objective feedback, the feedback may not help managers learn how they need to change their behavior to increase their performance.

2.4.3.5 The Quality Approach

The fundamental aspects of the quality approach are its customer orientation, and prevention approach to errors. The primary goal of the quality approach is improving customer satisfaction, and the customer is either external or internal. The quality approach disagrees with using the person-based outcomes such as sales, profit margins and behavioral ratings to evaluate an employees' performance as the employee does not have complete control over them.

The quality approach believes the major focus of performance evaluation should be to provide employees with feedback about areas which they can improve. The feedback could be subjective feedback from managers, peers, and customers, or objective feedback based on the work process itself using statistical quality-control methods such as Pareto charts, control charts, histograms and scattergrams.

The quality approach relies primarily on a combination of the attribute and results approaches to performance measurement. However, the quality approach adopts a system-oriented focus.

As exhibited in the quality approach, which has a combination of the attribute and result approaches, it is advisable for organisation's to use a combination of two or more approaches for measuring performance. In this way, whatever weakness is inherent in one approach, another approach can be added on that has a way of overcoming those weaknesses.

2.5 Compensation and Benefits Programmes

Having looked at the link between an organisation's strategy and human resources, motivation theories, as well as performance management, the paper looks at various compensation issues and how an organization can ensure that it's compensation systems are congruent with it's goals. "The key to creating a reward system that promotes good strategy execution is to make strategically relevant measures of performance the dominating basis for designing incentives, evaluating individual and group performance and handing out rewards" (Strickland and Thompson; 2001. page 400).

Employee compensation is thus a powerful tool for furthering an organisation's strategic goals. It has a major impact on employee attitudes and behaviour and influences the type of employees who are attracted to and remain with the organization. This highlights the importance that organizations have to place on pay structures and individual pay. The following three theories help to explain the effects of compensation on employees.

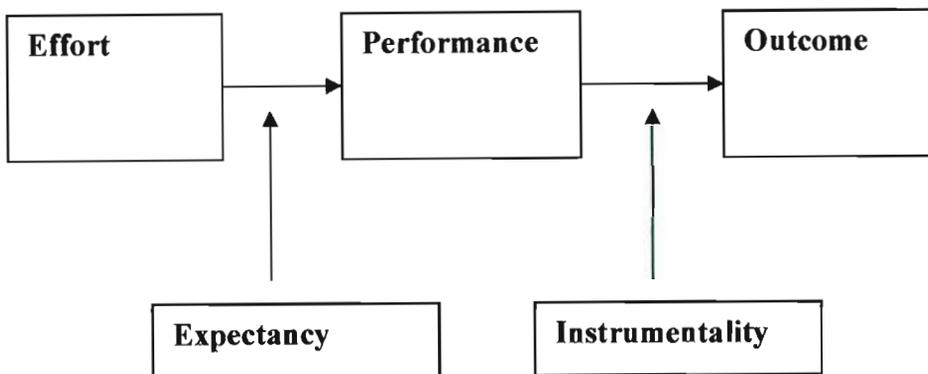
2.5.1 Reinforcement Theory

E.L. Thorndike's Law of Effect states that a response followed by a reward is likely to recur in the future. The implication is that a high performance followed by a monetary reward, makes future high performance more likely. However, if the high performance is not followed by a reward, then the high performance is unlikely to occur in the future.

2.5.2 Expectancy Theory

As discussed earlier under theories of motivation, the expectancy theory focuses on the link between rewards and behaviours. The theory implies that linking an increased amount of rewards to performance will increase motivation and performance. According to expectancy theory, the person's work efforts lead to some level of performance. Then performance results in one or more outcomes for the person.

Figure 2.8 Basic Concepts of Expectancy Theory



Source: Bateman and Snell (2002 pp.417)

Expectancy is people's perceived likelihood that their efforts will enable them to successfully attain their performance goals. Instrumentality is the perceived likelihood that performance will be followed by a particular outcome.

The managerial implication of the expectancy theory is that:

- Increase expectancy. This could be through providing a work environment that facilitates good performance
- Identify positively valent outcomes. This is through understanding what people want to get out of work.
- Make performance instrumental toward positive outcomes. This is by making sure that good performance is followed by personal recognition and praise, favourable performance reviews, pay increases and other positive results.

Other authors have questioned this assumption arguing that monetary rewards increase extrinsic motivation (The earlier theories of motivation belong to this class of thought). However, it has been noted in some organizations that monetary rewards do not necessarily run the risk of compromising intrinsic motivation.

2.5.3 Agency Theory

This theory focuses on the divergent interests and goals of the organisation's stakeholders, and the ways that employee compensation can be used to align these interests and goals. This theory is of value in analysis and design of non-manager's compensation, with the manager being the 'principal' and their employees being the 'agents'. The agency theory says that "the principal must choose a contracting scheme that helps align the interest of the agent with the principal's own interests" (Noe et al, 2001). These contracts can be behaviour-oriented or outcome-oriented.

Although outcome-based contracts such as merit pay seem to be a good solution to compensation programmes, their drawback is due to the increase in the agent's risk. This perceived high risk may require higher pay, thus increasing agency costs for the principal. Behaviour-based outcomes such as profit-sharing, transfer the risk to the agent (employee). However, the principal must be able to monitor what the agent has done, and this might then require the principal to invest in monitoring and information devised so that pay is linked to outcomes.

The type of contracts to be entered in therefore depends on the following factors:

- Risk aversion
- Outcome uncertainty
- Job programmability
- Measurable job outcomes
- Ability to pay
- Tradition

These three theories discussed here focus on the fact that behaviour-reward contingencies can shape behaviour, and thus extrinsic motivators have an effect on employee behaviour and thus should be considered when designing reward systems.

2.5.4 Compensation Programmes

In compensating employees, an organization does not need to choose on one type of programme, but often, a combination of programmes is the best solution. Five different compensation programmes are discussed here, as well as their advantages and disadvantages.

2.5.4.1 Merit Pay

In merit pay, annual pay increases are usually linked to performance appraisal ratings. Two factors influence the size and frequency of pay increases, the first being the individual's performance rating and the second being the position in range (an individual's compa-ratio).

2.5.4.2 Individual Incentives

Individual incentives are similar to merit pay in that they reward individual performance, but they differ in two aspects. Firstly, the payments are not rolled into the base pay as they have to be continuously earned and re-earned. Secondly, the performance is usually measured as physical output. Although individual incentives have potential to significantly increase performance, they are relatively rare. One of the major reasons for this is that most jobs do not have any physical output to measure, for example, the jobs of managers and professionals. In addition to that, there are many potential administrative problems especially in setting and maintaining acceptable standards of performance.

Another issue is that individual incentives do not fit well with a team approach. Individual effort becomes the main focus of the employee. The other weakness of this type of compensation programme is that the emphasis is on rewarding output (quantity)

and this might come at the expense of quality. Therefore if a company is pursuing a total quality programme, individual incentives would be incongruent to a company's goals.

2.5.4.3 Profit Sharing and Ownership

Profit sharing and ownership plans are at the opposite end of individual-group compensation programmes. Under profit sharing, profits are based on a measure of organization performance such as profit, but the payments do not form part of the base pay. The advantages of profit sharing include the fact that employees tend to think more like owners of the business and thus take a broad view of what needs to be done to make the company successful. Furthermore, because payments do not become part of base pay, labor costs are automatically reduced during difficult economic times, and wealth is shared when the company performs well.

On studies on the success of profit sharing plans, there has been little evidence to show that profit sharing leads to better organizational performance. Although there is consistent support for the correlation between profit sharing payments and profits, there are doubts about the causality. In some studies, it has been shown that although an organization achieves high profits, it was due to some other factors other than profit sharing. In some instances, profit sharing can fail to motivate employees as the payments are on a deferred basis. Furthermore, employees might be demotivated by the fact that there will be no payments when the organization goes through a 'bad patch' as they might feel that the cause of poor performance by the organization is due to factors beyond their control such as the economy. To avert this type of situation, some organisations have designed plans that do not have a downside risk. In this case, the employees are rewarded when the company performs well, and are not penalized if the company does badly.

Employee ownership is similar to profit sharing as it also encourages employees to take a broad view of the organization. One way of achieving employee ownership is through stock options. Stock options have normally been reserved for executives but other companies have started pushing eligibility further down (e.g. PepsiCo, Merck, McDonald's, and Wal-Mart). Fred Hassan, the CEO of Schering-Plough, gives an example of how his company rolled out the stock option programme to its sales

representatives in China (Harvard Business Review, Special Issue; August 2003). The sales representatives were excited about the new programme not because of the stock or the money only, but because they felt that they also belonged and were part of the company.

Employee stock ownership plans (ESOPs) provide employees with stock in the company and they are the most common type of employee ownership plans. The negative side of ESOPs is that they carry a significant risk for employees. Legally, an ESOP must invest at least 51% of its assets in its company's stock. Therefore, when employees buy out a poor performing company to save their jobs, or when the ESOP is used to fund pension funds, an employee risks serious financial difficulties when a company does badly. As suggested by the agency theory, employees may therefore require a higher pay to offset the high risk.

In *The Economist* (July 12th – 18, 2003), stock options are viewed as a good idea put to bad use by corporate America. Under American accounting standards, an award of share options is the sole form of compensation that does not have to be deducted from profits. So share options had become a way to hide an expense so that it appeared to come without cost. However, some companies have started moving away from stock options, and Microsoft is one of them. On July 8th, Microsoft announced that it would forego share options in the future. In place of share options, Microsoft will now grant "restricted stock" – shares that will be fully transferred over five years. This decision was taken not because of the problems linked with providing share options, but to remove the "angst" of employees about their compensation.

However, other big firms within the industry are saying they will not follow suit. TechNet, Silicon Valley lobbying group, say that it is in favour of share options for their motivational power.

2.5.4.4 Gainsharing, Group Incentives, and Team Awards

Gainsharing provides a means of sharing productivity gains with employees. This plan differs from profit sharing in that instead of using an organisation-level performance measure such as profits, the programme measures group or plant performance, which is likely to be more controlled by employees. The payouts, unlike in profit sharing, are distributed more frequently and not deferred. Gainsharing tries to draw out the best features of profit sharing, merit pay and individual incentives.

Group incentives and team awards typically pertain to a smaller work group. Group incentives tend to measure performance in terms of physical output, and team award plans may use a broader range of performance measures such as cost saving, successful completion of product design, and meeting deadlines. One of the drawback of these compensation plans is that they might increase competition between groups or teams. Furthermore, it might be difficult to develop a standard setting process that is seen as fair by the employees and does not exclude important issues such as quality.

