FACTORS DRIVING CHANGES TO REMUNERATION POLICY AND OUTCOMES

By
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Supervisor: Dr Deon Huysamen
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STATEMENT

I certify that the dissertation submitted by me for the degree Doctor in Commerce (Leadership in Performance and Change) at Rand Afrikaans University, is my independent work and has not been submitted by me for a degree at another faculty or university.

________________________
Mark Herbert Raymond Bussin
November 2003
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The successful completion of this study depended greatly on the efforts and assistance of many individuals to whom I wish to acknowledge my gratitude.

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DEDICATION:

To my late father George Lionel Bussin (1914 – 1997), the wisest man I know.
ABSTRACT
FACTORS DRIVING CHANGES TO REMUNERATION POLICY AND OUTCOMES

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The aim of the study

The aim of this study is to develop an in-depth understanding of the relative importance of the factors driving change to remuneration policy decision making and the impact on organisations. A triangulated approach involving qualitative and quantitative analysis was adopted to derive answers to 5 main research questions.

Literature review

Based on a literature review a research framework was developed that provided an anchor throughout the research. The framework used is shown as follows:
The literature review and personal interviews yielded 24 factors driving change to remuneration policy and 18 components of remuneration policy. These were grouped together into logical groupings and formed the basis of the questionnaire.

A review of the literature also yielded various impacts that remuneration policy has on organisations which allowed the dependent variable to be operationalised.

**The empirical study**

The study was split into 2 phases, namely a qualitative and quantitative phase. A qualitative study was undertaken to explore and identify key assumptions and characteristics identifying the main factors driving change to remuneration policies (Phase 1). The outcome of the qualitative phase formed the basis for the quantitative phase in which statistical analysis was used (Phase 2).

Data from 148 organisations were analysed and subjected to rigorous statistical analysis. Sense was made of these resulting in answers to the research questions.

The findings closed gaps in current knowledge and provided insight into the most powerful drivers of remuneration policy as well as the extent of change on each component of remuneration policy. How each component impacted...
on organisations is now understood and remuneration decision-makers are able to make more informed decisions based on empirical evidence.

The results show that the most potent drivers of remuneration policy are retention of key staff, financial results and organisation strategy. The greatest changes to remuneration policy were in the areas of variable pay, merit/performance related pay, market position, total package and job evaluation/broadbanding policy. A strong correlation was found between the extent of change and impact on the organisation. This suggests that the greater the change the greater the impact on the organisation.

There are distinct differences in the extent of change and impact across organisation structure and industry sector.

**Recommendations, contributions and limitations of the study**

Recommendations are made regarding improvements and changes that should be made should the study be repeated. The main contribution of the study is that it is now known which forces drive remuneration policy decision making, as well as the strength of the force. The remuneration policy components which were changed in the last 3 years is now known, as well as the extent of the changes. Finally, remuneration policy decision-makers now know which remuneration components had a positive impact on the organisation.

Limitations of the study were identified and outlined. The main limitation was that this was the view of management and it would be useful to complement this with employees' views.

Recommendations for future research are made.
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At a time when hunting for the ‘next Enron’ is an international sport, companies are uncertain as to what governance decisions they should be making. The clean-up has extended to insider selling, financial disclosure, even Chief Executive Officer (CEO) pay – all issues that feed the image of corporate corruption (Useem, 2002). In South Africa many stakeholders and the media are also baying for blood and newspaper headlines like, “The fat cats are still grabbing all the cream,” (Sunday Times Business Times, April 27 2003, p. 1) hit sensitive nerves. There is a rising tide of resistance against executives who take huge pay rises despite poor earnings, both nationally and internationally.

The Johannesburg Stock Exchange (JSE) will be getting tough on complying with King II (Shevel, 2003), which means that organisations are in the spotlight too. Yet Watson Wyatt’s 1999–2000 CEO Pay Study reveals a strong, positive correlation between changes in pay and corporate performance (Kay and Graskamp, 2001). The market value of the 2800 companies traded on the New York Stock Exchange increased 24 percent in 1998, a time when CEO compensation plans were increasingly tied to company performance. This is also true for share ownership where research found that those companies with high levels of share ownership consistently outperform those without (Corporate Leadership Council, 2001a).

Milkovich and Rabin (1991) argue that executive compensation is more complex than meets the eye and that a strategic perspective on compensation requires research that looks beyond how much executives earn. This dichotomy of attraction, motivation and retention of good executives versus tough corporate governance and media
spotlights, places remuneration decision-makers in a difficult position (Merchant, 1989).

A company’s ability to understand the ‘drivers’ of remuneration policy and CEO pay is therefore a critical component in determining its present and future success in good remuneration governance. Remuneration committees and boards of directors are searching for answers and lean heavily on independent consultants for advice (King, 2002). Generally speaking, consultants use comparative information to guide remuneration committees and boards of directors. There is little or no empirical research done that could guide remuneration policy decision-making.

This study seeks to understand the factors that drive changes to remuneration policy and what the outcomes are. It is believed that the results of the research could be used to guide remuneration policy decision-making.

The purpose of this chapter is to outline the research problem and introduce the main constructs of the research. Reasons are offered on the motivation for the study and what the research goals are. It concludes with a description of the value of the research.

### 1.1 Background to the problem

#### 1.1.1 Impact of pay policy on organisations

Well designed remuneration systems play a strategic role by promoting organisational success in highly competitive markets in which technological change constantly influences how employees perform
their jobs (Martocchio, 1998). Indeed, some go so far as to argue that there are strong links between remuneration system design and organisational performance (Greenhill, 1988; Modise, 1993; Rodgers, 1999; Rynes and Gerhart, 2000; Young, 2002).

Milkovich and Newman (1999) provide the powerful analogy of the impact of pay. When the super tanker Exxon Valdez ran aground in Alaska, fast action was required to rescue wildlife from the spreading oil. For $20 an hour, local members of an Eskimo tribe were hired to care for stranded whales, cleaning and feeding them until they could be released. When the temporary, highly paid jobs were no longer available, the Eskimos went back to their usual occupation – hunting the whales. The point is that money matters. It matters what is paid and how it is paid.

There are many examples of pay systems that went wrong - and unhitching from them is difficult. To alleviate this, more information is needed in understanding the impact of pay policy changes on organisations. In its simplest form, remuneration policy has positive and negative effects on organisations. One needs a better appreciation of which remuneration policy changes have had the greatest positive and negative impacts on organisations in South Africa over the past three years. There is solid evidence that compensation decisions affect business performance (Gerhart, 2000). Strategic differences do matter and organisations need to be informed when making these choices. It is hoped that this research will shed light on the impact of remuneration policy decisions in South Africa.

The collapse of major companies and media scrutiny of pay practices in prominent companies has led to an urgent need for additional information on which to base decisions. Firstly, there is a need to know
what the factors are that drive remuneration policy decision-making. *Secondly,* there is a need to know the extent to which components of the remuneration policy were changed. *Thirdly,* there is a need to understand the impact of the changes on the organisation and whether the impact was positive or negative. *Lastly,* it would be informative to know if the results differ between the various types of organisations.

### 1.1.2 Problem definition

Committees meet several times a year to make decisions about the organisation’s remuneration policy, philosophy, CEO and director pay. The committees that make remuneration policy decisions range in nature from Remuneration Committees, Human Resource Committees, Finance Committees, Audit Committees, Boards of directors, Owners, Advisers and Consultants (Chingos, 1997; Corporate Leadership Council, 2001b; Fisher, 1991; Reda, 2002; Williams, 1994). Decisions are made on the basis of experience or market benchmarking, but not really on empirical evidence.

It has been argued that this source of information is an insufficient basis for such profound decisions (Hewitt Associates, 1991; Milkovich and Newman, 1999). This has been a problem for many organisations and Fortune (April 28, 2003) leads with the front page headline of “Oink! CEO pay in the US is still out of Control. Here’s why”. Put simply, organisations responded to new rules, boards eased up on higher salaries and instead ladled out vast new grants of share options.

Even though organisation performance declined, CEOs got paid more than ever. “Have they no shame?” (Useem, 2003, p. 23). Many organisations are wondering how to break out of the spiral. Useem (2003) maintains that CEO’s have already proven that they cannot be
embarrassed. But maybe owners can be. A Finnish citizen has a lawful right to know the gross salary of his or her fellow citizens (Tomlinson, 2003). Revell points out the problem of stealth compensation: if you “think CEO pay is out of control? Wait till you see what these guys earn when they retire” (2003, p. 30). The point is that the problem continues long after executives leave the organisation.

1.1.3 Environment context and remuneration

The management of remuneration was once straightforward with a strong link between job level and pay. It is no longer that simple because of the pressures of knowledge work, global competition, volatile financial markets and shifting social values on compensation frameworks (Berger, 1991; Bergman and Scarpella, 2001).

Organisations’ radar screens need to extend beyond myopic benchmarking and experience to a comprehensive environment scan (Armstrong and Murlis, 1998; Beeson, 2000; Carver and Oliver, 2002). This places tremendous responsibility on remuneration professionals within organisations and, according to the Corporate Leadership Council (2001c) research in Executive Compensation Administration, these resources are stretched already. The national average in the United States of America (USA) is one remuneration professional for every 5000 staff. For those organisations employing fewer staff, it is often not viable to employ a dedicated resource and an executive in the organisation has to do all the research required for compensation reviews in addition to his / her ‘day job.’

This research will assist those responsible for remuneration policy decisions by identifying the drivers of remuneration policy and the impact they have on organisations. In other words, a deeper
understanding of the role of the factors driving remuneration policy design will be sought.

1.1.4 Remuneration policy components

The way in which the various components of the remuneration structure and mix are put together has an impact on organisation performance (Burnett, 2000; Bussin, 1994; Milkovich and Rabin, 1991). Remuneration policy guides the way in which the remuneration mix is decided upon. This study will proceed by listing each possible item in a remuneration policy (drawn from an extensive review of the literature), and research respondents will indicate the extent to which each policy item has been changed since the year 2000. Three years back is considered appropriate as it includes the longest cycle of remuneration policy design, typically long term incentives or share schemes.

Little is known about the inter-relatedness of the factors driving remuneration policy, which policy items were changed and what the impact was on the organisation.

1.1.5 Scope of research

Three main constructs have been isolated for this research as shown in figure 1.
From the literature review and individual interviews with appropriate experts, variables will be identified for each construct. The questionnaire used in the individual interviews to obtain the variables is shown in appendix 1. Responses from the interviews and variables in the literature review were combined into a comprehensive list of variables. This formed the basis of the research questionnaire. The process is described in more detail in Chapter 3 on research methodology.

The dependent variable is outcomes in the form of perceived impact on the organisation. Respondents will indicate whether the remuneration policy changes had a positive or negative impact on the organisation. A list of factors driving remuneration policy decisions will be presented to respondents who will indicate the extent to which each factor drove remuneration policy decisions in their organisations.

1.2 Motivation for the study

Six reasons can be offered regarding the motivation for the study. These are ordered in the same order as the research constructs shown previously in figure 1, and flow from external to the organisation to internal as follows:

```
| Forces driving change | Remuneration policy | Outcomes (Perceived impact on the organisation) |
|-----------------------|---------------------|-----------------------------------------------|
```

**Figure 1: Inter-relatedness of research constructs**
Construct 1 – Forces driving change
1. Changing nature of work
2. Investor confidence
3. Lack of knowledge

Construct 2 – Remuneration policy
4. Governance

Construct 3 – Outcomes – perceived impact on the organisation
5. Attracting and retaining high-performing employees
6. Return on investment

1.2.1 Changing nature of work

The way that work is organised and managed is constantly changing. This change is triggered by technological break-throughs and the mounting pressure of global competition (Risher, 1999). The changing world of work demands radical new people management approaches and especially new remuneration practices. Many remuneration principles were conceived over 50 years ago. “In recent years the environments of organisations have moved from being relatively stable, simple, orderly, predictable and local to one of discontinuous change complexity, chaos, ambiguity and globalisation” (Veldsman, 2003, p. 33). In response to these changes organisations have been forced to find ways to become more competitive. The pressure of keeping up with fast-changing technology and improving performance is driving employers in every sector to change the way they operate. Not enough is known about the remuneration systems required to underpin these new ways of work. Wright (2001) speaks of a pay revolution that is being created from a work revolution.
1.2.2 Investor confidence

Corporate image and governance have a large influence on the market price and perceived value of a company (Ernst and Young, 2002). The collapse of Enron and others has highlighted the need for good corporate governance in remuneration and CEO pay. Investors, analysts and stakeholders are nervous and it may cost organisations dearly if they get the slightest sniff of something untoward. This is illustrated by Richard Grasso’s untimely departure from the New York Stock Exchange (NYSE) when the markets were ‘baying for his blood (…) since the disclosure of his $140 million pay package” (Sunday Times Business Times, September 21, 2003, p.19).