2.5.4.5 Balanced Scorecard

The different pay programmes mentioned above highlight that there are advantages and disadvantages with each pay programme, therefore companies rather than choose one programme, might find it beneficial to design a mix of programmes. One approach that seeks to balance multiple objectives is the balanced scorecard. Norton and Kaplan (1996) describe it as a way to ‘track financial results while simultaneously monitoring progress in building the capabilities and acquiring the intangible assets they would need for future growth’. The balanced scorecard gives managers the opportunity to look at the company from the perspective of internal and external customers, employees and shareholders. It differs from traditional measures of company performance by emphasizing that the critical indicators chosen are based on the company’s business strategy and competitive demands. Therefore companies need to customize their balanced scorecards based on different market conditions, products and competitive environments.

The balanced scorecard should thus be used as to link human resource management activities to the company's business strategy, and to evaluate the extent to which the human resource function is helping the company to meet its strategic objectives. The balanced score card suggest the need for organizations to decide what its key objectives are and use pay to support them.

2.6 Strategy-supportive Reward Systems

According to Thompson and Strickland (2001), "the role of the reward system is to align the well-being of the organisation members with realising the company's vision so that organisation members benefit by helping the company execute its strategy competently and fully satisfy customers".

It has been noted that the use of incentives and rewards is the single most powerful tool that management has to win strong employee commitment to diligent, competent strategy execution. In order to create a reward system that promotes good strategy execution, a company has to come up with strategy driven performance targets for every manager, every team or work group and even every employee. For example, if a company's strategy is to be a low cost producer, then the incentive system should reward actions that result in lower costs. There is no point in setting up targets that are not in line with the company's strategy.

Guidelines for designing incentive compensation systems include:

- Performance payoff should be a major piece of the total compensation package. These should be at least 10-12% of base salary in order to have much impact.
- The incentive plan should be for everyone, workers as well as management, not management only.
- The reward system must be fair and performance targets should not be unrealistic.
- The incentives must be linked to only those targets spelt out in the strategic plan
- The performance target for each individual should involve outcomes which each individual can personally affect.
- The time between performance review and payment should be short
- The rewards should include monetary and non-monetary incentives.

- One should avoid finding ways to reward non-performers.

Therefore, from the standpoint of promoting successful strategy implementation, it is important that a firm's motivation and reward system is to:

- Stress what to accomplish/achieve rather than what to do
- Making sure that individuals' rewards are tightly linked to meeting or beating strategically-relevant performance targets
- Make non-monetary rewards an integral part of the reward system

Source (<http://personal.ecu.edu/bellot/Buspol10.htm>)

2.7 Summary and Conclusion

This chapter looked at the strategic link between the organisations objectives or strategic thrust and its reward system. The major objective of this chapter was to highlight the link between the organisation's strategy and its reward system and how reward system can be used to support the chosen strategy. Different motivation theories were highlighted to show the studies done on what motivates employees, extrinsic or intrinsic rewards, or both. This assists management in designing their reward system depending on the theories they subscribe to.

Performance management was looked at as this is an important step in design of a strategy supportive reward system. Before you start rewarding performance, you have to start by measuring it to see whether it is in line with the company's objectives. Finally the chapter looked at various compensation programmes and their advantages and disadvantages. This is important in designing a reward system as it highlighted that one programme on its own is insufficient, but a combination of different pay programmes is ideal in getting the best features out of the different programmes. The balanced scorecard is one of the ways that an organization can use a reward system to be congruent with the organisation's goals. The chapter concluded by looking at the importance of reward systems as a powerful strategy implementation tool as well as the guidelines to designing a strategy supportive reward system.

Chapter 3 looks at the current situation at Chemplex Marketing vis-à-vis strategy formulation, implementation and communication, performance management as well as rewards and benefits.

CHAPTER 3

CASE STUDY OF CHEMPLEX CORPORATION LIMITED

3.1 Introduction

This chapter looks at the current situation at Chemplex Corporation Limited (Chemplex). As mentioned in Chapter 1, Chemplex Corporation Limited consists of four divisions namely:

Zimbabwe Phosphate Industries (ZimPhos) – involved in the manufacture of phosphates (for fertilizer production) and chemicals

Dorowa Minerals – involved in the mining of phosphate rock to make phosphate concentrates for sale to ZimPhos.

Chemplex Marketing – a trading division involved in the marketing of chemicals produced by ZimPhos, as well as other imported chemicals sourced worldwide.

Animal & Public Health - involved in the manufacture of dips for animals (e.g. cows) as well as other public health products such as disinfectants.

This chapter looks at how the strategies are formulated and implemented as well as communicated to the rest to the members within Chemplex, performance management, and the reward system and benefits for all the employees in the company. Firstly, a brief look at the Zimbabwean economy is done as this shows the environment under which Chemplex is operating.

3.2 The Zimbabwe Economy

Chemplex Corporation is operating in an extremely turbulent environment, with ever-changing uncontrollable elements. This has been the case for over three years with each preceding year getting worse. As of 2003, the inflation as of beginning of the year was 250% and by the end of June 2003, it had reached 364 %⁶. In a hyperinflationary environment such as this one, it becomes difficult to manage a business with ever-increasing costs. Furthermore, there is a shortage of foreign currency with “parallel

⁶ www.finhold.co.zw

market rates”⁷ for foreign currency being at US\$: ZW\$600 as of January 2003, and having increased to US\$:ZW\$2500 as at end of June 2003.

The only source of foreign currency is the ‘parallel or black’ market as the country has very few inflows of foreign currency and demand exceeds supply. The government has enacted regulations to try and curb the ‘parallel market’ but these have been ineffective resulting in ever-increasing costs of procuring foreign currency.

Chemplex corporation and its four divisions, like most other Zimbabwean companies have a reliance on foreign currency for importing much needed raw materials for use in manufacturing (ZimPhos, Animals & Public Health and Dorowa Minerals), or for selling to other manufacturers (Chemplex Marketing) Therefore the scarcity and high costs of procuring the foreign currency has a major impact on the operations of the corporation.

Shortages of fuel and coal, and inefficiencies of the national rail carrier, the National Railways of Zimbabwe, all have an impact on the business operations of Chemplex Corporation. Furthermore, the hyperinflationary environment also has an impact on the employees’ standard of living. With ever-increasing costs of transport, food, housing, education etc, the employees end up demanding increases in the wages, salaries and allowances to cushion them from inflation.

It is with the above economic issues in mind , that the current situation at Chemplex Corporation is assessed in terms of its strategy and its reward system.

3.3 Strategy Formulation and Implementation at Chemplex Corporation

Chemplex Corporation Limited has its own strategy that maps the way forward for the whole organisation. The Managing Director and Heads of each of the four divisions, as well as the Human Resources Manager and the Group Engineering Consultant are involved in the formulation of the corporation’s strategy. Once the strategy is formulated, it forms the basis of the strategies to be followed by the four divisions. The corporate strategy is then reviewed during the course of the year in line with the changing environment.

⁷ These are the unofficial exchange rates

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However, this does not happen all the time. At the time of writing this dissertation, there has been no strategy review for 2003 and we are already halfway through the year. In other instances, the four divisions have had to review their strategy and once presented, these strategies form the corporate strategy, instead of being done the other way round. At times, divisions are given less than a week to review their strategies and make submissions. These revised strategies become the reviewed corporate strategy. In this way, the strategy formulation, implementation and revision thus becomes a ritual that divisions go through and most of the times, they are not thought through and thus not formulated properly.

The Head of Division and his direct subordinates are involved in the formulation of the strategy for each division at Chemplex. Each section be it Production, Engineering, Finance, Sales, Purchasing or Customer Services, has an input in the strategy formulation. Strategy is formulated for a period of five years, and the current strategy runs from 2000 through to 2004. Revisions to the strategy are made as and when there are deemed large changes in the operating environment. The last strategy revision for Chemplex Marketing Division for example, was in 2002 , and now we are in June 2003, and there has been no strategy revision.

Communicating the strategy to other employees is done by the various section heads to their departments. However, what tends to happen is that there is no follow-up to ensure that the section heads actually communicates the selected and relevant strategy to their subordinates.

3.4 Performance Measurement

All the various grades within the Chemplex Corporation have job descriptions dictating the type of work to be done by the employee. They are signed by the incumbent as a sign of agreement to the contents to the job description, and they are kept as records in the Human Resources Department. The formulation of the job description is done by the incumbent and the supervisor or manager, and agreed upon in line with the Corporation's plan for that particular job. The incumbent is thus expected to perform their job in line

with the job description. It is also a means of ensuring that the incumbent is knowledgeable of what is expected of them in their job.

There is no overall performance management system that is measurable at Chemplex Corporation. In some departments, objectives or goals are set with a time frame of when they should be met or achieved. The employees and their supervisor / manager agree on the objectives. Verbal feedback is given on how the employee is performing. However these objectives have no bearing on the reward system especially for non-managerial employees as their work conditions are governed by the National Employment Council, Works Council and Workers Committee. The functions of these bodies are discussed later on in the chapter.

However, because of lack of an overall performance management system, not all departments annually set goals or objectives for each employee. This is done mostly for senior employees (those in higher grades) as well as managerial employees. Employees in lower grades are only guided by their job descriptions, and have no set objectives to meet. In this sense, it is only fair to note that there is no performance management system in existence at Chemplex Corporation.

In areas where there are agreed goals or objectives to be met, there is no documentation for the actual performance achieved by the individual. Although the goals/objectives are written down and agreed upon, most feedback given to the incumbent on performance is verbal feedback. Thereafter a new set of goals/objectives, are agreed upon and it starts all over again. If performance is good, encouragement is given and if performance is poor, the incumbent is expected to “pull up their socks” and where assistance is required, the manager/supervisor will assist the subordinate, and if lack of skills is the source of under-performance then training is organised in the relevant area. The lack of an agreed and written down performance management system means that the manner in which performance is measured tends to be ad hoc, and not uniform.

3.5 Communicating Organisational Performance

Different methods for communicating the organisations performance are used. At ZimPhos, the General Manager uses the division's gatherings as a means of communicating. There is an area called "Mutondo Square" where all the employees meet whenever the General Manager has news to communicate to the workers. Other means of communication are notice boards, the Chemplex Newsletter circulated to all employees, memorandum from the Managing Director to all employees, and departmental meeting in various divisions. The type of news communicated included new appointments, new products being introduced , new company policies or regulations, economic issues affecting the company's performance. However, if the company is going through "good" times, this is not often communicated to employees. Instead, employees would get to know about it from their Workers' Committee Representatives. In some instances, non-managerial employees get to know about important changes in the Corporation before their managers get to know about them.

3.6 Reward System

On looking at the reward system at Chemplex Corporation, a subdivision has been made of managerial and non-managerial employees as this has a bearing on how they are rewarded.