Members of the committees making remuneration policy decisions are under the spotlight and “there’s nothing more important than restoring investor confidence in the captains of the ship” (Useem, 2002, p. 25). Empirical research would boost confidence in decisions taken.

Organisations that wish to understand the drivers of the various components of remuneration policy, the extent of each driver’s influence, and the outcome thereof could use the results of this study to make remuneration policy decisions.

1.2.3 Lack of knowledge

One of the most compelling reasons for doing this research is the lack of knowledge in the area of factors that drive remuneration policy and the impact that changes in these policies have on the organisation. Committees rely on benchmarking and anecdotal evidence, because there is no known empirical evidence of this linkage. As Citrin, Smith, Seboni, Boni, and Van Melle Kamp put it, “the gravy train went off the
This research intends bridging the knowledge gap in this area.

1.2.4 Governance

Non-executive directors and remuneration committees are playing an increasingly important role as companies focus on issues of corporate governance. Companies that fail to comply with the new Johannesburg Stock Exchange listings requirements will face censure and possible fines of up to R1 million. Depending on the breach, a company could be suspended or have its listing terminated (Shevel, 2003).

Throughout the 1990s, especially with the emergence of a new economy, proponents of the alleged virtues of shareholder value as the primary objective of companies largely drowned out other voices. In just a few years since then, scandals have abounded, scoundrels are being rooted out, and the hunt for the scapegoat is on (O'Sullivan, 2003). Rules and practices in remuneration and disclosure can facilitate or inhibit the effective operation of governance.

On December 2, 2001, Enron Corporation, then the seventh-largest publicly traded corporation in the United States, declared bankruptcy. This bankruptcy, the largest in US history at that time, sent shock waves throughout the world. Thousands of Enron employees lost not only their jobs, but a significant part of their retirement savings. Enron shareholders saw the value of their investment plummet. Hundreds, if not thousands of businesses around the world were turned into Enron creditors in bankruptcy courts and are likely to receive only a small portion of the dollars owed to them (Myburgh, 2003).
The implications for directors, managers, board committees, consultants, investment analysts, asset managers, pension funds, the accounting profession, regulators, politicians and the person on the street have been enormous. Remuneration policies are now being questioned far more frequently and closely. In a nutshell, business practices will never be the same (Young, 2002).

1.2.5 Attracting and retaining high-performing employees

There is a greater need now for competitiveness in attracting and retaining high-performing employees than at any time in the history of work. Recent dramatic changes in the nature of the workplace - globalisation, diversification, flexible time, and telecommuting - mean that organisations can no longer offer a single reward solution. Successful organisations are designing solutions that truly link remuneration to business performance - or they are losing their best employees to competitors who do (Fay, Knight and Thompson, 2001). It is hoped that this research will be an essential guide in this increasingly competitive world.

1.2.6 Return on investment

No investment offers a greater potential for return than one in human capital, yet it is often the most neglected. Remuneration is most organisations’ single largest expenditure, yet organisations often fail to maximise their options. HR professionals can no longer afford to be behind in remuneration strategy (Brown and Armstrong, 1999; Lawler, 1990; Risher, 1999).

The cost of staff turnover has been estimated at 70% of the person’s total package. This is made up of the cost of the staff member winding
down, the cost of recruitment, and the cost of training the new hire. With an average staff turnover rate of 8% in South Africa (P-E Corporate Services, 2002), the costs of unnecessary voluntary staff turnover is costing South African organisations billions of Rand each year.

This research will provide information about remuneration policy changes and the impact of the change. More needs to be known about the causes of a positive impact on the organisation.

1.3 Research goals

The overriding research goal is to determine the factors that drive remuneration policy decisions and the impact of those decisions on organisations. This overall goal has been broken down into five sub-goals:

Sub-goal 1: To identify the factors from the literature and pilot study interviews believed to be important in driving remuneration policy decisions.

Sub-goal 2: To determine to what extent these factors influence decision-making.

Sub-goal 3: To determine which components of the remuneration policy were changed and the extent to which they were changed.

Sub-goal 4: To determine the impact on the organisation of the changes made to the remuneration policy.
Sub-goal 5: To determine if there are differences in the responses for different participants.

1.4 Value of the proposed research

It is hoped that a better understanding of the incidental, associative and causal links between the factors driving remuneration policy and the latter’s impact on the organisation will be gained. Figure 2 sets out how each construct relates to input, throughput and output.

| Input:                  | Throughput:        | Output:            |
|------------------------|--------------------|--------------------|
| Stimulus               | Organismic         | Response           |
| Forces driving change  | Remuneration policy| Impact on organisation |

**Figure 2: Relationship between input, throughput and output of sub-goals**

1.4.1 Forces driving change to remuneration policy

From the personal interviews, literature review, and ‘other’ column in the research questionnaire, a deep understanding of which factors drive changes to remuneration policy will be gained. The strength of each factor will be indicated by respondents and factor analysis will reveal any groupings in the factors. The contribution to organisations will be the provision of a more sophisticated ‘radar screen’ alerting them in which direction to look. A better understanding of the changing nature of work and how it drives remuneration policy will be gleaned.
1.4.2 Remuneration policy changes

Organisations in South Africa will have a good fix on which components of the remuneration policy have changed over the past three years. There are a myriad of options open to organisations when overhauling their pay system, and key trends will be known. The extent of the change on each component of the remuneration policy will also be revealed. The two answers together will give a good indication of the extent of pay transformation in South Africa. This research will ensure a better understanding of the changes to remuneration policy and linkage to attraction and retention of employees.

1.4.3 Impact of changes on organisation

Little or nothing is known about how remuneration policy changes have impacted organisations. For each of the 18 remuneration policy components listed in the questionnaire, the impact of the change will be gauged. This will create a body of knowledge showing what changes have a positive impact and which ones have a negative impact on the organisation.

A better grasp of the subject and subsequent application of the learnings will improve governance and investor confidence. It is anticipated that the application of the learnings will enable remuneration committees to improve the return on remuneration investment.

It is hoped that the research will contribute to the body of knowledge on factors influencing remuneration policy decisions and will put them on the radar screen. Remuneration committees and boards could be guided by the results of the research when making decisions on the various components of the remuneration structure. It is also hoped that
this study will enhance the body of knowledge on what the possible outcomes are and close the loop on what changes to make to remuneration structures and policy.

1.5 Summary

This chapter covered the background to the problem and showed the extent of the problem in the corporate world given the increase of corporate failures and attention shown to pay. The study is motivated by a lack of empirical evidence on factors influencing remuneration policy decisions and the outcomes on the organisation. It is hoped that the value of the research lies in uncovering the strength of the factors driving change, what was changed, and whether the changes had a positive or negative impact on the organisations. Understanding whether or not there are any differences in the responses will enhance the value of the research. The main contribution is to remuneration policy decision-makers who currently have little to go on when making important remuneration decisions.

The next chapter provides a review of the literature to ascertain the current level of knowledge on each of the research sub-goals.
CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

The previous chapter outlined the context and goals of the research. This chapter deals with the literature pertaining to forces driving remuneration policy decision-making and the components of remuneration policy. The review of the literature commences with the importance of remuneration. Forces driving and influencing remuneration policy are outlined following which the main components of remuneration policy are described in conceptual groupings. Finally, the outcomes from changes to the remuneration policy are explored.

2.2 Importance of remuneration

It has been said that ‘what gets rewarded gets done’. Remuneration is one of the most powerful motivators of behaviour (Currin, 1997). An evergreen reading on the importance of remuneration is summed up by the question: “How does an employer motivate employees?” (Herzberg, Mausner and Snyderman, 1957, p.11). It is a manager’s perennial question: How do I get an employee to do what I want? Regardless of which theorist or author is referenced, one thing is common to all – salary is an essential and important ingredient to the questions asked.

The remuneration system should drive the right executive behaviours that can withstand governance questions, media and stakeholder scrutiny (Corporate Leadership Council, 2001d; Elson, 2003). Organisations put governance structures and committees comprising independent or non-executive directors in place to assist with
compliance and ensure that the right behaviours are rewarded. A more comprehensive guide is required, and it is hoped that this research will provide this. The importance of remuneration is set out under five main headings sorted in order of importance going from internal to external focus.

2.2.1 Motivation theory

Ellig (1982) makes the point that the objective of a sound compensation programme is to pay correctly in relation to performance. Yet, for some enigmatic reason, the role of financial compensation in employee motivation and performance remains one of the most frequently discussed but under-researched areas in organisational psychology (Steers and Porter, 1985). When investigating the relationship between incentive schemes and company performance, one needs to consider whether or not the added remuneration really does motivate executives (Modise, 1993).

In motivation theory, there is a movement away from “external rewards to an appreciation for the intrinsic motivators that give us great energy” (Wheatley, 1999, p. 14). The popular misconception, however, that money is not a motivator is debated by Stewart (1993, p.7) who argues: “A world without A’s, praise, gold stars, or incentives? No thank you, Communism was tried and it didn’t work.” Lebby (1993) is in agreement with this notion and poses the question, if there is no relationship between incentives and performance, why do managers hold on to such ineffective methods? “Why is it that they refuse to provide those things that employees say they want, that directly relate to increased productivity, and that have little or no financial cost?” (Lebby, 1993, p. 18). The models of Lawler (1983) and Adams (1965) support the supposition that incentives will motivate executives to
perform better if certain conditions are met, such as attractive rewards, a belief that behaviour will lead to rewards and a conceivable chance of success.

2.2.2 Performance management tool

The most successful organisations have performance management systems in place (Greenhill, 1988). It has been argued that linking the performance management system to remuneration enhances the effect and more strongly focuses attention on what needs to be done (Rappaport, 1998). The trend towards performance-related pay has grown in recent years and is set to continue into the future (Sanders, 2001). We need to appreciate exactly what metrics should be used in the performance-related pay arena - especially if the payouts are large, line of sight is required and the organisation is to remain viable.

Media and ordinary people have for years asked the question, ‘what does one need to do to earn a telephone number-long bonus?’ Remuneration Committees have been hammered in the South African press recently, which has argued that the rewards were not commensurate with what needed to be done to earn them. In a study by Knight, Durham and Locke (2001) it was shown that there is a positive link between performance management, incentives and team performance. Teams with both difficult goals and incentives achieved the highest performance.

2.2.3 Driving strategy

There are many drivers of enterprise strategy, but one of the more seductive drivers is the reward and remuneration attached to achieving a goal. The design and payout of bonus incentive schemes is probably
the most visible part of the remuneration ‘iceberg’ – it is the part that is seen and creates the most discussion (and panic). In some countries, for example the USA, organisations have to declare the nature of the bonus scheme in place for the executives and the payouts (Reda, 2002). This is not yet a legal requirement in South Africa but it is being increasingly reported. In preparation for this type of reporting, more needs to be understood around the reward scheme design that actually drives enterprise strategy.

The links have to withstand criticism and be closely connected. Rappaport (1998) contends that properly designed measures and compensation arrangements that align the interests of managers with those of shareholders are central to the value creation process. A total rewards program is characterised by differing levels of rewards and varying designs according to the employee groups being targeted for recognition and rewards. The program contains different elements relating to short and long term objectives, and it is inextricably linked to the strategies and mission of the organisation (Brayton Bowen, 2002).

2.2.4 Cost – ROI (Return on Investment)

Benchmarking is a critical part of any well-managed remuneration system (Milkovich and Newman, 1999). This type of information certainly feeds in to the pack of information distributed to those making remuneration decisions. Remuneration decision-makers would normally ask, ‘for what outcomes are we paying our directors, or, what return are we getting relative to competitors and others in our industry sector’? Based on the answer and a mix of other relevant information such as company performance, skill and experience of the executive, one would know how to adjust the performance-related pay mix.
It has been contended that continual benchmarking, with most employees trying to pay on the upper quartile, creates an inflationary effect on the economy and a spiralling salary and wage bill (Rappaport, 1998). As Jensen and Murphy (1990) contend, it is not how much you pay, but how. Their study showed that there was virtually no link between how much CEOs were paid and how well their companies performed for shareholders.

Return on invested remuneration spend is therefore a touchy subject with all stakeholders. Everyone wants to know that they are being treated fairly (Kelly and Monks, 1998).

2.2.5 Agency theory

Agency theory describes a situation where the shareholders are not physically running the organisation they own, having hired directors and managers to do so. A primary function of executive remuneration is to control the conflict of interest between management and shareholders (Abowd, 1990; Culpan, R., Murti, Culpan, O., 1992; Jensen and Murphy, 1990; Kraus 1980; Lambert and Larcker, 1990; Rappaport, 1998). The costs of resolving this conflict of interests are called agency costs (Ross, Westerfield and Jaffe, 1990). These agency costs need to comply with corporate governance principles. Increasingly, these costs are becomingly more transparent and investors want to know, by director, what the costs are.

2.3 Factors driving and influencing remuneration policy

Remuneration policy is influenced by many factors. Decision-makers usually do not know how much 'weight' to give each factor, and are
often reactive to situations that develop. Detecting environmental signs before others is what often gives the competitive advantage. Often, the driver is based primarily on what the committee can ‘sell’ to shareholders, and hence may not be the most appropriate solution. It would be of great assistance if more empirical evidence were available that could assist in putting the most appropriate recommendations forward with confidence. Understanding the extent to which each of the factors drives remuneration decision-making will inform the relative weight that needs to be attached to the driver when making the remuneration changes.

2.3.1 Detecting environmental signs

Daft (2001) maintains that a significant development in the study of organisations is the distinction between open and closed systems. An open system must interact with the environment to survive and it both consumes resources and exports resources to the environment. An organisation is an open system that must continually change and adapt to the environment. A good environmental scanning system and process helps organisations achieve this by picking up, interpreting and acting on environment changes.

Organisational success is dependent on the ability to interact with the environment and this forms an important driver of remuneration policy and structures. The linkage between the external drivers and what needs to be done from a remuneration point of view is not well understood, and is often described as herd mentality, where everyone follows everyone else. Chaos and complexity have emerged as serious branches of science and the phrase “order out of chaos” (Wheatley, 1999, p. ix) has become common knowledge. If we can understand how life changes and the forces affecting remuneration policy, we may
be able to “dance more gracefully” (Wheatley, 1999, p. ix) in the world of remuneration. Many external factors cause turbulence and uncertainty for organisations, and it is hoped that this research will assist in understanding the linkage between the drivers, changes required and the outcomes of the changes.

2.3.2 Factors driving changes to remuneration policy

Compensation is widely accepted as being the most important mechanism for managing and motivating employees (Cappelli, 1999). Changes in the employment relationship turn most existing remuneration principles on their head. Traditional remuneration practices based on job evaluation were designed to promote internal equity between employees in different jobs. These concerns have largely disappeared and are becoming more focused on individual value add.

Based on personal interviews in the pilot phase, input from respondents from the pilot batch of questionnaires and a review of the literature, the following factors are those that need to be taken into consideration when making remuneration policy decisions. All the information needs to be gathered and an exceptionally careful balance needs to be struck between conflicting sources of information. Items of information are also often diametrically opposed, pulling decision-makers in different directions. The drivers identified in the pilot and literature review are set out below under the broad headings of external forces and factors internal to the organisation.
2.3.2.1 External forces

- **Advanced technological developments**

Often there is a requirement for a new set of skills when there is a step change in technological advancement. Sometimes new skills have to be hired in at a premium, which has an impact on the current salary curve (P-E Corporate Services, 2002). This affects market positioning and the remuneration mix. Where organisations train and develop from within the organisation, this could lead to payment for the additional competence in the form of competency-based pay, or sharing in the results of the improved business performance.

- **Competitors**

For many organisations global competition and globalisation play a big part in setting remuneration policy (Pfeffer, 2001). Cognisance needs to be taken of international remuneration levels as executives and professionals become increasingly mobile. Those organisations facing stiff competition in the local market from international competitors need to match the cost and quality of the local service or product. This has a bearing on remuneration of staff, which can account for half of the fixed costs of running a business.

- **Corporate failures**

One of the first stones overturned in the event of corporate failure is the pay levels, share options and pension arrangements of the top directors (Myburgh, 2003; Young, 2002). The media have a field day and publish anything mildly out of the norm in the press. This serves as a huge
deterrent to directors in other organisations, who take cognisance of it and put it on their remuneration radar screen.

– **External advisers**

Auditors are a compelling driver of remuneration policy, usually related to compliance with tax legislation or fiscal governance. Consultants advising remuneration committees and boards play a sapiential leadership role in decision-making, as the advice often pertains to market benchmarking information (Reda, 2002). Boards rely heavily on this information when making remuneration decisions.

– **Investment / Stock exchange analysts**

Investor relations play a role in share price determination, and analysts need to know as much as possible to make favourable comments about organisations (Beeson, 1992). Investors want to know that there is good corporate governance and this plays a role in influencing remuneration policy. Rappaport (1998) maintains that the price of the shares tells us the market's expectations concerning the company’s future performance. By interpreting the market signals, organisations can compare their own plans and expectations with those of the market.

– **Legislation**

In many countries, legislation dictates that the top executives’ pay must be reported in the annual financial statements (Reda, 2002). Those South African companies that are listed on foreign stock exchanges need to comply with this legislation. This requirement goes some way in ensuring that the now public salaries are defensible. It is anticipated
that such legislation will be promulgated in South Africa. Even though not required by law, some organisations are publishing their top executives’ pay levels anyway. This is a powerful driver of remuneration policy.

– Publicity

The media has consistently been the public watchdog on executive pay, especially when it comes to large bonuses or share options. In Richard Grasso’s case ‘the knives came out once the New York Stock Exchange chairman and CEO’s (Grasso) salary went public’ (Sunday Times Business Times, September 21, 2003). Organisations shy away from negative media publicity as it hurts their image and could have an impact on their trading relationships. As transparency sweeps through the world, there will be more pressure to declare executive salaries in more detail. Organisations would want to be in a position to defend their pay levels, and base their defence on reliable and valid data (P-E Corporate Services, 2002).

– Remuneration Committee

It is contended in King II (2002) that the remuneration committee should be a key driver of remuneration policy. It should be bold and have the integrity to accept or reject proposals in line with best practice and good governance (O’Sullivan, 2003).

– Shareholder expectations

Shareholders are tough stakeholders when it comes to executive pay levels (Vernon-Harcourt, 1981). New ‘steroid-enhanced’ remuneration packages come under fire from shareholders and those putting the
proposals forward do not want to be embarrassed by outrageous proposals. Shareholders therefore temper remuneration proposals put forward for approval.

- **Social upheaval and trade unions**

Trade unions have been vociferous for decades on narrowing the wage gap between the workers and the highest-paid director. Management need to be confident that their pay ratios are defensible, and balance this with the need to retain top directors.

- **Surveys / benchmarking**

Market surveys are compiled by remuneration consulting companies, where positions are matched against pre-specified comparator organisations of similar size, complexity and sometimes industry type. Positions are matched according to job content and size. Typically, organisations would try to match the market relative to their policy, the most common of which is market median (Hewitt and Associates, 1991; White and Drucker, 2000).

- **Turbulence in business environment**

Turbulence causes executives to behave in many ways, not the least of which is containing costs in the downswings (Kessler, 2001). Remuneration policy decisions are influenced by turbulence in that the onerous salary and wage bill is tied to the fortunes of the business in the form of variable pay and cost containment in the form of total package.
– *War for talent and retention*

This is perhaps the single biggest driver of remuneration policy, as without the right calibre people it is difficult to achieve the desired business performance. Having the right people in place will be the biggest stumbling block for organisations in achieving their goals (White and Drucker, 2000). This poses a business risk and drives remuneration policy. This was the most commonly added topic under the ‘other’ section of the pilot study.

Respondents have added this to their remuneration policies in a response to retain key staff. It is anticipated that this will become an increasingly important driver of remuneration policy decision-making in the future (Wright, 2001).

2.3.2.2 Internal factors

– *Affordability / Rising costs*

Rising costs, inflation, currency fluctuations and competition have a bearing on the cost of doing business (Milkovich and Newman, 1999). Organisations are always on the lookout to be as cost-effective as possible and hedge their costs where possible. This sometimes leads to retrenchment, where those left behind usually fill the space and tend to work harder or smarter. The credo for many organisations is higher skill and greater output leads to higher pay. There are many ways for organisations to cut their salary and wage bill, depending on the extent of the cost squeeze.
– *Board of directors*

In most organisations, the board of directors would commission the compensation review process (Reda, 2002; Useem, 2003). So too would they put the recommendations forward to the committees and shareholders. They probably have the single biggest influence on the remuneration policy proposals (Myburgh, 2003).

– *Change in culture*

A major issue in designing a compensation plan is the trade-off between absorption of risk by the organisation and the provision of variable pay (Bento and Ferreira, 1992). Bento and Ferreira make the point that organisational culture and compensation design are inextricably linked. Culture ‘allows’ certain policies and rejects other policies that do not fit.

– *Development / Career progression*

Paying for individual and team contribution is gaining momentum and individuals place development needs high on the list when choosing preferred employers (Brown and Armstrong, 1999).

– *Economic restructuring and different work patterns*

Over the past decade, organisations have restructured to be more efficient, competitive and customer-focused. Business processes were streamlined and reengineered to create whole jobs. The effect of this has been flatter structures, new careers and problem-solving at source. Remuneration administration has been sluggish to change and
underpin these new structures. Where it has happened, it has mostly been in the form of broad banding and more modern job evaluation systems (Armstrong and Murlis, 1998). As a result, salary benchmarking has taken on a new form where broader roles are being benchmarked as opposed to narrow duty sheets.

New work patterns such as telecommuting, remote offices and virtual work stations have forced organisations to rethink their Human Resource Policies and remuneration of these workers. It is a widely held view that one size does not fit all in employment and remuneration practices. The concept of ‘My Pay – My Way’ and ‘My Work – My Way’ has been coined by Towers Perrin, international Human Resource and Actuarial consultants. It focuses on flexibility and individual requirements. All aspects of the employment conditions are ‘monetised’ and employees can structure their pay, benefits, leave and any other condition of employment as they wish. It is anticipated that there will be a strong linkage between this driver and the retention driver.

– Financial results

Affordability is a prominent driver of remuneration levels and remuneration policy. In good years, there is more to share and wealth-sharing is relatively easier than in bad years. In bad years or for organisations that have low returns, one still has to retain key staff. Regardless of what competitors are paying, an organisation may not be able to pay the market rate because of its financial situation. This causes such an organisation to be more discerning than other organisations in its remuneration policy because it needs to get the biggest bang for its buck. These organisations tend to differentiate more strongly between good and poor performers (Rappaport, 1999).
– **Financial / Organisation success**

When those who create the wealth see it in the financials or hear about it via the grapevine, it is only natural to want to share in some of it. Pressure is exerted on the top echelons to pay out some of the profits to the workers. Indeed it is the remuneration committee or board who makes those decisions usually after obtaining approval from the shareholders. Useem (2003) describes certain CEOs as being shameless, as they feather their nests even when the company has performed badly. Although more acceptable when the organisation does well, this is only sustainable if fairness is perceived by all.

– **Governance and King II report**

Governance has become an increasingly more important factor, but has not yet been legislated. The King II report on governance and the Institute of Directors offer guidelines, but no more. Organisations are left to fend for themselves regarding compliance with the guidelines. Investors and analysts view organisations with good governance principles in place more favourably (Ernst and Young, 2002; King, 2002). According to a McKinsey ‘Global Investor Opinion Survey’ on corporate governance in 2002, a significant majority of investors say they are willing to pay a premium for a well-governed company (McKinsey, 2002). The premium ranged from 11% to 41%.

– **Internal advisers**

The Human Resources Department most commonly does the remuneration reviews and obtains appropriate market pay data. Salary
surveys have high face validity when remuneration structures are changed, as one wants to be keeping up with what the competitors are doing. In themselves, salary surveys are harmless. It is when everyone is trying to pay at the upper quartile that they become inflationary. The validity and reliability of these surveys can vary tremendously, and this adds to the challenge of making defensible decisions.