3.6.1 Non-managerial Employees

The working conditions, salaries and wages for non-managerial employees are negotiated by the Workers Committee, Works Council and National Employment Council. The functions of these three bodies are as follows:

- **Workers Committee**

The Labour Act in Zimbabwe prescribes that employees have a right to form a workers committee. This committee thus becomes a legal entity once formed. At Chemplex Corporation, a workers committee exists and is made up of members elected by the workers to represent them at this committee.

- **Works Council**

The Works Council at Chemplex Corporation is made up of six (6) representatives from the Workers Committee, and six (6) from management. These representatives meet to discuss issues affecting the organization. It is at this level that the representatives of the

two parties (workers and management) meet to discuss matters of mutual interest within the organization.

- **National Employment Council (NEC)**

There are various NECs for the different industries in Zimbabwe. The NECs mandate is to set basic conditions of employment in the industry they represent for all non-managerial employees. ZimPhos, Chemplex Marketing and Animal and Public Health non-managerial employees fall under the National Employment Council for Chemical and Fertilizer Manufacturing Industry. Dorowa Minerals falls under the National Employment Council for Mining Industry.

Within the NEC for Chemical and Fertilizer Manufacturing Industry, there are five divisions namely; Phosphates and Explosives, Paints and Printing Inks, Pharmaceutical Manufacturing, Industrial Chemicals, and Fertilizer and Agro-Chemicals. Chemplex Corporation falls under the Phosphates and Explosives sub-division.

At negotiating stage, there are two parties within the NEC. The first party is made up of representatives from employers' federation, and the second party is made up of representatives of trade unions from member companies. The same applies to the subdivisions within the NEC. As mentioned earlier, the NEC is there to set up the basic working conditions for employees within the respective industries. Currently, these are governed by Statutory Instrument 22 of 2001. Since the agreement at NEC level is the minimum agreed for each industry, there is nothing stopping the employer from setting a higher standard than the agreed one. This has been done and a recent example is worth mentioning. The NEC refused to grant employees a transport allowance which they were demanding. However, Chemplex decided that the employees demands were realistic in line with the ever-increasing costs of transport, and awarded all its employees who do not have company cars, a transport allowance of Z\$1 600,00 per day. However, an employer cannot reduce the set standard agreed upon at NEC level.

Chemplex Corporation has taken a stance that they will award all their non-managerial employees whatever it is that would have been agreed at NEC level regardless of individual performance. Although in principle, Chemplex could award their employees

higher than the agreed standard at NEC, it has been agreed that they will stick to the agreed standard so as to create harmony within the company. It is felt that there is a strong workers union at Chemplex and once the company start differentiating salary increase (for example), there would be an outcry from the trade union.

3.6.2 Managerial Employees

All managerial employees at Chemplex Corporation have the same rewards and benefits regardless of the division they fall into. A job description detailing the nature of the job expected from the incumbent is available and signed by the incumbent. Most managers have set objectives for a given period that they have to achieve. These objectives are set and agreed upon by the manager and his or her immediate boss. At the end of a period, these objectives are reviewed and a progress report is given to the manager as to how they have performed. In the event that performance is deemed good and the manager has achieved their objectives for the period, he or she is congratulated. This also stands the manager in good stead for a promotion in the event that a vacant post arises. If performance is bad, the manager is advised to improve, and if training is warranted, then this is organized for the manager. Although the objectives set for a given period are normally documented, the responses given to managers in most cases are verbal leaving no trace as to how the objectives were actually achieved.

In the event that the company performs well at the end of the financial period, a performance bonus is given. However, the performance bonus has no relation to the performance of the manager. It is given to all employees across the board, and the amount given is normally in dollar terms at a percentage agreed upon by the Board of Directors. Salary negotiations are either based on market survey were Chemplex benchmarks the salaries of its managers in line with the top 10 companies in the industry. If there are deemed to be low, the managers' salaries are changed accordingly. However, they tend to be normally in line with what the workers would have been awarded through their wage negotiations with management, with a small percentage (about 5%), being awarded depending on the managers' performance. If performance is deemed good, the manager might be awarded a basic increase plus an additional 4-5% for good performance. If performance is deemed poor, a basic increase is awarded plus an additional 1-2% or

nothing at all. However, in most instances, this is not explained to the manager by their respective bosses and all they receive is a letter advising them of the percentage increase.

Benefits given to managers vary as per their grade with more benefits being awarded to managers in higher grades. These benefits are set as per company policy which is determined by top management with approval being sought from the Board of Directors. These benefits can be added or removed (in most cases removed) without notice as well as being non-negotiable.

3.7 Total Quality Management

Chemplex Corporation and all its four divisions adhere to the concept of total quality management. This is a widely practiced management philosophy in the corporation and is embraced all workers from the shop floor to top management. All employees belong to a quality circle and each circle works on projects that seek to improve their work processes in their areas of operation.

Presentations on projects are made three times a year by various quality circles on projects that they have undertaken and have resulted in improvement in the work process and thereby saving the company money. Judges from within the corporation as well as external invited judges (from companies in Zimbabwe), adjudicate at these presentations. The winning circles are presented with prizes ranging from company pens, to cash prizes. Each circle is expected to present an implemented project, at least once every year.

3.8 Summary and conclusion

This chapter looked at the current reward system at Chemplex Corporation. Issues that were looked at were the strategy formulation and implementation, how the strategy is communicated and reviewed, the performance management system used, as well as the reward and benefits given to employees. This chapter shows the status quo and will help in the analysis that will follow in the next chapters.

The following chapter looks at the methodology used in gathering information on the reward system at Chemplex Corporation, that is, the research design, the sample, and the survey instrument used in gathering information.

CHAPTER 4

RESEARCH PLAN

4.1 Introduction

Chapter 3 looked at the current scenario at Chemplex Corporation vis-à-vis, the strategy formulation, communicating the strategy, performance measurement and the reward system. This chapter looks at the research plan, the sampling method as well as the survey instrument used. The focus of the research is to analyse the following issues at Chemplex Corporation:

- the current reward system
- the communication of the corporate and divisional strategies to all employees
- whether the current reward system is in line with the corporate strategic plan
- the shortcomings, if any, of the current reward system

4.2 Research Methodology

Questionnaires and in-depth interviews were used to collect data from the respondents who are all Chemplex Marketing employees. A questionnaire was used as the means of obtaining data on views of the employees on the current reward system. Interviews with top management in Human Resources Department were also used to gain an in-depth understanding of the current systems. All Heads of the four divisions were also interviewed to investigate their opinion of the reward system.

4.2.1 Target Population and Sample

The relevant population in this study was all persons employed by Chemplex Corporation, and the sampling frame was the internal personnel records held by the Human Resources Department of Chemplex Corporation.

Stratified random sampling was used to segregate the population into mutually exclusive subpopulations. The variable used to draw the stratified sample was the employees' grade. At Chemplex Corporation, employees are in grades depending on the nature of the job. All non-managerial employees are in Grades 3 to Grades 11. This consisted of one stratum. A simple random sampling design was used on the strata for non-managerial

employees. Lower and upper middle managers are in Grades 11 to Grades 14 and top management is Grades 15 and 16. For lower, middle and upper middle managers, all these were given questionnaire as the numbers are small, and this would ensure that a high response rate was obtained.

In-depth interviews were used for senior management in Grade 15 as they represent the four divisional heads within Chemplex Corporation. An in-depth interview was also used with the Managing Director of Chemplex who is a grade 16.

4.2.2 Questionnaire Design

Self-administered questionnaires were used for all non-managerial employees as well as lower, upper and middle management. This enabled them to complete them at their own pace. The questionnaire also provided the privacy that is required in answering any questions that might have been deemed sensitive and also helped to allay any fears that there could be victimized for expressing their opinion.

A covering letter was sent together with the questionnaire advising the respondents of the objective of the questionnaire as well as confirming the fact that the responses would be treated as highly confidential. The questionnaires were sent via e-mail to all respondents who were in the sample and had access to e-mail. The internal mail system such as overnight mailbag was used for sending questionnaires to centers that are not in the same place as the researcher, and those without e-mail access. This helped in cutting down on the costs of mailing the questionnaires, as this methodology is relatively cheap and easy to use.

The design of the questionnaire was in four parts namely:

- General questions- this part consisted of general information such as the division that the respondent works for, as well as the relevant grade of the respondent. This was done to assist me in coding of the various responses at analysis stage.

- Knowledge of Company Strategy- this part of the questionnaire contained questions on the respondents' knowledge of the company's strategy, their involvement in strategy formulation, and whether they have any input in strategy formulation.
- Performance Measurement- this part consisted of questions on performance measurement. The objective was to find out if the respondent was aware of the type of performance expected from them, if this performance was measured, and what type of action was taken if performance was good or bad.
- Rewards and Benefits- this was the final part of the questionnaire and looked at the how the respondent was rewarded and the various benefits they qualified for under their respective grades. It also sought to find out the respondents opinion on the current reward system.
- The questionnaire ended with a rating table for 10 extrinsic and intrinsic motivational factors. The respondents were asked to rate on a scale of 1-10, which of the factors they thought would motivate them at work.

In-depth interviews were used on the Heads of Divisions for all the four divisions within Chemplex Corporation. This was done in order to gain an insight into top management's opinions on the current reward system at Chemplex and their views on its effectiveness in getting commitment to the organisation's strategy.

A set of questions was sent to them to give them an insight into the issues to be discussed at during the interview. The type of questions asked focused on the following:

- The corporate and divisional strategies
- How these strategies were formulated and implemented
- How the strategies were communicated to managers and employees
- How often and under what circumstances were strategies reviewed if at all
- Whether employees were aware of the type of performance expected of them

- Whether employee performance was measured
- If measured, how was it measured
- Their views on the current reward system
- Whether they deemed the current reward system as supportive of the company's strategy

4.3 Summary

This chapter looked at the research plan for the study, starting off with the research methodology, then the target population and sample, and finally the research instrument and its design. The following chapter presents the research results from the information gathered from the questionnaires and interviews.

CHAPTER 5

RESULTS OF THE RESEARCH

5.1 Introduction

This chapter looked at the results from the four divisions from Chemplex Corporation. A total of 124 questionnaires were sent out to the selected sample consisting of managerial and non-managerial employees. Appointments were made with the heads of the four divisions for interviews. The data collected from the questionnaires and interviews was coded and analysed under the following headings:

- General Information
- Knowledge of company strategy
- Performance measurement
- Reward and benefit system

The objective was to gather information to answer the research question on whether Chemplex Corporation's reward system was supportive of the company's strategy. Through investigating the employees and managers knowledge of the above factors, it was hoped that their answers would assist in answering the research question and also make recommendations that would be beneficial to Chemplex Corporation based on the best practices as shown in the literature review in Chapter 2.

5.2 Sample size and questionnaires sent out

102 questionnaires were sent out to all non-managerial employees out of a total of 1020 employees in all four divisions. The sample size was chosen using random sampling, and every 10th employee on the employee list using internal records, was selected. For managerial employees, a total of 44 managers make up the population of managers (lower, middle and upper middle managers). To this population, a sample size of 22 was selected using random sampling and every 2nd employee was selected to the sample. For

the Heads of Divisions, interviews were made targeting the four heads of division within Chemplex Corporation.

5.2.1 Response rate

The response was as follows:

Table 5.1 Questionnaire Responses

	Questionnaires sent	Responses received	Response rate
Non-managerial	102	45	44.1%
Managerial	22	15	68.1%

The low response rate for non-managerial employees was mainly due to the fact that most of these employees were geographically distanced from the researcher. Employees from Dorowa Minerals are situated 365km from where the researcher is, and those in Chemplex Bulawayo were 439km away whilst those at ZimPhos were 20km away. I used e-mail facilities to send out questionnaires to employees who had access to e-mail facilities. Reminders were sent out in a similar way. Although this did assist in improving the response rate, only 5% of non-managerial employees have access to e-mail facilities and the majority (those at ZimPhos and Dorowa), do not have this access. For the group without e-mail access, I sought the help of personnel at the sites to lobby employees to respond to the questionnaires and this helped improve the response rate. I felt that since the employees who had no e-mail facility constituted the majority of employees at Chemplex Corporation, failure by them to respond to the questionnaire would present results that were not truly representative of the targeted sample.

A higher response rate was obtained from the managerial group as most have e-mail access, and follow up could easily be done. Furthermore, telephone calls were used to remind respondents to answer the questionnaire and this was not too costly as the target sample was small enough to justify this means of communicating.

5.3 Results from questionnaires sent to non-managerial employees

The results were analysed in light of the following factors:

- **Knowledge of company strategy**

As highlighted in Chapter 2, some organizations use the reward system to ensure that the identified strategic goals are realised. The objective of this part of the questionnaire was to investigate whether the employees at Chemplex Corporation were aware of the strategy being pursued by the company. The thinking was if employees are not knowledgeable of the company's strategy, there is no way that the company could be using its reward system as a means of achieving company's strategic thrust. Furthermore, there is no way that the company could therefore expect the employees to work towards achieving this strategy that they have no idea what it is.

70% of the respondents were not aware of the strategy being pursued by neither the corporation nor their respective divisions. Of these respondents, 73% felt that they needed to know the strategy pursued by the company whilst the remainder either did not feel it was necessary or were indifferent. The reasons given for the need to know the strategy being pursued by the company were as follows:

- Knowing the company strategy would make me work harder towards achieving the company's goals
- I can contribute more meaningfully to the goals of the company
- I would feel that I am a vital part of the organization
- I would put maximum effort in my work

Out of the 30% of respondents who were aware of the company's strategy, none of them had any goals that were in line with the company's strategy set for them to achieve during the course of the year. Therefore, although they were aware of the chosen strategy, they had no goals set that were in line with that strategy.

Respondents were also asked if they were informed of how the company was performing. A high response rate of 74% was obtained on those who were advised of the company's performance. The means of communication ranged from:

- Departmental meetings
- General Managers address at Mutondo Square (ZimPhos workers)
- Feedback from workers' representatives at collective bargaining times
- Monthly meetings

The response was a commendable one as it showed that the company felt that there was a need for employees to know the performance of the company. This could however, be complemented by communicating the company's strategy in the first place so that workers are knowledgeable of where they are failing and correct that so that their work efforts are in line with the organisation's strategy.

● **Performance Measurement**

As mentioned in Chapter 2, performance management is defined as “the process through which managers ensure that employees' activities and outputs are congruent with the organisation's goals” (Noe et al. 2000, pp 276). For a company to have a strategy-supportive reward system, it has to be able to measure employee performance. That way, it would ensure that good performance, that is performance which contributes to achievement of the company's goals, is rewarded. The expectancy theory states that performance which is rewarded is likely to be repeated in the future. Thus, if an employee is rewarded for good performance, that performance is likely to be repeated and if goals are set for a higher performance, these goals are likely to be achieved as there is an expectation of reward for this performance.

This section sought answers on whether there actually existed a performance measurement system at Chemplex Corporation. Questions asked were whether employees were aware of the type of performance expected of them in their respective jobs, whether the performance was measured, and if measured, how this performance was measured. Other questions asked were on whether feedback was given to employees on how they were performing, and the nature of the feedback. 93% respondents were aware of the type of performance expected of them in their jobs. This is probably due to the fact that detailed job description for all positions are available throughout the four divisions of Chemplex Corporation and all workers are aware of them. However, 37% of the

respondents said that their performance was not measure at all. On the remainder who said that their performance was measured, the types of measurements varied and were as follows:

- Ensuring that jobs were finished on time
- Getting zero complaints from the employer
- Checking every three months if goals were achieved
- Remarks from the ‘boss’ on how I am performing
- Achievement of sales budget
- Completion of all tasks such as reconciliations and reports
- By meeting month-end deadline

The results show that there is no uniform system of performance measurement. The performance measurements criteria mentioned in Chapter 2 are:

- Strategic congruence
- Validity
- Reliability
- Acceptability
- Specificity

From the results gathered from the questionnaire, the current system does not adhere to any of the above criteria. One can safely say that there is no performance measurement system that exists at Chemplex Corporation. From the varied responses obtained from the questionnaire, it seems that each manager or supervisor follows their own thinking on how to measure their subordinates’ performance and there is no overall guide as to what the corporate system is. This obviously means that one cannot measure if employees’ performance is congruent to the company’s strategy.

Although Chemplex Corporation embraces the Total Quality Management philosophy, this is not used as a measure of performance. The Quality Approach to performance measurement utilizes a combination of the results and attributes approaches, and its major focus is on providing employees with feedback about areas on which they can improve.

There is no evidence to show that Chemplex Corporation uses the Quality Approach as a performance measurement tool.

- **Remuneration and Benefits**

This section of the questionnaire looked at issues on salaries, how they are negotiated and by whom, if workers were happy with the changes effected on their salaries and if they are given any bonuses during the course of the year.

As mentioned in Chapter 3, all non-managerial employees at Chemplex are members of the National Employment Council whose objective is to set the minimum standards of remuneration and work standards for all its members in the industry it represents.

Workers were asked if they were happy with the changes negotiated on their behalf by their representatives, and 93% of the workers said they were unhappy with the changes effected especially on their remuneration. Reasons given were varied and included:

- Increase given are too low
- Changes effected do not take into consideration individual performance
- Changes are effected across the board with no consideration to individual performance
- Only the minimum percentages agreed at by NEC for the industry (Mining Industry for Dorowa, and Phosphates and Explosives for the rest of the divisions) are effected
- Changes are not related to company performance
- The changes are not motivating

Most respondents Dorowa felt that the minimum increases negotiated for with the NEC for the Mining Industry were too low and way below current inflation rates.

The issue is that legally there is nothing wrong with effecting changes based on the minimum set by NEC. However, there is nothing stopping Chemplex from effecting higher increases than those set by NEC. Chemplex has taken the decision to effect salary increase based on increase set by NEC in order to create harmony in the work place. Due to the fact that there is no set performance measurement system within Chemplex

Corporation, there is no way of effecting any other increases other than those set by NEC as there is nothing to base these on.

This leads to disgruntlement on the part of some workers especially those who have set objectives that they have achieved, and this is evidenced by the high percentage response from employees who are not happy with the remuneration system based only on NEC negotiations. The end result is that all employees are rewarded the same i.e. given the same conditions regardless of individual performance. This means that regardless of whether you perform well or not, you will be granted the same benefits as everyone as long as you have you are an NEC member.

Take an example of a two workers in the same grade and doing a similar job. One performs well and works hard and the other one is a lazy employee who does enough to get by. They both have the same benefits as per their respective grade. When salary increases are awarded, the workers will be given exactly the same increase based on the percentage negotiated and agreed upon by NEC, and nothing else. This is not only bad but can be a major source of dissatisfaction, and can lead to the good worker also imitating the bad “habits” of his/her co-employee as they feel that they is nothing to work hard for.

On benefits, these vary as per employee grade. The higher the grade, the more the benefits. Benefits to employees include the following:

- transport allowance
- part –payment of medical insurance costs
- educational assistance for employees
- school fees paid for a maximum of two dependants
- use of company holiday cottages at Inyanga and Kariba⁸
- car loans, emergency loans, housing guarantees

As evidenced from data collected from the questionnaires, employees are aware of their benefits. Respondents were also asked if they are happy with these benefits. 68% of the

⁸ Popular holiday resorts in Zimbabwe

respondents advised that they were not happy with the benefits. 21 % of the respondents did not qualify for any of the benefits and this was because of being in low grades. 7% were happy with their benefits and 3% were partially happy with the benefits.

The reasons given for not being happy with the benefits were:

- I do not enjoy them
- They are inadequate for the current environment
- There are no housing loans
- The car loan was removed as a benefit
- They benefit management yet management are highly paid
- There is no facility for buying houses
- School fees for our dependants is not covered as a benefit due to low grade

From the above reasons, I felt that the issue was not being unhappy about the current benefits being awarded. Rather it was case of “the benefits are okay but we can do with more” and the fact that some of the benefits were meaningless to the incumbent. Furthermore, there was no choice and the benefits are lumped on the employee as per grade rather than per requirement. This results is ‘skewed’ benefits. One respondent gave an example of the benefit of school fees for two dependents. Since the respondent did not have any children, this was a wasted benefit on her part.

The majority of respondents bemoaned the lack of a housing scheme or housing loans. This is likely to be as a result of the high costs of either purchasing or renting a home due to inflationary pressures in the economy.