Productivity

The compact between management and staff is often around increasing productivity (Mahesh, 1993). Staff realise that this means producing more with the same number of colleagues, which translates to working harder. In principle, given that the job market is tight, workers have no problem with the concept, as long as they are rewarded for the extra effort (Stajkovic and Luthans, 2001). Target setting and negotiations take place to arrive at the fairest formula, and this shapes precedent and future policy.

Abowd (1990) states that performance-based compensation enhances corporate performance and productivity. With increasing competition and the need to be more productive, productivity-related remuneration systems form an important component of any organisation’s remuneration policy (Armstrong and Murlis, 1998).

Staff loyalty

Boyle (1995) outlines the secrets of a successful employee recognition system designed to enhance staff loyalty. Organisations are looking deeper into this realm to secure staff loyalty and formal recognition schemes are being added to remuneration policies.
Strategic thrust

Remuneration is a powerful driver of strategy, especially when the link is obvious (Miller, Wiseman and Gomez-Mejia, 2002). It has often been said that what gets rewarded gets done. Identifying several key strategies and paying for their achievement makes this a compelling driver of remuneration policy. Remuneration policy and strategy should be designed in such a way as to underpin and drive organisational strategy and performance (Gerhart, 2000).

2.4 The main components of remuneration policy

Organisations all have different remuneration policies with different content. It is what gives them their competitive advantage (Fay, Knight and Thompson, 2001). There were, however, common themes derived from the literature review as indicated in Armstrong and Murlis (1998), Bergman and Scarpello (2001), Burnett (2000), Chingos (1997), Corporate Leadership Council (2001d), Fay et al., (2001), Fisher (1991), King (2002), Martocchio (1998), White and Druker (2000), and Young (2002). This review of the literature yielded the following remuneration policy headings (with definitions). These are grouped under the headings of fixed pay, variable pay and remuneration process, systems and policy.

2.4.1 Fixed pay

- **Base pay** – the guaranteed basic pay received each month by employees
• **Competence-based pay** - a pay system where the organisation has an express policy that recognises competence and pays for it

• **Fixed period employment contracts** - employment contracts that are for a fixed period of time, say five years, with performance goals attached

• **Fringe benefits** - benefits received in addition to base pay (for example, company cars or car allowances)

• **International remuneration** - to any remuneration that is received overseas for example director’s fees, bonuses, retirement

• **Merit pay / PRP** - merit pay or performance-related pay (PRP) refers to paying for individual contributions usually measured by way of a performance management system. This pay is normally added to the guaranteed package by way of a salary increase and is therefore considered fixed pay

• **Retirement funds** - provident funds, pension funds, deferred compensation

• **Total package** - the concept of all remuneration grossed up and monetised, and then employees have the choice of structuring their own package within company regulations

2.4.2 Variable pay

• **Long term incentives** - incentive schemes where the measurement period or payout period is longer than one year, usually several years
(e.g. Economic Value Add (EVA) schemes, which ‘bank’ the bonus over, say, three years, phantom share schemes, deferred compensation)

- **Share schemes** - any type of share scheme, the most common being share options, performance shares, share purchase schemes

- **Short term incentives** - incentive schemes where the measurement period is around one year and payments are in cash (e.g. profit share, gain share, commission, bonus scheme)

2.4.3 Remuneration process, systems and policy

- **Job evaluation or broad banding** - the system used to rank the relative worth and complexity of one job against another in the organisation and in the market

- **Legal compliance** - complying with any law (e.g. Employment Equity Act, SARS)

- **Market position policy** - refers to where - relative to salary surveys - a company wants to pay its employees

- **My pay – my way** - refers to structuring the employment contract and conditions of employment in the most flexible way. The impact is greater than total package

- **Rand hedging of salaries** - remuneration practices designed to protect salary against a slide in currency
• **Remuneration committee** - the appointed committee, usually comprising executive and non-executive directors, that decides on remuneration policy and important remuneration decisions such as the CEO’s pay

• **Remuneration governance** - the governance issues that apply to remuneration including how decisions are taken and limits of authority

• **Remuneration mix** - the mix or ratio between guaranteed pay (e.g. base pay or total package) and variable pay (e.g. short term incentives, long term incentives and share schemes)

• **Retention strategies** - strategies put in place to retain employees

### 2.5 Gaps in remuneration policy

Nowhere in the literature is a link drawn between factors driving change to remuneration policy and extent of change in components of remuneration policy. This research attempts to link these factors.

### 2.6 Outcomes from changes to the components

Milkovitch and Newman (1999) and Lawler (1990) suggest that the impact of changes to remuneration policy on organisations can be grouped under the headings of positive and negative impact. From a remuneration point of view, Armstrong and Murlis (1998), the Corporate Leadership Council (2002), Lawler (1990) and Milkovitch and Newman (1999) define the following as positive impacts on the organisation and these are sorted into ‘employee’ and ‘company’:
**Employee**

- Compensation arrangements are provided so that money issues do not become a distraction
- Employees are attracted, motivated, retained and understand the remuneration system
- Productivity is positively affected
- There is a strong link between performance and pay

**Company**

- Governance policies are sound
- Publicity is positive
- Remuneration costs are maintained
- Reward underpins the business strategy
- Shareholders, business analysts and stakeholder, are satisfied with remuneration levels, and see the company as a good investment
- The compensation system is legally compliant
- The organisation performs better financially

The link between remuneration and company performance has been researched and a positive correlation has been found (Armstrong and Murlis, 1998; Lawler, 1990; Milkovich and Rabin, 1991).

Research conducted by Andersen Consulting (now Accenture) showed that, in a $1bn dollar organisation, well-designed remuneration systems added 1% to the organisation’s bottom line (Incentives can boost profit, 2000).
It is hoped that this research will show which parts of the remuneration systems had the greatest effect on participant organisations.

2.7 Gaps in outcomes

The literature review did not reveal the link between changes to remuneration policy and the impact on the organisation. It further found that no link has been demonstrated between drivers of change and the impact of changes.

2.8 Between-group differences

Donaldson (2001) poses a contingency theory of organisations where it is argued that the nature and size of the organisation affect the structure, administration and processes in the organisation. Based on the salary surveys produced by one of South Africa’s largest survey companies, PE Corporate Services, pay data is presented showing biographical differences in pay. The key variables are identified and included to assess whether or not there are between-group differences for these variables:

- Type of company
- Listing of company
- Organisational structure
- Turnover / revenue /income
- Number of employees
- Years in business
- Remuneration committee
- Industry sector type
2.9 The void that exists

The void in knowledge that exists is the linkage between each of the major constructs:

- Factors driving remuneration policy decisions
- Remuneration policy changes that took place in South Africa
- The impact of these remuneration policy changes on the organisation

Also, the strength and importance of the drivers are not known. Organisations do not know how to ‘weight’ the importance of each factor. It is also not known which components of remuneration policy were changed as a result of the drivers and the extent to which they were changed.

The impact of these remuneration policy changes on organisations is not well understood. Organisations have no empirical evidence on which to base these policy decisions.

The research questions coming from each of the sub-goals are set out under each of the research constructs:

Construct 1 – Factors driving change to remuneration policy

Question 1: What factors are important in driving remuneration policy decisions?
Question 2:  To what extent do these factors influence decision-making?

*Construct 2 – Remuneration policy components*

Question 3:  Which components of the remuneration policy were changed and to what extent were they changed?

The null hypothesis is that components of the remuneration policy identified in the literature study are valid components.

*Construct 3 – Impact of remuneration policy changes on organisation*

Question 4:  What impact did the changes to the remuneration policy make on the organisation?

The null hypothesis is that a correlation exists between the extent of changes in remuneration policy and the impact on the organisation.

Question 5:  Are there differences in the responses for different participants?

The null hypothesis is that the mean extent of change in remuneration policy is equal across categories of characteristics of organisations.

It is hoped that the results of this research will close the gap in our current knowledge.

A review of the literature and the pilot study yielded:

- 24 factors driving remuneration policy
- 18 elements in a remuneration policy
• 11 main outputs or impact on organisations

The table below summarises the constructs:

**Table 1: Summary of constructs**

| Input: Stimulus Forces driving change | Throughput: Organismic Remuneration policy | Output: Response Impact on organisation |
|--------------------------------------|--------------------------------------|--------------------------------------|
| **External Forces**                  | **Fixed Pay**                        | **Employee**                         |
| 1. Advanced technological developments | 1. Base pay management policy        | 1. Compensation arrangements are provided so that money issues do not become a distraction |
| 2. Competitors                       | 2. Competence based pay policy       | 2. Employees are attracted, motivated, retained and understand the remuneration system |
| 3. Corporate failures, e.g. Enron    | 3. Fixed period Employment Contracts (i.e. for a fixed period of time) policy | 3. Productivity is positively affected |
| 4. External advisers, e.g. Legal, Auditors, Consultants | 4. Fringe benefits policy | 4. There is a strong link between performance and pay |
| 5. Investment / Stock exchange analysts | 5. International remuneration (i.e. all or part of remuneration paid overseas) policy | **Company** |
| 6. Legislation, e.g. Employment Equity Act, SARS audit | **Variable Pay** | 5. Governance policies |
|   |   |   |
|---|---|---|
| expectations |   |   |
| 10. Social upheaval /  | years – not shares)    |   |
| trade union      | policy                 |   |
| 11. Surveys /    | 7. Share schemes policy |   |
| benchmarking     |                       |   |
| 12. Turbulence in | 8. Short term incentives |   |
| business environment | (e.g. profit share, gain |   |
|                   | share, bonus schemes,  |   |
|                   | commission) policy.    |   |
| 13. War for talent and | Remuneration process,   |   |
| retention         | systems and policy     |   |
| **Internal factors** |   |   |
| 14. Affordability /  | 9. Job evaluation or broad |   |
| Rising costs     | banding policy         |   |
| 15. Board of directors |               |   |
| 16. Change in culture |                 |   |
| 17. Development /  | 10. Legal compliance   |   |
| Career progression| (e.g. Employment       |   |
|                   | Equity Act) policy     |   |
| 18. Economic      | 11. Market position policy, |   |
| restructuring /  | Benchmarking practice policy |   |
| different work patterns |   |   |
| 19. Financial results /  | 12. Merit pay/individual |   |
| organisation success | performance leading |   |
| 20. Internal advisers, e.g. | to a higher annual |   |
| HR department,    | increase/performance   |   |
| stakeholders      | related pay (PRP)      |   |
| 21. Governance and King II report |   |   |
| 22. Strategic thrust | 13. Rand hedging of |   |
| 23. Productivity  | salaries policy        |   |
|                   | 14. Remuneration        |   |
|                   | governance policy       |   |
|                   | 15. Remuneration mix    |   |

|   |   |   |
|---|---|---|
|   | are sound |   |
| 6. Publicity is positive |   |   |
| 7. Remuneration costs are maintained |   |   |
| 8. Reward underpins the business strategy |   |   |
| 9. Shareholders, business analysts and stakeholder, are satisfied with remuneration levels, and see the company as a good investment |   |   |
| 10. The compensation system is legally compliant |   |   |
| 11. The organisation performs better financially |   |   |
What is *not* known is which factors are the most dominant and which aspects of the remuneration policy were changed and to what extent. It is also *not* known whether the changes had a positive or negative impact on the organisations. It is also *not* known whether there are between group differences in the respondents.

The main void that exists is the *linkage* between factors driving policy change, which components of remuneration were changed, and the impact on the organisation.

### 2.10 Summary

A comprehensive review of the literature was undertaken to establish primarily the following:
• Which factors drive remuneration policy decision making
• What components comprise a remuneration policy
• The impact these remuneration policy decisions had on organisations
• Whether or not there were any demographic differences in previous research

The gap in our knowledge is the relative strength or importance of the drivers, the extent to which remuneration policy has changed, and whether it had a positive or negative impact on the organisation.

The next chapter outlines the research design proposed for this study.
CHAPTER 3 – RESEARCH DESIGN

The previous chapter covered a review of the literature and several research questions were posed.

In this chapter the research design is discussed regarding the population and sampling, the measuring instrument and data-gathering methods, the research procedure and statistical analysis techniques used. The headings are discussed in two phases, namely, the pilot study and quantitative study. The chapter is closed with a summary detailing the outcomes to be determined.

3.1 Research approach

In this chapter the ‘blending’ methodology as a way to resolve the qualitative / quantitative dichotomy of the components of this study is described. Creswell (2003, p.10) refers to this dual approach as “triangulation” and the dual approach is sequential and dominant-less dominant design. The qualitative, less dominant phase will precede the dominant quantitative phase.

The triangulated research model that was adopted, comprised two phases:

- Phase 1 – A pilot study that was qualitative, involving individual interviews with experts in the field and content analysis. This qualitative step was carried out to define valid constructs for the questionnaire for phase 2
- Phase 2 – The main study that was quantitative and involved questionnaires and statistical analysis
The survey method that was to be used is described by Creswell (2003) as a quantitative or numeric description of some fraction of the population – the sample – through the data collection process of asking questions of people. The data was to be used to generalise the findings to a population within the constraints of the sampling method.

**Definition of variables**

Each of the sub-goals reverts to the full original problem statement of ‘Factors driving changes to the remuneration policy and outcomes.’ No ethical dilemmas were envisaged, as the response was to be voluntary and, if desired, anonymous. The constructs and remuneration variables were well defined in the cover letter and questionnaire to the respondents (see appendices 2 and 3 respectively).

The dependent variable, perceived impact on the organisation, was operationalised via the five-point Likert Scale on a continuum of extremely negative impact to extremely positive impact.

To operationalise the impact on the organisation, Knapp (Corporate Leadership Council, 2002), board chairman of NOVA (an American based company), has a three-fold goal in assessing compensation at the company:

- Fulfil the responsibility for meeting any regulatory requirements
- Provide compensation arrangements so that money issues do not become a distraction
- Design compensation arrangements that align actions to required performance
These three goals can be associated with a positive impact of remuneration on the organisation. The converse is also true.

In another study by the Corporate Leadership Council (2002) the success of a compensation strategy is defined under the following elements:

- Retention
- Profitability
- Employee feedback
- Benchmarking data
- Financial performance
- Enforcement of business goals

The primary independent variable, remuneration policy, was to be operationalised by listing each remuneration policy component and gauging the extent of the change via a four-point scale.

The secondary independent variable factors driving changes was to be operationalised through the use of a semantic differential scale ranging from 1 = to no extent to 7 = to a very large extent. All major variables were obtained through personal interviews and a comprehensive review of the literature.

### 3.2 Population and sampling

**Phase 1 – Pilot study (Qualitative)**

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The purpose of the pilot was to obtain valid constructs for the questionnaire and to supplement the literature review. Interviews were held and the questionnaire was amended to incorporate all variables not covered in the literature review (Cooper and Schindler, 1998).

The purposive method of sampling was used to identify the sample for the pilot study (Zikmund, 1997). This is a non-probability method of sampling to determine the delimiters in the research that narrowed the scope of the study (Creswell, 2003). The outcome of this phase was to integrate the research methodology and the research questions. The population needed to be more narrowly defined where the following mix of 10 interviewees were selected:

- Listed companies employing more than 5000 employees – 2 interviews with dedicated remuneration professionals
- Companies employing less than 5000 employees – 2 interviews with dedicated remuneration professionals
- Remuneration committee members who are not dedicated remuneration experts – 4 interviews
- Managing Directors – 2 interviews

This sample was to conform to criteria that serve the purpose of the study – a method commonly used in exploratory research. Welman and Kruger (2001) state that it is not possible to evaluate the extent to which such samples are representative of the relevant population.

Phase 2 – Main study (Quantitative)

The size of the population for the main quantitative phase of the study were people responsible for remuneration in all registered companies in
South Africa. Several mail lists were used, namely South African Chamber of Commerce, all listed companies in South Africa and the 21st Century Business and Pay Solutions client database. These combined databases consist of 1700 companies.

The response was considered a representative sample of the companies operating in South Africa. The whole population was used. The sample was every questionnaire returned. Most of the sample was human resource executives, remuneration executives or finance executives across all industry sectors in all sizes of companies.

### 3.3 Measuring instrument/ Data-gathering methods

Two measuring instruments were used.

**Phase 1 – Pilot study**

For the first phase of the study an open-ended questionnaire from the research topic was used to generate the variables from the selected sample. Respondents were asked what the factors were that drove remuneration policy decision-making and what the components were of their remuneration policy. This qualitative method provided valid results if the questions in the interview elicited the type of information that was sought (Leedy, 1997). This data was content analysed to generate research constructs and variables in addition to the ones obtained from the literature review.

Conceptualisation and operationalisation occurred at the same time as the data collection. Understanding people’s perspectives was the focus, rather than truth (Taylor and Bogdan, 1984). This study focused on the
ways respondents make sense of their circumstances with regard to remuneration policy. Following this, the meaning of the data was induced and linked to the literature study.

**Phase 2 – Main study**

For the second phase a closed-ended questionnaire constructed from theory and results of the pilot study was used. Biographical data was collected and then the constructs (independent variables) were measured to determine the relative importance of each factor in the remuneration decision. The questionnaire was pre-tested to check for design errors.

Two batches of questionnaires comprising 10 pilot respondents were sent via e-mail (two pilot runs). The first pilot selected every 100\textsuperscript{th} record in the consolidated mail list until a sample of 10 was obtained. The questionnaire was amended based on the results and it was also automated to shorten completion time and to enhance the chances of respondents completing the questionnaire. Definitions of the variables were added as a result of this pilot run.

The second pilot run selected the second name on every hundred records in the mail list until a sample of 10 was obtained. Final amendments were made to the questionnaire based on the results of this pilot. Following these changes, the final questionnaire was e-mailed to every entry in the database. The person who is custodian of the remuneration policy was asked to complete the questionnaire. The data was verified on capturing and suspicious data was telephonically confirmed.
3.4 Research process

Phase 1 – Pilot study

The individual interviews had open-ended questions to elicit further constructs and to let respondents interpret and to avoid bias based on the researchers questions. Appointments were set up with a sample of 10 interviewees. These interviewees were selected through quota sampling from the mail list. Self-administered questionnaires were used (Leedy, 1997) and data was gathered using the intercept method (Cooper and Schindler, 1998). The two-stage design using open-ended questions was particularly useful to ensure content validity for the questionnaire.

Any constructs identified in the literature research were included at this point.

Phase 2 – Main study

Questionnaires were e-mailed to 1700 companies. The person who is the custodian of the remuneration policy was asked to complete the questionnaire. Creswell (2003) discusses how the items in the survey instrument must be closely aligned to the research questions, the variables from the literature and the proposed statistical analyses. The questionnaire asked closed-ended questions through an electronic form which allowed for the efficient capturing and processing of the data, and which was suitable for highly educated respondents (Cooper and Schindler, 1998). The collected data was in a format where it could be statistically analysed using the appropriate method.
The questionnaire comprised 3 main sections. Demographic data was collected at the beginning of the questionnaire (section 1) to enable data to be analysed by classification to identify differences relative to outcomes. Section 2 interrogated factors driving change to remuneration policy using a 7-point scale to determine the extent of each factor. The extent to which the components of the remuneration policy changed since the year 2000 were tested using a 4-point scale ranging from ‘to no extent’ to ‘to a large extent’ in section 3. The impact of these changes on the organisation were also tested in this section using a 5-point scale and the option to indicate if the change was not applicable to impact on the organisation. Participants had the option of completing their details (if they want to receive an executive summary) or remaining anonymous.

3.5 Statistical analysis

3.5.1 Phase 1 – Pilot study

A qualitative study was undertaken to explore and identify key assumptions and characteristics identifying the main factors driving change to companies’ remuneration policies. The literature study informed the social context of this study in terms of what came before or what surrounds particular dimensions of the study. The interviews took place in the work setting with as little interference from the researcher as possible.

The data was analysed for content to define valid constructs. Cooper and Schindler (1998) define content analysis as a research technique for the objective, systematic and quantitative description of the manifest content of a communication. The unit of analyses was identified as
factors driving changes to remuneration policy and remuneration policy components as prescribed by Welman and Kruger (2001) for this type of study. The resultant constructs were visible in the questionnaire.

The outcome of the pilot study formed the basis for phase 2 by identifying the interviewees' beliefs and values regarding remuneration policy and factors driving it. Consequently their behaviour was viewed as intentional and creative and it could be explained but not predicted in the outcome (Schurink, 2003). The outcome was conceptualised as themes and categories (constructs) that formed the basis for phase 2 - namely, the factors driving change in remuneration policy and remuneration policy components.

3.5.2 Phase 2 – Quantitative study

Phase 1 resulted in certain themes and/or categories of factors driving change in remuneration policy and remuneration policy components, and phase 2 then studied these constructs in four steps from a quantitative perspective. This was done using a detailed questionnaire sent out to the participants in the study. The data was analysed by Statkon (the ‘Statistics Consultancy’ at Rand Afrikaans University). The methodology is discussed in more detail.

3.5.2.1 Recorded frequencies

The background information was analysed for recorded frequencies. Information on respondent position, organisation type, organisation structure, organisation size, industry sector, organisation age and whether the organisation is listed or not, was elicited by the questionnaire. Where recorded frequencies of data were too low, the data was reduced into broader categories i.e. broader categories were
defined. The background information of the recorded frequencies is referred to as the characteristics of the recorded frequencies hereafter. The broader categories of recorded frequencies of background information will be referred to as the categories of the characteristics of the recorded frequencies.

3.5.2.2 Factors driving change in remuneration policy – construct 1

The Semantic Differential technique was used to illicit the strength of each factor driving change to the company’s remuneration policy over the past 3 years (i.e. since 2000). This scaling method is based on the proposition that an object can have several dimensions of connotative meanings which can be located in multidimensional property space, called semantic space (Emory and Cooper, 1991). Bipolar rating scales were developed on a seven-point scale (from 1 to 7) for the constructs. Whilst the seven-point Semantic Differential scales can be highly generalisable, specific tailor-made bipolar rating scales were used that permit connotative perceptions. Scales were linear between polar opposites and passed through the origin.

The chi-square test was used to determine the dependence of the categorical variables (background information) and the independent variables (factors driving change). In other words, the null hypothesis was that the extent of the factor driving change is independent of the characteristics of recorded frequencies. This test allowed for testing for significance in the analysis of frequency distributions. The observed frequencies (Oi) were compared to the expected frequencies (Ei) based on expert theoretical ideas or presupposed proportions. This informed the closeness of fit of the observations with expectations (Zikmund, 1997). Testing was done at a significance level of 0.05 after the degrees of freedom for each construct had been determined. The
calculated chi-square value was compared to the critical chi-square values.

The outcome of this identified the factors driving changes in remuneration policy that were not independent of the characteristics of recorded frequencies.

3.5.2.3 Extent of changes in components of remuneration— construct 2

A first order factor analysis was done on the 18 components of remuneration. The method used was principal factor analysis. The diagnostics performed were the Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy. Measures of Sampling Adequacy (MSA) were calculated per component. A Varimax (orthogonal) rotation was used and then the Kaiser criterion to decide on the number of components of remuneration with an extent of change in remuneration policy. The first order factor analysis was repeated on the remaining number of components to yield a number of first order factors. Various components of remuneration were grouped in each factor through the process.

The outcome of this identified first order factors with an extent of change in components of remuneration of the remuneration policy.

A reliability analysis on the first order factors was performed and tested using Cronbach’s Alpha. First order factors with a value < 0.6 were excluded. A second order factor analysis was performed on the first order factors using the same method and diagnostics. An Oblique rotation was used i.e. Direct Oblimin and once again the Kaiser Criterion was used to yield the second order factor or factors with an
extent of change in components of remuneration in the remuneration policy.

Second order factor/factors with an extent of change in components of remuneration of the remuneration policy were identified through the reliability analysis on the first order factors.

3.5.2.4 Impact of changes on the organisation—construct 3

The extent of change of components of remuneration in the remuneration policy was cross-tabulated with the impact of the change on the organisation. The hypothesis was that there is not independence between the extent of change of components of remuneration in the remuneration policy and the impact of change on the organisation. The Chi-squared value was used to check that there is not independence. A correlation was assumed if Cramer’s V is greater than 0.2. The impact of the change on the organisation was grouped into 3 measures, namely, negative impact, no impact and positive impact. If ‘to no extent’ was marked for the extent of change in a component of remuneration, it was assumed to be ‘not applicable’ to the impact of change on the organisation.

3.5.2.5 Identify the strength of the relationship between the extent of changes and recorded frequencies of the sample data

The Anova test for continuous variables was used. The null hypothesis assumed that the mean extent of change of the components of remuneration in first and second order factors were equal across the broader categories of characteristics of the sample data. It was not assumed that the underlined populations were normally distributed or that each group shares equal variances. The significance of the
relationship between the extent of change of the components of remuneration in first and second order factors and the broader categories of the characteristics of the sample was tested using Cramer’s V.