The final part of the questionnaire was on motivation. I sought to find out what motivates employees at Chemplex Corporation, and it is believed that if the company knows what motivates its employees, this can assist in the design of strategy-supportive reward system. Ten factors on motivation were listed and the results are as tabulated in **Graph 5.2.**

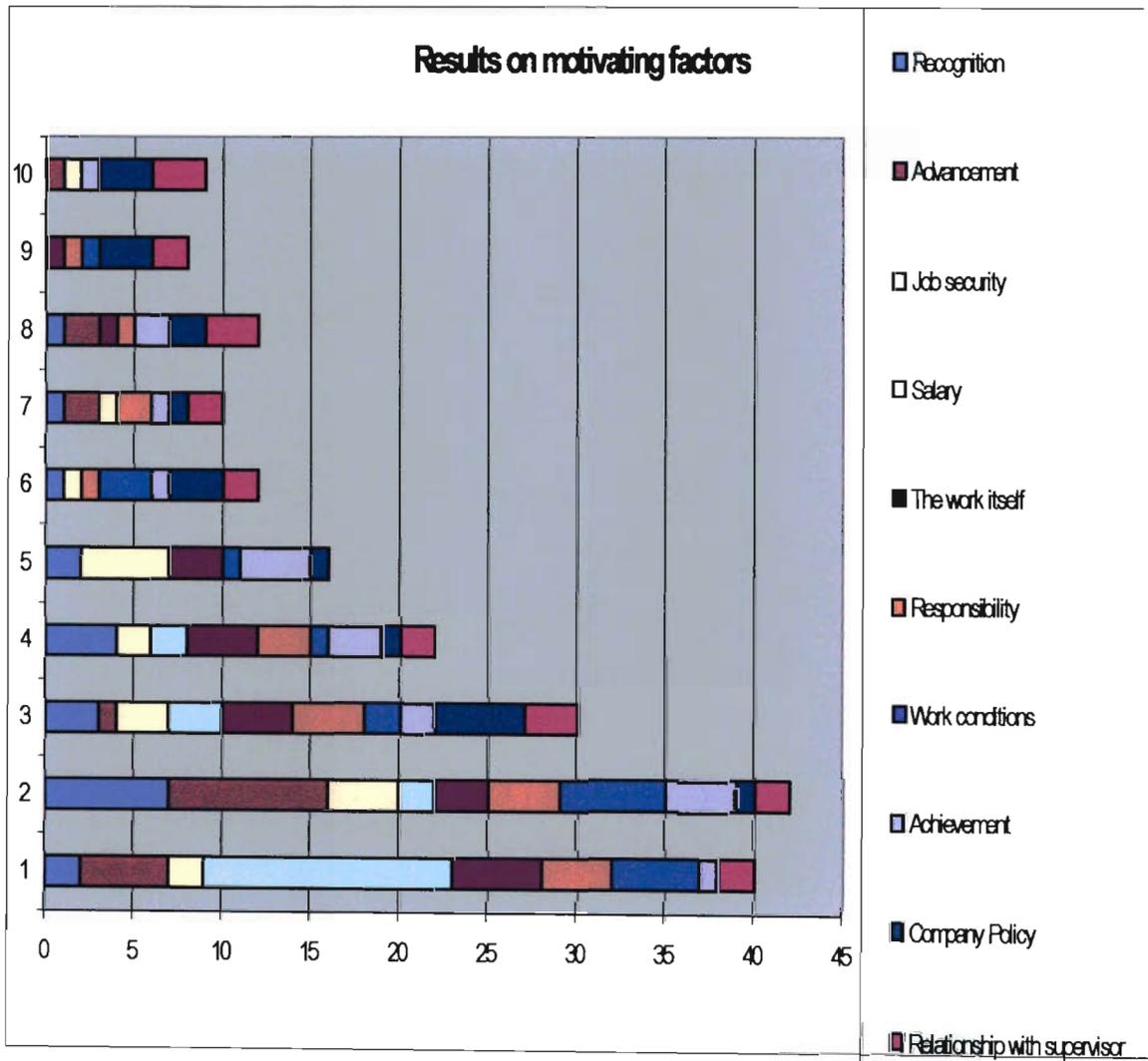
The respondents were asked to rate from 1 to 10, which one of the listed factors would motivate them to work harder, with 1 being the most motivating factor and 10 the least motivating factor. As seen in the table and graphical presentation of the results, most respondents rated salary as the highest motivating factor. However, I look at this point differently. Due to the hyperinflationary conditions currently prevailing in the Zimbabwean economy, the rating on salary is not surprising. Most employees are worried about the increasing cost of living versus the salaries which are not increasing in line with this cost of living. This was an issue that was highlighted by many respondents when they responded to the question on whether they were happy with changes in salary negotiated on their behalf. Therefore, if the salary is perceived as being low, it can become a source of dissatisfaction for the employee. This was highly evident in the responses obtained. Most respondents cited salary as a source of discontent. One is inclined to agree with Herzberg at this point that issues such as money can be a source of dissatisfaction. However once satisfied, they cease to cause dissatisfaction, but will not be motivating. They just cause no dissatisfaction which is not akin to motivation.

However, the other motivating factors that were rated highly are in line with Herzberg theory. These are advancement and recognition issues, the work itself and responsibility issues. Therefore, motivators are the primary cause of satisfaction; hygiene factors the primary cause of unhappiness on the job.

Graph 5.2

Results on motivating factors

Motivating Factor	No. of people who scored									
	1	2	3	4	5	6	7	8	9	10
Recognition	2	7	3	4	2	1	1	1		
Advancement	5	9	1				2	2		1
Job security	2	4	3	2	5	1	1			1
Salary	14	2	3	2						
The work itself	5	3	4	4	3			1	1	
Responsibility	4	4	4	3		1	2	1	1	
Work conditions	5	6	2	1	1	3			1	
Achievement	1	4	2	3	4	1	1	2		1
Company Policy		1	5	1	1	3	1	2	3	3
Relationship with supervisor	2	2	3	2		2	2	3	2	3



5.4 Results from questionnaires sent to managerial employees

The same questionnaire sent to non-managerial employees was also sent to managerial employees. The reason for the split in analysis was done as the conditions that apply to managers are not the same as those that apply to non-managerial employees. Whilst non-managerial employees are covered by the NEC for their respective industry, managerial employees are not. The sample size of non managerial employees was 22 and 15 responses were received. The results were analysed as follows:

- **Knowledge of company strategy**

67% of the respondents were aware of the strategy that the company was pursuing. The higher than non-managerial employees' response is due to the fact that most managers partake in strategy formulation for their respective divisions, and would thus know of the strategy of the company. The remainder of respondents who were not aware of the company's strategy occupied mostly lower middle management positions. This, however is not a good sign as these managers are the ones that are supposed to cascade the chosen strategy to their respective subordinates. It is no wonder why there is high number on non-managerial employees who are unaware of the company's strategy. How would they know if their own immediate bosses are not aware of the strategy? All of the respondents not aware of the company's strategy said that they felt they should know it.

80% of the respondents advised that they had goals set for them during the year. There were different responses on the way the goals were set. Some of the responses were as follows:

- As per discussion with my boss
- Planned production targets, maintaining product quality and reduction in costs
- Written objectives to be achieved in a given period
- Goals set and agreed upon between supervisor and subordinate
- Set by myself in line with the company mission and vision
- I set goals and agree with divisional manager
- They are based on company goals and objectives, and agreed upon between me and my boss

The above is commendable as the majority of responses said that the goals were based on company goals and objectives. This shows that the company sets goals that are in line with its chosen strategy. All the respondents said that they were advised of how the company was performing. This was done through management reports, team briefings, meetings and addresses by divisional managers.

- **Performance Measurement**

All managers who responded also said that they were aware of the type of performance expected of them in their jobs. On whether this performance was measured, 93% of the managers said that their performance was measured. This was not a surprising response as it was in line with the response on whether goals were set for the respondents. The way performance was measured was mostly through how a manager has performed against set objectives in a given period. 80% of the respondents said that feedback on how one is performing was given. The nature of feedback ranged from one on one meeting with divisional heads, round table conferences, verbal feedback, salary negotiation time, to performance appraisals. It is worrying to note that there is a 20% response on those who got no feedback on how they were performing. Although performance is measured for most managers at Chemplex corporation, there is no set format on how that performance is measured. This shows a lack of a clear system to guide performance management. However, for managerial employees, the company seems to be on the right track as performance is already being measured. What is left is to have a systematic way of measuring that performance and ensure that it is in line with the company's strategy.

The managers (53%) said that there was reward on good performance. They were told that the reward formed the basis upon which salary was increased at salary review time. Other rewards came in the form of a bonus for everyone when overall company performance was good, above pay increases or a promotion. The remainder of the respondents said that there was no reward for good performance and this was an area that required massive improvement.

- **Remuneration and Benefits**

This section was looked at in the same way as per non-managerial employees. The respondents were asked questions on who determined their salary changes, and how the changes were determined. There were a variety of answers to this question including:

- My boss and after consultations with his superior. The criteria for determining the change is not known but we are told that its based on a market survey, or performance based
- I don't know who determines the change. The criterion is based on what the non-managerial employees have been granted by NEC.
- Bargaining forums determine the change. The criterion is based on market forces.
- Management determines the salary change. It is based on whatever has been agreed between workers' union and NEC
- The Human Resources Department determines the change after doing market surveys. The changes are approved first by the managing director and divisional heads.

What comes out in the above responses is that managers are not aware of how their salaries are determined. Based on the responses, there seems to be a strong feeling among managers that the percentage increases in their salaries is based on what the workers' union will have obtained through NEC negotiations. This is probably due to the fact that managers never get their increase prior to workers obtaining theirs. They always get their increases after workers have negotiated their increases. This could be because the company will be trying to ensure that they are able to afford the increases.

Whatever the reasons might be, this issue is a definite cause of discontent within the management ranks.

All the managers said that they were unhappy with the way the salary changes were determined. The major reason for this was that managers felt that no matter how hard they worked, this had no bearing on how they were rewarded. They felt that their salaries should be determined by their performance. Considering that there seems to exist some form of performance management, Chemplex Corporation should take this into accounts

when reviewing their managers' salaries. By not directly rewarding this performance, there is a high chance that the managers will be disillusioned and there would be no repeat of the good performance. Likewise, there has to be a consequence of error for bad performance. This would lead the manager to take corrective action for this performance.

Although all the managers said that there were bonuses given for good performance during a given period, these bonuses were a blanket bonus to everyone within the company regardless of performance. This therefore meant that whether you deserved it or not, you would be rewarded. This is what happens when there is no proper performance management system. You end up rewarding non-performers, a grave mistake!

Managers' benefits vary as per grade just like the non-managerial employees. The higher the grade, the more the benefits. The managers were asked if they were happy with their current benefits, and 47% said they were happy with the non-financial benefits. Of the respondents who were not happy with their benefits, 75% of them were lower middle managers, and they felt that the difference between grades on benefits awarded was too large. Contentious benefits that lower level managers did not qualify for included:

- Removal of car loan purchase scheme, whereas managers with cars could purchase them at a determined rate after six years
- Non access to Inyanga Cottage, and Company boat in Kariba

Some of the managers also felt that their benefits were lower than their peers in similar organizations. This shows that managers benchmark their compensation packages with those of their peers in similar organizations.