A gap analysis was then performed on the data to illustrate the relationship between the extent of change of components of remuneration and the impact of these changes on the organisation. A comparison of the gap analysis was made between the Private sector and the Public sector broader categories of characteristics.

3.5.2.6 Analysis of factors driving change to remuneration policy and outcomes of changes in remuneration policy

The business outcomes were inherently multidimensional because three or more variables were involved. The relationship between one dependent variable and several independent variables was specified. One criterion variable (dependent variable – impact of remuneration policy changes) was to be related to multiple predictor variables (independent variables – factors driving change in remuneration policy).

A first order factor analysis was done on the 24 factors driving change to remuneration policy. The method used was principal factor analysis and followed the same diagnostics as that of the analysis on the extent of change in components of remuneration. A Varimax (orthogonal) rotation was used and then the Kaiser criterion to decide on the number of factors driving change to remuneration policy. The first order factor analysis was repeated on the remaining number of factors driving change to yield a number of first order factors. Various factors driving change to remuneration policy were grouped in each factor through the process.
The outcome of this identified first order factors driving change to remuneration policy.

A reliability analysis on the first order factors was performed and tested using Cronbach’s Alpha. First order factors with a value < 0.6 were excluded and then a second order factor analysis was performed on the first order factors using the same method and diagnostics. Finally the correlation between the resultant second order factor/factors and extent of change to remuneration policy and impact of change on the organisation was tested using a Pearson Correlation.

The outcome of this step was to see if any meaningful interpretation could be given to factors driving change to remuneration policy and impact of changes to remuneration policy.

3.5.2.7 Reliability and validity of the research results

In this section compliance to reliability and validity of the research results is discussed. The central consideration concerning the process of data collection is that of reliability (Mouton and Marais, 1996). Reliability of observations or data is influenced by four variables; namely, the researcher, the participants, the measuring instrument and the research context or circumstances under which the research is conducted. In this study compliance with reliability and validity were attained through the detailed research approach, design and execution that followed to ensure that the study could be replicated and results in the same findings. Reliability tests were performed at all stages of the analysis to test the validity of the Repertory Grid (Fransella and Bannister, 1977). The Grid revealed a pattern of relationships between
the constructs by revealing a pattern in the way in which the person has ranked elements.

3.5.2.8 Strengths and weaknesses of the study

The study was conducted with the belief that people construct their worlds according to their perceptions. The random selection of participants in phase 1 of the study may not be representative of the population.

Organismic variables are attributes such as gender, nationality, age, socio-economic status and education level. These variables may have had an influence on the study:

- The education level of the researcher
- The race and gender of the researcher versus the participants
- Prior knowledge of the researcher by participants

Researcher orientations such as attitude-structure expectations, bias producing cognitive factors and expectancy effects in a diverse culture could have influence the study reliability and validity.

3.6 Summary

A qualitative study was undertaken to explore and identify key assumptions and characteristics identifying the main factors driving change to remuneration policies (Phase 1). The outcome of the qualitative phase formed the basis for the quantitative phase in which statistical analysis was used (Phase 2).

The statistical analysis determined:
• The factors driving changes in remuneration policy that were not independent of the broader categories of characteristics of recorded frequencies
• Second order factor/factors with an extent of change in components of remuneration of the remuneration policy
• The extent of changes in components of remuneration and the impact of changes in remuneration
• The relationship between the extent of changes of components of remuneration in first and second order factors and the broader categories of the characteristics of the sample data
• If any meaningful interpretation could be given to factors driving change to remuneration policy and impact of changes to remuneration policy

The next chapter provides an analysis of the data and results.
CHAPTER 4 – DATA ANALYSIS AND RESULTS

4.1 Introduction

In the previous chapter the research design and methodology was presented. In this chapter the results of the data analysis are presented.

The primary objective of the study is to understand the drivers of the various components of remuneration policy, the extent of each driver’s influence and the outcome thereof.

The demographic details of the data are discussed first and the broader categories of data defined for each characteristic. Next the extent of factors driving change in remuneration policy for each characteristic of recorded frequencies is analysed to determine which factors driving remuneration change may be dependent on one or all of the broader categories of the characteristic.

Factor analysis is used to establish the factor structures of the components of remuneration of the remuneration policy followed by a reliability test before cross-tabulation using Chi-squared and Cramer’s V to determine the correlation between the extent of change of each component of remuneration policy and the impact of change of the component of remuneration policy on the organisation.

Finally the strength of the relationship between the extent of change of components of remuneration in second order factors and the recorded frequencies of characteristics of the sample data was analysed and the respective coefficients reported. Any meaningful interpretation to factors driving change to components of remuneration policy and
impact of changes to remuneration policy on the organisation was reported.

4.2 Organisation profiles

In this section the demographic details of the survey respondents is reported from Section A of the questionnaire (Appendix 3). The figures in the tables are reported directly from the captured respondent questionnaires. The recorded frequencies of the demographics details are referred to as the characteristics of the data, for example, characteristic 1 is ‘Type of company.’ Broader categories were defined for each characteristic of the data. Characteristics of the data are defined as follows and ranked from macro to micro level:

- Characteristic 1 – Type of company
- Characteristic 2 – Listing of company
- Characteristic 3 – Organisational structure
- Characteristic 4 – Industry sector type
- Characteristic 5 – Organisation revenue / turnover / budget (per annum)
- Characteristic 6 – Number of employees
- Characteristic 7 – Number of years the organisation has been in existence
- Characteristic 8 – Does the organisation have a remuneration committee?
- Characteristic 9 – Position title

Table 2 shows the sector that the respondent organisations fall into. The private sector makes up 75% per cent of the organisations that responded:
Table 2: Characteristic 1 - Type of company

| Category               | Frequency | Percent |
|------------------------|-----------|---------|
| Private Sector         | 111       | 75.0    |
| Public Sector / Parastatal | 37       | 25.0    |
| Total                  | 148       | 100.0   |

Table 3 details the listing status of the respondent companies. Over 60% of the companies involved in this research are unlisted companies.

Table 3: Characteristic 2 - Listing of company

| Category | Frequency | Percent |
|----------|-----------|---------|
| Not listed | 89       | 60.1    |
| Listed   | 59        | 39.9    |
| Total    | 148       | 100.0   |

Table 4 indicates the organisational structure of the respondent companies. This missing data includes the applicants who found that the options presented to them were ‘not applicable’ or structured differently.
Table 4: Characteristic 3 - Organisational structure

| Category                      | Frequency | Percent |
|-------------------------------|-----------|---------|
| Holding                      | 49        | 33.1    |
| Subsidiary (local or international) | 64        | 43.2    |
| Missing System                 | 35        | 23.7    |
| Total                         | 148       | 100.0   |

Table 5 gives an indication of the size of the various companies that have participated in this research. Just less than 44% of the respondents represented the larger organisations while the balance was made up of small and medium organisations.

Table 5: Characteristic 4 - Organisation revenue / turnover / budget (per annum)

| Category               | Frequency | Percent |
|------------------------|-----------|---------|
| Up to R300m            | 41        | 27.7    |
| R301m – R1.5bn         | 43        | 29.1    |
| R1.5bn or more         | 64        | 43.2    |
| Total                  | 148       | 100.0   |

Table 6 shows the number of people employed in the organisations that responded. Employee numbers are not necessarily indicative of organisation size in turnover terms but are a vital indication of the numbers of people that are affected by the organisation’s remuneration policy.
Table 6: Characteristic 5 - Number of employees

| Category            | Frequency | Percent |
|---------------------|-----------|---------|
| Small (up to 500)   | 48        | 32.4    |
| Medium (500 to 5000)| 54        | 36.5    |
| Large (more than 5000) | 46        | 31.1    |
| Total               | 148       | 100.0   |

Table 7 illustrates number of years the organisation has been in existence. The number of respondents was closely split between organisations older than 50 years and those organisations less than 50 years old.

Table 7: Characteristic 6 - Number of years the organisation has been in existence

| Category       | Frequency | Percent |
|----------------|-----------|---------|
| 50 years or less | 72        | 48.6    |
| Over 50 years   | 76        | 51.4    |
| Total           | 148       | 100.0   |

Table 8 indicates the status of remuneration committees in the respondent organisations. Only 3% of respondents were not aware whether there was a remuneration committee in place or not.
Table 8: Characteristic 7 - Does the organisation have a remuneration committee?

| Category          | Frequency | Percent |
|-------------------|-----------|---------|
| Yes               | 92        | 62.2    |
| No                | 51        | 34.5    |
| Do not know       | 5         | 3.3     |
| Total             | 148       | 100.0   |

Table 9 illustrates the varying number of industry sectors that are illustrated by the respondents. The broader categories are as follows:

- **Category 1 - Resources** (e.g. Mining, oil and gas) and basic industries (e.g. Chemicals, forestry and paper, steel and metals, construction and building).

- **Category 2 - Financials** (e.g. Investment companies, banks, specialty and other finance, life assurance, insurance, real estate), Information technology (e.g. hardware, software and computer services) and professional services (e.g. legal, audit, consulting).

- **Category 3 - Non cyclical consumer goods** (e.g. beverages, food producers and processors, health, pharmaceuticals and biotechnology) and cyclical consumer goods (e.g. household goods and textiles, automobile and parts).

- **Category 4 - Cyclical services** (e.g. general retailers, support services, leisure and hotels, media and entertainment, transport), general industries (e.g. diversified industries, electronic and electrical equipment, engineering and machinery), non-cyclical services (e.g. food and drug retailers, telecommunications services, development capital, venture capital)
- **Category 5 – Other** (e.g. parastatals and public service).

**Table 9: Characteristic 8 - Industry sector type**

| Category                              | Frequency | Percent |
|---------------------------------------|-----------|---------|
| Group 1 - Resources                   | 39        | 26.5    |
| Group 2 - Financials                  | 36        | 24.3    |
| Group 3 – Non cyclical consumer goods | 31        | 20.9    |
| Group 4 – Cyclical services           | 23        | 15.5    |
| Group 5 - Other                       | 19        | 12.8    |
| Total                                 | 148       | 100.0   |

Table 9 can be represented graphically as in figure 3:

**Figure 3: Industry sector – pie chart**

Resource organisations make up the largest part of the population followed by financial organisations.

Table 10 indicates that half of the respondents who answered the questionnaire are not directly in the human resource field. ‘Other’ included titles such as remuneration / compensation manager, finance
manager / director, managing director / CEO, operations manager / director and remuneration / compensation analyst.

**Table 10: Characteristic 9 - Position title**

| Category            | Frequency | Percent |
|---------------------|-----------|---------|
| Other               | 78        | 52.7    |
| HR manager / director | 70        | 47.3    |
| Total               | 148       | 100.0   |

In summary, the broader categories of the characteristics of the data are summarised in table 11. The categories descend from macro to micro structurally.

**Table 11: Categories and characteristics of data**

| Characteristic                  | Broader categories of characteristic |
|---------------------------------|---------------------------------------|
| Industry sector                 | Resources                             |
| Type of company                 | Private sector                        |
| Listing of company              | Not listed                            |
| Organisational structure        | Holding                               |
| Organisation financial size*    | Up to R300m                           |
| Number of employees             | Small (up to 500)                     |
| Number of years incorporated    | 50 years or less                      |
| Remuneration committee          | Yes                                   |
| Position                        | HR manager / director                 |

|                  | Financials                             |
|------------------|----------------------------------------|
| Type of company  | Public sector                          |
| Listing of company | Listed                      |
| Organisational structure | Subsidiary (local or international) |
| Organisation financial size* | >R300m-R1,5bn |
| Number of employees | Medium (501 to 5000) |
| Number of years incorporated | Over 50 years |
| Remuneration committee | No                                     |
| Position          | Other                                  |

|                  | Non-cyclical consumer goods            |
|                  | Cyclical services                      |
|                  | Other                                  |

* Financial size is determined by turnover, sales or budget
4.3 Analysis of research propositions and results

The research propositions for each of the following are discussed under this section:

- recorded frequencies
- factors driving change to remuneration policy
- the extent of change to remuneration policy
- the impact of changes on the organisation
- the strength of these relationships
- outcomes of these changes

4.3.1 Recorded frequencies

Table 12 indicates the various factors driving change to remuneration policy broken down and rated by participants as to the extent that they influence the remuneration policy of the company. The extent of change was recorded in the questionnaire on a 7 point scale where:

1 = To no extent
7 = To a very large extent

This was re-scaled into the following format:

1 and 2 = To a small extent
3, 4 and 5 = To a moderate extent
6 and 7 = To a large extent

For ease of reading a line is drawn between every five factors. It is rank ordered by the percentages in the last column – ‘To a large extent.’
Table 12: Factors driving change to remuneration policy rank ordered by large extent

| Factors driving change to remuneration policy | To a small extent | To a moderate extent | To a large extent |
|----------------------------------------------|------------------|---------------------|------------------|
| | Count | % | Count | % | Count | % |
| Retention of key staff | 8 | 5.4% | 64 | 43.2% | 76 | 51.4% |
| Financial results | 13 | 8.8% | 66 | 44.6% | 69 | 46.6% |
| Strategic thrust | 16 | 10.8% | 67 | 45.3% | 65 | 43.9% |
| Surveys / benchmarking | 18 | 12.2% | 78 | 52.7% | 52 | 35.1% |
| Internal advisers | 17 | 11.5% | 84 | 56.7% | 47 | 31.8% |
| Affordability / rising costs | 13 | 8.8% | 91 | 61.5% | 44 | 29.7% |
| Productivity | 17 | 11.5% | 88 | 59.4% | 43 | 29.1% |
| Legislation | 35 | 23.6% | 72 | 48.7% | 41 | 27.7% |
| Board of directors | 32 | 21.6% | 76 | 51.4% | 40 | 27.0% |
| Change in culture | 34 | 23.0% | 76 | 51.3% | 38 | 25.7% |
| Your competitors | 43 | 29.1% | 69 | 46.6% | 36 | 24.3% |
| Development / career progression | 19 | 12.8% | 97 | 65.6% | 32 | 21.6% |
| Economic restructuring / different work patterns | 26 | 17.6% | 90 | 60.8% | 32 | 21.6% |
| Remuneration Committee | 60 | 40.5% | 60 | 40.5% | 28 | 19.0% |
| Shareholder expectations | 51 | 34.5% | 74 | 50.0% | 23 | 15.5% |
| Staff loyalty | 32 | 21.6% | 95 | 64.2% | 21 | 14.2% |
| Turbulence in business environment | 45 | 30.4% | 82 | 55.4% | 21 | 14.2% |
| Advanced technological developments | 65 | 43.9% | 66 | 44.6% | 17 | 11.5% |
| External advisers | 53 | 35.8% | 79 | 53.4% | 16 | 10.8% |
| Social upheaval / trade union | 73 | 49.3% | 62 | 41.9% | 13 | 8.8% |
| Governance / King II report | 46 | 31.1% | 91 | 61.5% | 11 | 7.4% |
| Publicity | 89 | 60.1% | 51 | 34.5% | 8 | 5.4% |
| Investment / stock exchange analysts | 106 | 71.6% | 37 | 25.0% | 5 | 3.4% |
| Corporate failures | 112 | 75.7% | 33 | 22.3% | 3 | 2.0% |

The top 5 factors that drive change to remuneration policy to a large extent in terms of recorded frequency are retention of key staff, financial results, strategic thrust, surveys/benchmarking and internal advisers. Corporate failures, investment/stock exchange analysts, publicity, governance/King II report and social upheaval/trade unions drive change to remuneration policy to a lesser extent.
4.3.2 Factors driving change in remuneration policy

An analysis of the 7-point scale of the extent of factors driving change in remuneration policy was performed.

a. Testing hypothesis
The null hypothesis test is that the extent of factors driving change in remuneration policy is independent of the broader categories of the characteristics of the data. If the p-value is less than 0.05 then the hypothesis is rejected. If the p-value is greater or equal to 0.05 then the hypothesis is accepted and the factor driving change in remuneration policy is likely to be dependent on the broader categories of the characteristic i.e. there is a significant difference in the way the broader categories of the characteristic view the factor driving change in the remuneration policy.

b. Results of the analysis
The results of the hypothesis testing are shown in table 13. The bold figures indicate for which broader categories of the characteristics there is a dependence and is listed in increasing p-values. Numbers in bold indicate a rejection of the null hypothesis that the extent of factors driving change in remuneration policy is independent of the broader categories of the characteristics of the data.
Table 13: Chi-squared Asymptotic Significance (2 sided) value (p-value) for factors driving change in remuneration policy

| Factor                                           | Type of company | Listing of company | Organisational structure | Organisational financial size | Number of employees | Number of years incorporated | Remuneration committee | Industry sector | Position |
|--------------------------------------------------|-----------------|--------------------|--------------------------|-------------------------------|---------------------|-----------------------------|-----------------------|----------------|----------|
| Factors dependent on organisation type           |                 |                    |                          |                               |                     |                             |                       |                |          |
| Change in culture                               | 0.964           | 0.079              | 0.686                    | 0.642                         | 0.039               | 0.000                       | 0.518                 | 0.185          | 0.447    |
| Governance/ King II report                       | 0.008           | 0.848              | 0.390                    | 0.006                         | 0.000               | 0.016                       | 0.002                 | 0.846          | 0.255    |
| Remuneration committee                          | 0.057           | 0.175              | 0.006                    | 0.002                         | 0.000               | 0.004                       | 0.000                 | 0.213          | 0.216    |
| Internal advisers                               | 0.143           | 0.097              | 0.398                    | 0.002                         | 0.005               | 0.076                       | 0.015                 | 0.505          | 0.603    |
| Social upheaval / trade union                   | 0.002           | 0.736              | 0.677                    | 0.902                         | 0.002               | 0.015                       | 0.069                 | 0.012          | 0.329    |
| External advisers                               | 0.003           | 0.548              | 0.276                    | 0.065                         | 0.251               | 0.008                       | 0.033                 | 0.878          | 0.950    |
| Shareholder expectations                        | 0.004           | 0.309              | 0.910                    | 0.004                         | 0.019               | 0.350                       | 0.908                 | 0.149          | 0.207    |
| Investment/ stock exchange analysts             | 0.148           | 0.006              | 0.281                    | 0.024                         | 0.014               | 0.108                       | 0.467                 | 0.017          | 0.461    |
| Legislation                                     | 0.202           | 0.214              | 0.032                    | 0.034                         | 0.006               | 0.069                       | 0.079                 | 0.608          | 0.536    |
| Affordability/ rising costs                     | 0.009           | 0.303              | 0.398                    | 0.456                         | 0.711               | 0.347                       | 0.360                 | 0.196          | 0.798    |
| Staff loyalty                                   | 0.437           | 0.805              | 0.048                    | 0.015                         | 0.064               | 0.018                       | 0.024                 | 0.132          | 0.563    |
| Corporate failures                              | 0.325           | 0.299              | 0.388                    | 0.193                         | 0.376               | 0.019                       | 0.997                 | 0.737          | 0.181    |
| Financial results                               | 0.956           | 0.156              | 0.050*                   | 0.603                         | 0.218               | 0.092                       | 0.567                 | 0.950          | 0.249    |
| Factors independent of organisation type        |                 |                    |                          |                               |                     |                             |                       |                |          |
| Strategic thrust                                | 0.368           | 0.166              | 0.526                    | 0.058                         | 0.112               | 0.182                       | 0.238                 | 0.522          | 0.702    |
| Turbulence in business environment              | 0.678           | 0.908              | 0.093                    | 0.246                         | 0.675               | 0.127                       | 0.234                 | 0.060          | 0.350    |
| Competitors                                     | 0.062           | 0.061              | 0.279                    | 0.892                         | 0.283               | 0.222                       | 0.939                 | 0.576          | 0.869    |
| Publicity                                       | 0.567           | 0.652              | 0.064                    | 0.956                         | 0.392               | 0.961                       | 0.732                 | 0.398          | 0.128    |
| Board of directors                              | 0.288           | 0.898              | 0.102                    | 0.289                         | 0.078               | 0.102                       | 0.137                 | 0.858          | 0.563    |
| Economic restructuring/ different work patterns  | 0.198           | 0.932              | 0.408                    | 0.789                         | 0.738               | 0.840                       | 0.892                 | 0.270          | 0.091    |
| Surveys / benchmarking                           | 0.102           | 0.353              | 0.383                    | 0.178                         | 0.886               | 0.497                       | 0.810                 | 0.491          | 0.708    |
| Retention of key staff                          | 0.153           | 0.252              | 0.557                    | 0.878                         | 0.759               | 0.626                       | 0.913                 | 0.137          | 0.762    |
| Advanced technological developments             | 0.182           | 0.620              | 0.145                    | 0.778                         | 0.778               | 0.167                       | 0.894                 | 0.630          | 0.452    |
| Productivity                                    | 0.245           | 0.781              | 0.499                    | 0.195                         | 0.583               | 0.201                       | 0.934                 | 0.443          | 0.526    |
| Development/ career progression                 | 0.433           | 0.370              | 0.704                    | 0.833                         | 0.979               | 0.796                       | 0.610                 | 0.219          | 0.233    |
* The expected count was 33.3% (>20%) so this borderline case was excluded.

The following factors driving change in remuneration policy are *independent* of the broader categories of the characteristics (i.e. p-value > 0.05) and listed in increasing p-value:

- Strategic thrust
- Turbulence in business environment
- Competitors
- Publicity
- Board of directors
- Economic restructuring/ different work patterns
- Surveys / benchmarking
- Retention of key staff
- Advanced technological developments
- Productivity
- Development/ career progression

In other words, these factors work across all types of organisation regardless of size, type and structure of organisation. What is more important are the factors that may be dependent on the characteristics of organisations.

Table 14 summarises the factors driving remuneration change that may be dependent on one or all of the broader categories of the characteristic. The factors are listed in order of increasing p-value.
Table 14: Summary of factors driving remuneration change

| Factor                                | Type of company | Listing of company | Organisational structure | Organisational financial size | Number of employees | Number of years incorporated | Remuneration committee | Industry sector |
|----------------------------------------|-----------------|--------------------|--------------------------|-------------------------------|---------------------|-------------------------------|------------------------|------------------|
| Change in culture                      |                 |                    |                          |                               |                     |                               |                        |                  |
| Governance/ King II report             | X               |                    |                          |                               |                     |                               |                        |                  |
| Remuneration committee                 | X               |                    | X                        | X                             |                     | X                             |                        |                  |
| Internal advisers                      |                 |                    | X                        | X                             |                     | X                             |                        | X                |
| Social upheaval/ trade union           | X               |                    |                          |                               |                     | X                             |                        |                  |
| External advisers                      | X               |                    |                          |                               |                     | X                             |                        |                  |
| Shareholder expectations               | X               |                    |                          |                               |                     | X                             |                        |                  |
| Investment/ Stock exchange analysts    |                 |                    |                          |                               |                     | X                             |                        |                  |
| Legislation                            |                 |                    |                          |                               |                     | X                             |                        | X                |
| Affordability/ rising costs            | X               |                    |                          |                               |                     |                               |                        |                  |
| Staff loyalty                          |                 |                    |                          |                               |                     | X                             |                        |                  |
| Corporate failures                     |                 |                    |                          |                               |                     | X                             |                        |                  |
| Financial results                      |                 |                    |                          |                               |                     |                               |                        |                  |

**TOTAL**  5  1  4  6  8  7  5  2

Of the factors driving change in remuneration policy that may be dependent on the characteristics, the following characteristics are dominant:

- Number of employees
- Number of years incorporated
- Organisation financial size

These characteristics may be grouped together as size of organisation i.e. small and large organisations probably have different reactions to some of the factors driving change.
The gap that is closed through information in this table is that remuneration decision-makers are now aware of which factors to consider and to place more emphasis on. It is a strong guide when considering factors that influence organisation characteristics.