100% of the respondents said that they would like to see changes effected on the current reward system. The changes to be effected included:

- Performance related pay that recognizes individual performance and overall company performance
- Performance related bonuses
- Production bonuses for all employees

- Employ a person knowledgeable in remuneration issues to correct the current mistakes
- Consider part payment in US\$ if performance is good

The overall conclusion on managers' responses shows that they are not aware of their total remuneration package, and therefore can not work on improving it as they are not do not know how it is arrived at. The higher percentage of managers who are aware of the company's strategy as well as the fact that they have set goal or objectives to achieve in the workplace is commendable and thus a good start for Chemplex. However, there is a strong feeling among managers that the way that their remuneration is reviewed is unfair as other managers seem to get more than others. Due to the fact that the remuneration system seems to be shrouded in secrecy, this leaves employees to formulate their own opinions on the system.

5.5 Responses from Divisional Heads on interviews held

Appointments were made with the four divisional heads at Chemplex Corporation. A memorandum was also sent to them with a list of questions that would be asked at the interview. The divisional heads were asked to complete the questions (all open-ended) prior to discussing them in the interview. **Table 5.2** presents a summary of the responses obtained from the divisional heads. A 50% response rate was obtained as the heads of divisions for Zimbabwe Phosphate Industries and Animal and Public Health were on annual leave at the time information gathering.

Table 5.2 Responses from Heads of Divisions

Question	Response from Dorowa	Response from Chemplex Marketing
1. How are corporate and divisional strategies formulated and implemented?	Divisional Strategies are formulated by Heads of Departments after establishment of the vision and mission and values of the division. Corporate strategies are formulated at CBT ⁹ level and approved by the board. These are implemented at divisional level	These are formulated at conferences which are organized as and when required. There is no set interval after which a review is carried out.
2. How are the strategies communicated to managers and employees?	The Heads of Department formulate the strategies at divisional level, and their subordinates are communicated to in writing. During implementation, the employees are communicated to by way of work instructions.	These strategies are communicated through workshops/strategy meetings held mainly with middle managers. There is no structured manner of cascading these down to the shop floor employees.
3. How often and under what circumstances are the strategies reviewed if at all?	Strategies were being reviewed every six months because of the unstable environment.	Two or three times a year, although the review is not scheduled. Occasionally, the review follows a crisis.
4. Are employees aware of the type of performance expected	Yes. Certain objectives and targets must be met within a prescribed time	Mainly the shop floor workers are not aware, while performance

⁹ Central Business Team is made up of senior management at Chemplex Corporation and headed by the managing director.

of them?	frame.	expectations at middle management are not always clear.
5. Is employee performance measured?	Yes.	Not formally – although measurement through objectives would probably assist.
6. If measured, how is it measured?	Attainment of set objectives and targets within prescribed time frames is used to measure performance.	N/A
7. What are your views on the current reward system?	It is good but maybe could be improved to take cognizance of individual needs.	The current reward system is inappropriate as it does not recognize productivity since there is no measurement tool for performance.
8. Do you feel that the current reward system is supportive of the company's strategy	To a large extent – Yes.	The current reward system does not support the company's strategy as it does not recognize achievement or productivity. There is no incentive to go the extra mile for employees that are not self-driven.

From the responses from the General Manager of Dorowa Minerals, one would say that there is a form of strategy formulation that is done at divisional level, with contributions from heads of functional departments. However, there seems to be a lack of involvement of lower level managers as only Heads of Department are involved. The supervisors who tend to be the main drivers of the strategy implementation process through their supervision of shop floor personnel are not involved.

Performance measurement seems to be done only at Heads of Departmental level as they are the ones with set objectives to be achieved in a specified time period. There is no

mention of lower level employees' performance being measured. These tallies with the responses obtained from questionnaires both in managerial and non-managerial positions.

The response on the General Manager's view of the reward system hints at some dissatisfaction with the system as he thinks there is room for improvement especially to take note of the individual needs. The GM also feels that the current reward system is supportive of the company's strategy to a large extent. What about the remainder? The assumption here is that more could be done to make the reward system supportive of the company's strategy.

The head of Chemplex Marketing Division believes that the current reward system is not appropriate as it does not recognize productivity and does not take individual performance into consideration. He also feels that in this way, the reward system is thus not supportive of the company's strategy.

From the overall responses for the Heads of Division, there is an agreement that the reward system needs to take cognizance of individual performance and that this performance needs to be measured. Although some performance measurement takes place at higher managerial levels, this is not done further down the line. Their responses in terms of strategy formulation and communication, performance measurement and the current reward system are very much similar to those expressed by the managerial and non-managerial employees in the questionnaires.

The following and final chapter makes recommendations for designing strategy-supportive reward systems, and how Chemplex Corporation can strengthen the current weaknesses both in its strategy and reward system. The recommendations are made in line with the following:

- Strategy formulation, implementation and communication
- Performance management and measurement
- Compensation systems
- Guidelines for creating strategy-supportive reward systems

CHAPTER 6

RECOMMENDATIONS AND CONCLUSION

6.1 Introduction

The information gathered in chapter 5 of the research has shown that there is a lot of work that Chemplex Corporation has to do in order to design a strategy-supportive reward system starting from the strategy formulation and implementation, right down to designing a performance management system. As previously mentioned, reward systems are not the only way that a company can gain a competitive edge. However, in view of the strategic importance of human resources, it one way that Chemplex can ensure that it not only retains its important assets (people), but is able to ensure that its strategy is successfully implemented as it will have the ‘right men on the job’.

“In a study of 275 portfolio managers....the managers cited that strategy implementation as the most important factor shaping management and corporate valuations” (Kaplan and Norton, 1998; page 4). The authors assert that the real problem is not bad strategy but bad execution. Strategy implementation therefore requires that all business units and employees be aligned and linked to the strategy

The important step in creating a strategy-supportive reward system is by ensuring that the strategy itself is known by all employees. Communication of the strategy and cascading it all the way down to the lower levels of the organisation is vital. It is a way of making sure that all employees embrace the strategy and are thus able to play their part in ensuring that the strategy succeeds. It does not matter how brilliant a strategy is. If the implementation process is not undertaken properly, then the strategy is doomed to fail. If a manager understands what motivates his/her subordinates, he/she will be able to use motivational incentives as a tool for implementing strategy. Thus the greater will the employees’ commitment to execution of the company’s strategic plan.

6.2 Strategy formulation and implementation

Although this area is well covered at managerial level, Chemplex Corporation needs to ensure that the company's strategic plan is cascaded to lower level employees. This section briefly highlights the issue that Chemplex needs to strengthen in their formulation and implementation of strategy.

The strategy-making/strategy implementation process consists of five interrelated managerial tasks namely:

- Forming a strategic vision of where the organisation is headed
- Setting objectives
- Crafting a strategy to achieve the desired outcomes
- Implementing and executing the chosen strategy efficiently and effectively
- Evaluating performance and initiating corrective adjustments

Source (Thompson and Strickland 2001; page 6)

Details of the first three steps are given below:

6.2.1 Developing strategic vision

There are three tasks involved in forming a strategic vision and making it a useful direction-setting tool namely:

- Coming up with a mission statement. This defines what business the company is presently in and conveys the essence of 'who we are, what we do, and where we are now'. A strategically relevant mission statement incorporates three elements which are, customer needs, or *what* is being satisfied; customer groups or *who* is being satisfied; and the company's activities, technologies and competencies or *how* the company goes about satisfying those needs.
- The mission statement is then used to decide on a long-term course of action on 'where we are going', the strategic vision. The mission statement highlights the current boundaries of the company and also provides a vantage point to decide what the company's business make up and customer focus needs to be. Although strategic visions should have a time horizon of five years or more, this is dependent on the market conditions that that the company operates in. In highly volatile and uncertain

market conditions, the time horizon is obviously much shorter. The challenge in creating a strategic vision is to think creatively about how to prepare a company for the future

- The strategic vision has to then be communicated in clear, exciting terms that arouse organisation wide commitment. Communicating the strategic vision down the line to lower level managers and employees is just as important as setting the company's long-term direction. People need to know and believe that the company's management knows where its trying to take the company and what changes can be expected in the future, both internally and externally. Failure to understand or accept the need for redirecting organisational efforts often produces resistance to change among employees. There is thus a need to induce employee buy-in and allay an fears before the organisation is ready to move down a new path.

6.2.2 Establishing objectives

This is the second task after developing a strategic vision. Setting objectives converts the strategic vision into specific performance targets. Unless this is done, the mission and vision statements remain mere words used and unrealised dreams. For objectives to act as a measure of organisational performance, they must be stated in quantifiable terms and have a deadline for achievement. General statements should be avoided. Objectives are needed for each key result that managers deem vital for success.

A company needs to establish both long-term and short-term objectives. If managers commit to achieving long-term objectives, it forces them to take action now in order to reach a desired performance later. The objectives should be set high enough to produce outcomes at least incrementally better than current performance. Objectives are needed for every level of the organisation. The objectives must be broken down into performance targets for each of the organisation's separate businesses, product lines, functional areas, and departments. If each area of the organisation does not contribute to the desired company wide outcomes and results, then the company objectives are unlikely to be reached.

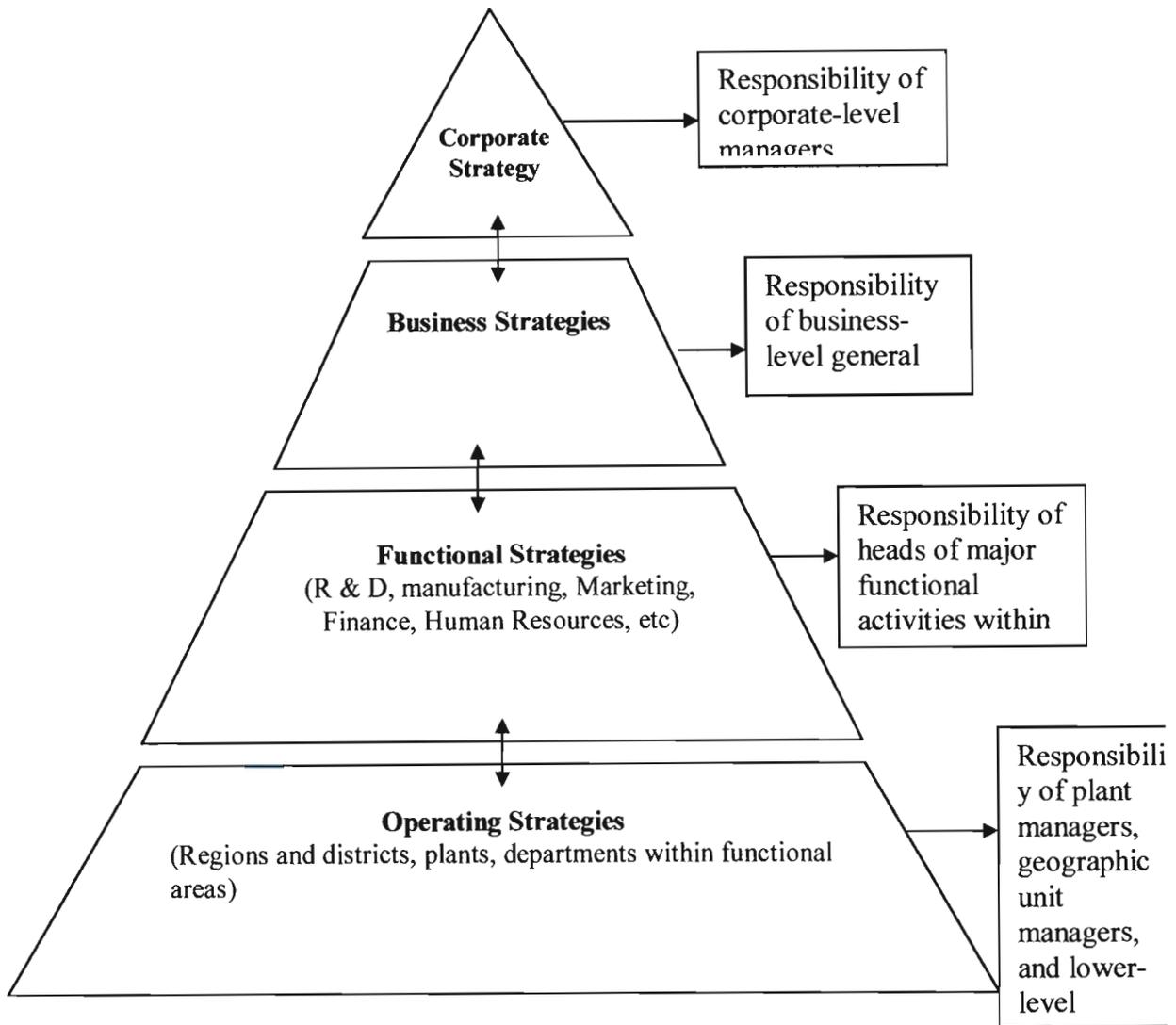
6.2.3 Crafting a strategy

This forms the *how* part of achieving the company's strategy, mission and strategic vision. A company's strategy evolves over time taking cognisance of the changing environment that it is operating in. In some industries, the pace of change is rapid and intense, and thus requires rapid strategy adaptation. Strategy making is not a task for senior executives only. It involves senior executives, heads of business units and product divisions, heads of major functional areas, regional and sales managers as well as low-level supervisors. **Figure 6.2** shows the strategy-making pyramid for a diversified company such as Chemplex Corporation:

The corporate strategy is the overall managerial game plan for a diversified company. The business strategy refers to the managerial game plan for a business, while the functional strategy refers to the managerial game plan for a particular function or business process and finally the operating strategy refers to strategic initiatives for managing key operating units. All the separate pieces of strategy must be unified and coherent, and this is achieved by the strategising process moving from top to bottom. "Good strategy and good strategy execution are the most trustworthy signs of good management" (Thompson and Stickland, 2001: page 4).

Although Chemplex is doing well in its strategy formulation process, this is only being done at corporate and business level. There is a need to move the process further down the strategy-making pyramid as this is where the strategy is implemented. Failure to do this will result in strategic disarray.

Figure 6.2 The Strategy-Making Pyramid



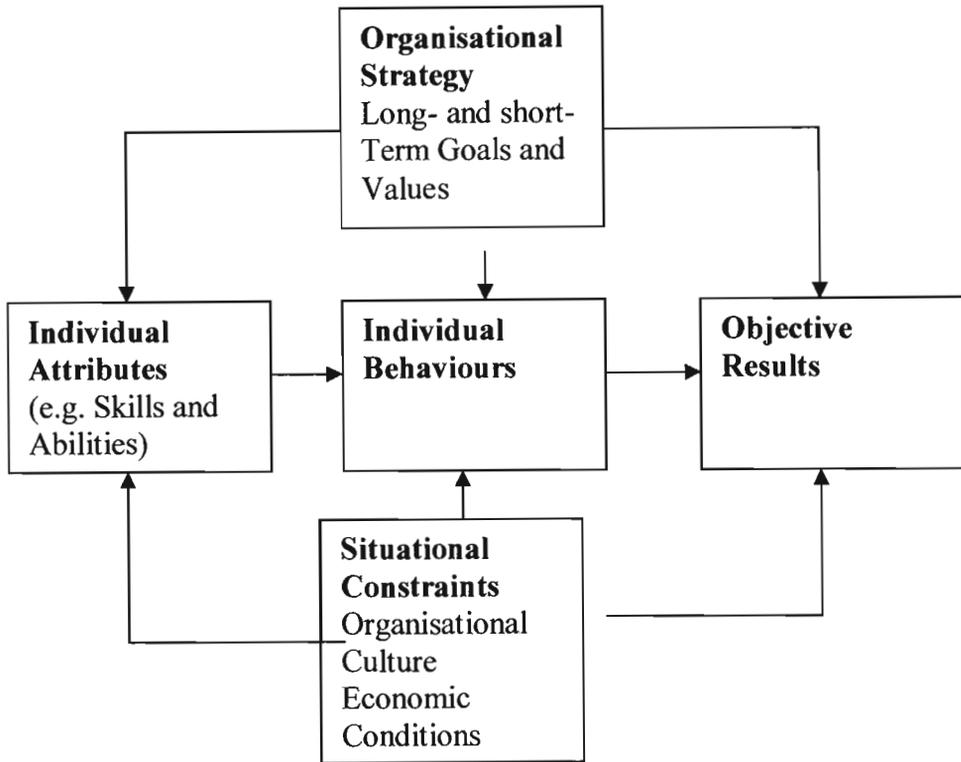
Source: (Thompson and Strickland; 2001. page 52)

6.3 Performance Management

As already mentioned in Chapter 5, there is no performance management at Chemplex Corporation. In instances where some performance management is done, there is no systematic approach to it and it is done on an ad hoc manner. Performance management is vital if one is to design a strategy-supportive reward system as you are not able to reward what is not measured. Performance management is a process that ensures that the employees activities and outputs are in line with the company's goals.

Chemplex needs to look at performance management as a means of aligning the employees' activities to the company's goals. This way, the performance of the employees, whether managerial or non-managerial, will be in line with the direction that the company has decided that it will take. Reference is made here to the model on performance management below:

Figure 6.3 -Model of Performance Management in Organisations



Source(Noe et al: 2000 pp277)

Therefore, **Figure 6.3** tells us that employees should have certain attributes to perform a set of behaviours and achieve some results. These attributes and behaviours must be linked to the organisation's strategy. It is also important to note that there are constraints within the work environment that often inhibit the employees from performing. Therefore, a performance management system is not static. It changes in line with the changing strategy of the company as well as the changing situational constraints that may inhibit the employees' performance. The above model provides the basics for performance management.

There are five criteria for evaluating performance management systems which are; strategic congruence, validity, reliability, acceptability and specificity. These five criteria on evaluating performance management systems are important in the design of these systems because if a system does not adhere to any of these criteria, this might lead to failure of the system. For example, if the performance management is viewed as unfair (failing on the acceptability criteria), the employees whose output is being measured by that system, will not accept it.

6.4 Approaches to Measuring Performance

There are various methods for measuring performance namely:

- Comparative approach
- Attribute approach
- Behavioural approach
- Results approach
- Quality approach

As discussed in Chapter 5, each approach has its merits and demerits. It is advisable for the company to choose a combination of any of the above approaches. Whatever weakness is inherent in one approach, could be overcome by using a different measure of performance. Selecting the type of performance measure to be used by Chemplex Corporation is beyond the scope of this research. The important issue highlighted here is the need to have a performance management system and how this step is vital in the design of strategy-supportive reward system, the thrust of this research.

6.5 Strategy-supportive Reward System

“The key to creating a reward system that promotes good strategy execution is to make strategically relevant measures of performance the dominating basis for designing incentives, evaluating individual and group performance and handing out rewards” (Strickland and Thompson; 2001. page 400). Different pay systems were mentioned in Chapter 2, and each has its own advantages and disadvantages. Most companies do not rely on one pay programme, but work on a combination of different pay programmes.

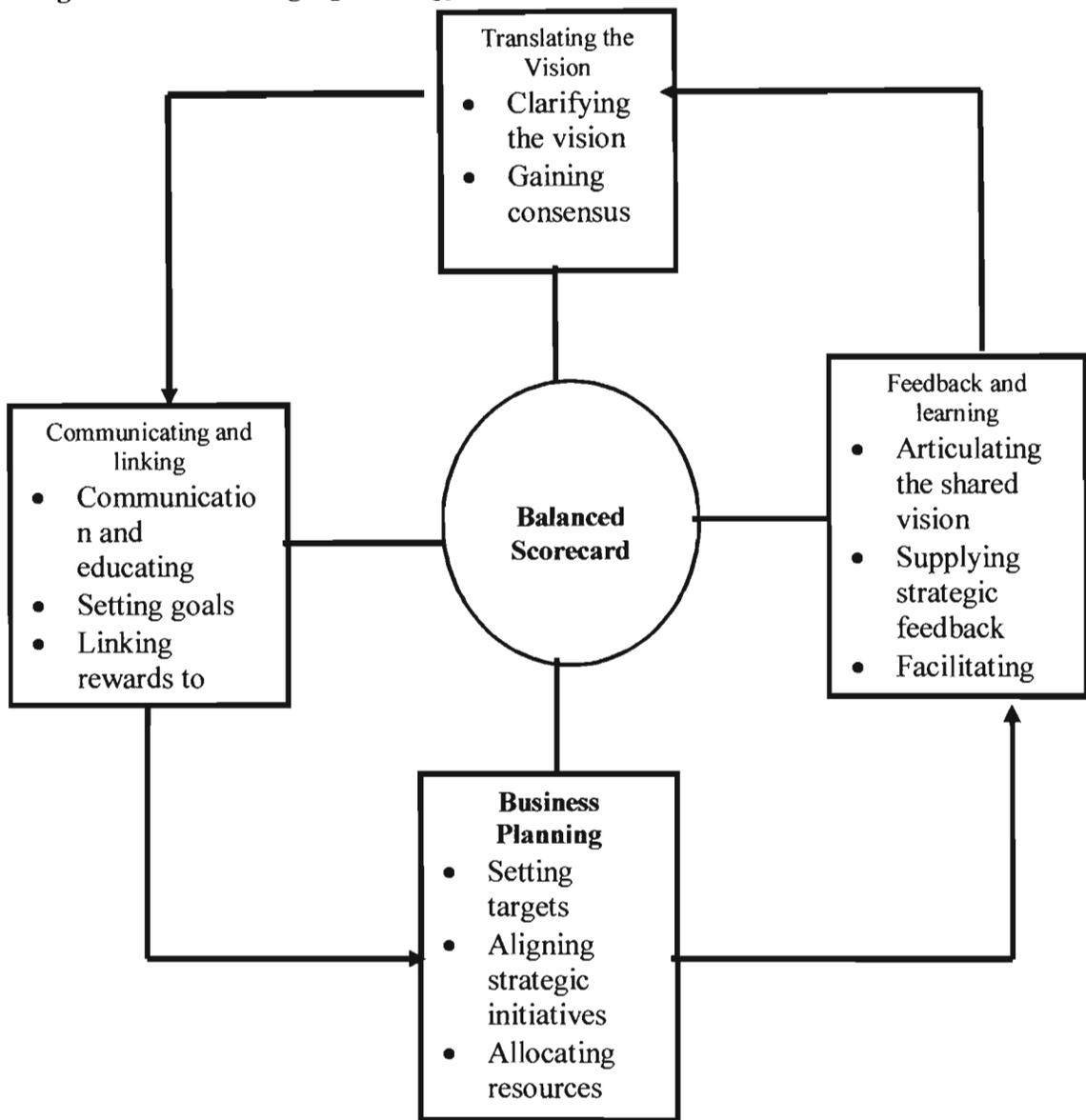
The balanced scorecard is recommended for Chemplex Corporation as it seeks to balance the multiple objectives that a company might wish to achieve.

6.6 Balanced Scorecard (BSC)

The BSC addresses a serious deficiency in traditional management systems: their inability to link long-term strategy with short-term actions. “The Balanced Scorecard provides managers with the instrumentation they need to navigate to future competitive success” (Norton and Kaplan, *The Balanced Scorecard: Translating Strategy into Action*). The BSC translates an organisation’s mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system. The BSC allows executives to introduce four new processes that, separately and in combination contribute to linking long-term strategy objectives with short-term actions: translating the vision, communicating and linking, business planning and feedback and learning as illustrated by **Figure 6.4**. It differs from traditional measures of company performance by emphasizing that the critical indicators chosen are based on the company’s business strategy and competitive demands. Therefore companies need to customize their balanced scorecards based on different market conditions, products and competitive environments.

The balanced scorecard should thus be used as to link human resource management activities to the company’s business strategy, and to evaluate the extent to which the human resource function is helping the company to meet its strategic objectives. The balanced score card suggest the need for organizations to decide what its key objectives are and use pay to support them.

Figure 6.4 Managing Strategy: Four Processes



Source: (Kaplan and Norton, 1996)

As shown above, the balanced scorecard shows the link between the company's strategy, its performance management as well as linking rewards to performance management systems.

6.7 Guidelines for designing strategy-supportive reward systems

Noe et al (2001; pp402-403) talk of an 8-step guideline for designing strategy-supportive reward system. This would be a useful guideline for Chemplex Corporation as it would serve as a check point for the implementation of a strategy-supportive reward system.

1. *Performance payoff should be a major piece of the total compensation package.*

These should be at least 10-12% of base salary in order to have much impact.

Furthermore, the pay-off for high-performing individuals should be substantially greater than for average performers, and the pay-off for average performers should be substantially higher than for below-average performers.

2. *The incentive plan should be for everyone, workers as well as management, not management only.*

This is important especially if all employees are to buy-in the strategy of the company. It will ensure that you do not have a scenario of “them” and ‘us” as every employee will feel that they have a part to play in achieving the company’s goals, and that they will be rewarded for their effort. It would be unfair to expect lower level managers and employees to work hard to achieve performance targets, so that only a few senior executives get the reward.

3. *The reward system must be administered with scrupulous care and fairness*

If performance standards are set unrealistically high, or if individual performance evaluations are not accurate or well documented, there will be dissatisfaction with the system and little benefit will be derived from such a system.

4. *The incentives must be tightly linked to achieving only those performance targets spelled out in the strategic plan*

If you include performance targets that are not in the strategic plan, this shows that the strategic plan was not mapped out correctly or management is pursuing a different strategy altogether.

5. *The performance target each individual is expected to achieve should involve outcomes that the individual can personally affect.*

A performance target that does not take cognizance of situational constraints beyond the control of the individual is bound to lead to the system being perceived as unfair, and cause dissatisfaction.

6. *Keep the time between performance review and payment of the reward short*

A lengthy period can cause discontent and the anticipated motivation would not be achieved.

7. *Make liberal use of non-monetary rewards; don't rely solely on monetary rewards*

Special recognition, praise, promotions, non taxable perks, more leisure time, etc. all have a positive affect and are great motivators.

8. *Absolutely avoid skirting the system to find ways to reward non-performers*

Once you start to find excuses to reward non-performers, then you open the door for all kinds of reasons why actual performance did not meet the performance target.

Individuals have to be held accountable for carrying out assigned parts of the strategic plan.

Once the incentives are designed, they have to be communicated and explained. They should not remain a mystery only known by top management and the human resources executives. All employees need to know how their incentives are calculated how individual/group performance contributes to the company's performance targets.

6.8 Summary and Conclusions

Chemplex Corporation needs to understand the importance of linking the reward system to the company's strategy. This is a useful tool not only in retaining the high achievers in the corporation, but in ensuring that the performance targets spelt out in the strategic plan are realised.

The current reward system at Chemplex Corporation is not driven by the strategic plan of the company. Furthermore, there is no performance management system in place and any performance measurement that is done is on an ad hoc basis. It is hoped that Chemplex Corporation will value the importance of the Balanced Score Card as a tool to successful strategy implementation.

6.9 Opportunities for Further Research

Opportunities for further research exist in doing a study on:

- Designing reward systems in a hyperinflationary environment with a whole spectrum of uncontrollable elements to deal with.
- Designing a performance management system for a diversified company such as Chemplex Corporation using the Balanced Scorecard.

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APPENDICES



Dear Respondent

I am working on a dissertation entitled ‘Designing Strategy-supportive reward systems – a case study of Chemplex Corporation’. I am therefore requesting your assistance through completing the attached questionnaire.

Please be advised that all the information you input into the questionnaire will be treated as highly confidential. To ensure confidentiality, please return the completed questionnaire via the internal mail system and addressed to “Noma Halimana, Chemplex Marketing, 93 Parklane”.

Thank you in advance, for your cooperation.

Regards
Noma Halimana

QUESTIONNAIRE

GENERAL

- 1. Company Name (ZimPhos, Chemplex Marketing, Dorowa, or Animal and Public Health)

.....

- 2. Grade (4, 5, 6, 7, etc)

.....

KNOWLEDGE OF COMPANY STRATEGY

- 1. Are you aware of the strategy that the company is pursuing? (YES/ NO)
- 2. If NO, do you feel that there is a need for you to know about the strategy?
.....
.....
- 3. Are there any goals that are set for you to achieve during the course of the year (YES/ NO)
- 4. If YES, how are these goals set?
.....
.....
- 5. Are you advised of how the company is performing? (YES/NO)
- 6. If YES, how are you advised?
.....
.....

PERFORMANCE MEASUREMENT

- 1. Do you understand the type of performance that is expected of you in your job? (YES/ NO)
- 2. Is your performance at work measured? (YES/ NO)
- 3. If YES, how is your performance measured?
.....
.....

4. If performance is measured, is there any feed back on how well or how badly you are doing? (YES/ NO)

5. If YES, what is the nature of the feedback?

.....
.....

6. Is there any subsequent reward if performance is good? (YES/ NO)

7. If YES, what type of reward is given?

.....
.....

REMUNERATION AND BENEFITS

1. How often is a salary change effected in one year? (once, twice etc.)

.....

2. Who determines the salary change?

.....
.....

3. How is the change determined?

.....
.....
.....

4. Are you happy with the changes negotiated on your behalf (YES/ NO)

5. If NO, why not?

.....
.....
.....

6. Are you satisfied with the persons representing you in determining the change in your salary? (YES/ NO)

7. What is the reason for your answer in Question 7 above?

.....
.....

.....
.....

8. Are there any bonuses that are given to you during the course of the year (YES/ NO)

9. Are you advised why you are receiving or not receiving any bonuses? (YES/ NO)

10. Are you happy with the type of bonus that you are given (YES/ NO)

11. Are there any additional rewards that you feel should be given. (YES/ NO)

12. If YES, what type of rewards do you feel these should be?

.....
.....

13. As per you grade, what benefits do you qualify for? (e.g. transport allowance, educational assistance, use of Kariba Cottage, school fees for children etc)

- | | |
|------------|-------------|
| i) | ii) |
| iii) | iv) |
| v) | vi) |
| vii) | viii) |

14. Are you happy with these benefits (YES/ NO)

15. If NO, why not?

.....
.....
.....

16. Are there any changes that you would like to be seen implemented to the current reward system? (YES/NO)

17. If YES, what type of changes would you like to see implemented?

.....
.....

.....
.....

18. Out of the following factors, which one would motivate you to increase your performance and achieve the company's goals? Rate from 1-10 with 1 being the highest motivating factor, and 10 the least.

- 1. Recognition
- 2. Advancement
- 3. Job security
- 4. Salary
- 5. The work itself
- 6. Responsibility
- 7. Work conditions
- 8. Achievement
- 9. Company policy
- 10. Relationship with supervisor

Answer

Motivating factor	Rating
1.	
2.	
3.	
4.	
5.	
6.	
7.	
8.	
9.	
10.	

MEMORANDUM

TO: DIVISIONAL HEAD

ATT:

DATE: 26 AUGUST 2003

RE: QUESTIONNAIRE FOR DISSERTATION

I am working on a dissertation entitled 'Designing Strategy-supportive reward systems – a case study of Chemplex Corporation'. I am therefore requesting your assistance through completing the attached questions.

I would also like to find out if it's possible to have an interview with you during your next visit to Harare, to discuss the questions attached.

Kindly advise.

Thank you in advance, for your cooperation.

Regards

Noma Halimana
Sales Manager

Questions

- How are corporate and divisional strategies formulated and implemented?
- How are the strategies communicated to managers and employees?
- How often and under what circumstances are the strategies reviewed if at all?
- Are employees aware of the type of performance expected of them?
- Is employee performance measured?
- If measured, how is it measured?
- What are your views on the current reward system?
- Do you feel that the current reward system is supportive of the company's strategy?