4.3.3 Extent of change to remuneration policy

In this section, factor analysis for the four-point - extent of change to remuneration policy scale - is investigated.

a. Testing hypothesis

The Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy (MSA) and Bartlett’s Test of Sphericity were conducted on the matrix (extent of change of components of remuneration policy). Measure of Sampling Adequacy was done on the 18 components of remuneration policy to establish correlation between the components. If the MSA for a component is less than 0.06 then the component will be excluded from the factor analysis. This test excluded two components; namely, competence based pay policy and retirement funds policy as there was little correlation with these components of remuneration policy. Performing factor analysis on the remaining components of remuneration policy yielded the results shown in table 15.

| Table 15: KMO and Bartlett’s test on 16 components of remuneration policy |
|-----------------------------------------------|
| KMO Measure of Sampling Adequacy | 0.766 |
| Bartlett’s Test of Sphericity          | Approx. Chi-Square | 503.394 |
|                                     | df               | 120     |
|                                     | Significance p    | 0.000   |
The KMO and significance p values indicate that the 16 components of remuneration can be subjected to Principal Component Analysis. The Principal Component Analysis method of extraction yielded communalities for each of the 16 components of remuneration policy and the initial Eigenvalues of the reduced matrix were calculated and are shown in table 16. An Eigenvalue is the dependence of the component on the other components i.e. if the Eigenvalue is > 1, there is dependency. If the Eigenvalue is < 1, there is less dependence. The dependence of each component is listed in table 16 in decreasing order of dependency.

Table 16: Eigenvalues on the component inter-correlation matrix (16X16)

| Policy component                        | Total | % of variance | Cumulative % |
|-----------------------------------------|-------|---------------|--------------|
| Remuneration mix                        | 4.098 | 25.612        | 25.612       |
| Short term incentive                    | 1.751 | 10.941        | 36.553       |
| Remuneration governance                 | 1.376 | 8.599         | 45.152       |
| Legal compliance                        | 1.097 | 6.858         | 52.010       |
| Share scheme                            | 1.018 | 6.363         | 58.373       |
| Fixed period employment contracts       | 0.964 | 6.027         | 64.400       |
| Total package                           | 0.850 | 5.310         | 69.710       |
| Fringe benefits                         | 0.745 | 4.654         | 74.364       |
| Base pay management                     | 0.709 | 4.430         | 78.794       |
| Rand hedging of salaries                | 0.638 | 3.986         | 82.780       |
| International remuneration              | 0.597 | 3.732         | 86.512       |
| Job evaluation / broadbanding           | 0.534 | 3.338         | 89.850       |
| Market position                         | 0.508 | 3.161         | 93.011       |
| Merit pay / performance related pay     | 0.404 | 2.528         | 95.539       |
| Retention strategy                      | 0.364 | 2.273         | 97.812       |
| Long term incentives                    | 0.350 | 2.187         | 100.000      |

Five factors are postulated according to Kaiser's (1970) criterion (Eigenvalues greater than unity). These five factors explain approximately 58% of the variance in the factor space. These are the
most important components when developing remuneration policy. The component loadings on all the factors are shown in Table 17.

**Table 17: Component loadings on 5 first order postulated factors**

| Remuneration policy component                  | 1     | 2     | 3     | 4     | 5     |
|-----------------------------------------------|-------|-------|-------|-------|-------|
| Remuneration mix                              | 0.721 | 0.203 | 0.195 | -0.114|       |
| Short term incentive                          | 0.718 |       |       |       |       |
| Remuneration governance                       | 0.669 | 0.149 | 0.285 | 0.134 |       |
| Legal compliance                              | 0.548 | 0.105 | 0.151 |       |       |
| Share scheme                                  | 0.547 |       |       |       | 0.38  |
| Fixed period employment contracts             |       | 0.725 | -0.107| 0.323 |       |
| Total package                                  | 0.347 | 0.651 | 0.134 | -0.177|       |
| Fringe benefits                               | 0.189 | 0.597 |       | 0.22  |       |
| Base pay management                           | -0.175| 0.503 | 0.408 | 0.249 |       |
| Rand hedging of salaries                      | 0.142 |       | 0.843 | 0.136 |       |
| International remuneration                    | 0.107 | 0.14  | 0.768 | 0.102 |       |
| Job evaluation / broadbanding                 | 0.118 | 0.124 |       | 0.825 |       |
| Market position                               | 0.142 | 0.173 |       | 0.596 | 0.485 |
| Merit pay / PRP                               | 0.166 | 0.338 | 0.372 | 0.531 |       |
| Retention strategy                            | 0.284 | 0.132 | 0.119 | 0.765 |       |
| Long term incentives                          | 0.446 | -0.103| 0.295 | -0.179| 0.494 |

First order factor analysis suggests that there is an interdependence of the components of each factor and these have been grouped into 5 descriptive labels given in Table 18.
Table 18: First order factors

| Factor | Descriptive Label                      |
|--------|----------------------------------------|
| 1      | Remuneration mix and governance        |
| 2      | Guaranteed pay                         |
| 3      | International remuneration             |
| 4      | Pay progression/ PRP                   |
| 5      | Retention strategy                     |

These 5 descriptive labels are the major headings of remuneration policy design and are what create competitive advantage between organisations.

The first order matrix is suitable for second order factor analysis as shown by the KMO MSA and Bartlett’s Test of Sphericity in table 19.

Table 19: KMO and Bartlett’s test on first order factors of components of remuneration policy

|                          | KMO MSA | 0.747 |
|--------------------------|---------|-------|
| Bartlett’s test          | Approx Chi-Square | 123.879 |
|                          | Dp      | 10    |
|                          | Significance-p | 0.000 |

Eigenvalues were calculated on this matrix to yield one factor that had an Eigenvalue greater than unity (Kaiser, 1970). This value was 2,332 and accounts for approximately 47% of the variance as shown in table 20. Remuneration mix and governance policy makes up 47% of the remuneration policy. This provides remuneration decision-makers with
important information regarding the weighting and focus areas of the remuneration policy.

Table 20: Eigenvalues on the factor inter-correlation matrix (5X5)

| First order factors                                      | Total | % of variance | Cumulative % |
|----------------------------------------------------------|-------|---------------|--------------|
| 1. Remuneration mix and governance                       | 2.332 | 46.642        | 46.642       |
| 2. Guaranteed pay                                        | 0.854 | 17.080        | 63.722       |
| 3. International remuneration                            | 0.735 | 14.696        | 78.418       |
| 4. Pay progression / PRP                                 | 0.574 | 11.477        | 89.895       |
| 5. Retention strategy                                    | 0.505 | 10.105        | 100.000      |

Component loadings on the second order postulated factor show consistent interdependence in table 21, sorted in descending order of component loadings.

Table 21: Component loadings on one second order postulated factor

| Remuneration policy                                      | Component 1 |
|----------------------------------------------------------|--------------|
| Pay progression/ PRP                                     | 0.716        |
| Remuneration mix and governance policy                   | 0.709        |
| Retention strategy policy                                | 0.692        |
| International remuneration policy                        | 0.650        |
| Guaranteed pay policy                                    | 0.645        |

Second order factor analysis suggests that there is an interdependence of the components of each factor that could be
grouped as a single descriptive label, Remuneration Policy. In other words, these five factors make up remuneration policy.

b. Results of the analysis

Factor analysis of the data was performed on two levels according to a procedure suggested by Schepers (1992) in order to determine the factor structure of the instrument. A first order factor analysis was done on the 18 components of remuneration policy to identify first order factors that had an extent of change in components of remuneration. The analysis showed that all factors correlated highly except competence based pay policy and retirement funds policy. These were excluded and first order factor analysis was done on the remaining 16 components of remuneration policy to yield 5 distinct first order factors that had an extent of change in components of remuneration policy. A second order factor analysis was performed on these 5 factors to yield one factor that had an extent of change in components of remuneration policy.

4.3.4 Extent of change in components of remuneration policy and impact of changes

In this section, the correlation between the extent of change and impact of change in components of remuneration is reported.

a. Testing hypothesis

The null hypothesis test is that a correlation exists between the extent of changes in components of remuneration policy and the impact on the organisation. A reliability test was performed on the matrix to yield a Cronbach Alpha coefficient value of 0.7987 indicating that a good
correlation exists. Therefore, the null hypothesis is accepted. Cortina (1993) indicated that a Cronbach Alpha of 0.7 and greater is significant.

The correlation between the second order factor extent of change in components of remuneration policy and the second order factor: impact of change on the organisation was calculated to give a Pearson Correlation of 0.843. This shows that the correlation has high significance as significance exists at levels of 0.02 (2-tailed).

Table 22: Correlations between second order factor extent of change and impact of change

| Second order factor: Extent of change | Second order factor: Impact of change |
|--------------------------------------|--------------------------------------|
| Pearson Coefficient                  | 0.843                                |
| Significance (2-tailed)               | 0.000                                |
| N                                    | 148                                  |
|                                       | 148                                  |

The extent of change of each component of remuneration policy was cross tabulated with the impact of change of the component of remuneration policy on the organisation. For every component of remuneration policy the Chi-squared p-value was less than 0.05 and the Cramer’s V value was greater than 0.2 (excluding Rand hedging of salaries policy, shown in bold in table 23) indicating a high significance of correlation as shown in table 23. Table 23 is grouped into the five first order factors and then sorted by strength of the correlation within each group.
Table 23: Relationship between the extent of change and impact of change for each component of remuneration policy

| Extent of change/Impact of change | Chi-square p-value | Cramer’s V |
|----------------------------------|--------------------|------------|
| Remuneration governance          | 0.001              | 0.335      |
| Legal compliance                 | 0.002              | 0.277      |
| Remuneration mix                 | 0.003              | 0.308      |
| Short term incentive             | 0.004              | 0.263      |
| Share scheme                     | 0.004              | 0.392      |
| Fixed period employment contracts| 0.000              | 0.481      |
| Fringe benefits                  | 0.000              | 0.407      |
| Total package                    | 0.002              | 0.329      |
| Base pay management              | 0.005              | 0.255      |
| International remuneration       | 0.000              | 0.508      |
| Rand hedging of salaries         | **0.088**          | 0.411      |
| Job evaluation/broadbanding      | 0.000              | 0.389      |
| Market position                  | 0.000              | 0.404      |
| Merit pay / performance related pay| 0.000          | 0.340      |
| Retention strategy               | 0.000              | 0.385      |
| Long term incentives             | 0.048              | 0.293      |
| Competence based pay             | 0.004              | 0.291      |
| Retirement funds                 | 0.004              | 0.286      |

A correlation exists between extent of change and impact of change for all components excluding Rand hedging of salaries policy (shown in bold in table 23).
b. Results of the analysis

The extent of change of each component of remuneration policy has a high correlation with the impact of change of the component of remuneration policy on the organisation with the exception of Rand hedging of salaries policy.

4.3.5 The relationship between the extent of changes and impact of changes

In this section, the strength of the relationship between the extent of changes of components of remuneration policy and impact of changes on the organisation in second order factors and the recorded frequencies of characteristics of the sample data is identified. A test of Homogeneity of Variances was performed first followed by the Anova test to determine the strength of the relationship by Cramer’s V. The results are shown in table 24 in macro to micro descending order.

a. Testing hypotheses

The null hypothesis that the mean extent of change in components of remuneration policy is equal across categories of characteristics was tested. Also, the null hypothesis that the mean impact of change in components of remuneration policy on the organisation is equal across categories of characteristics was also tested.
Table 24: Extent of change and impact of change between categories

| Characteristic                      | Cramer’s V between categories |
|-------------------------------------|-------------------------------|
|                                     | Second order factor: Extent of change | Second order factor: Impact of change |
| Industry sector                     | 0.020                         | 0.408                           |
| Type of company                     | 0.144                         | 0.010                           |
| Listing of company                  | 0.000                         | 0.000                           |
| Organisational structure            | 0.384                         | 0.817                           |
| Organisation financial size         | 0.000                         | 0.010                           |
| Number of employees                 | 0.078                         | 0.115                           |
| Number of years incorporated        | 0.012                         | 0.028                           |
| Remuneration committee              | 0.029                         | 0.092                           |
| Position                            | 0.351                         | 0.895                           |

The mean extent of change of remuneration components and the impact of the change may be dependent on the organisational structure and / or the position of the participant. Similarly, the mean extent of the impact of change may differ across different industry sectors. Therefore, both the null hypotheses are rejected i.e. the mean extent of changes and impact are not independent across the characteristics.

A gap analysis was then performed on the data to illustrate the relationship between the extent of change of components of remuneration and the impact of these changes on the organisation. A comparison of the gap analysis was made between the private sector and the public sector broader categories of characteristics.
In order to do this analysis, the impact of change on the organisation was re-scaled with the following scale:

1 = negative impact (‘extremely negative’ and ‘negative’ ratings from questionnaire)
2 = no impact (‘no impact’ rating from questionnaire)
3 = positive impact (‘extremely positive’ and ‘positive’ ratings from questionnaire).

The extent of change was defined as:

1 = small extent (‘to a small extent’ rating from questionnaire)
2 = moderate extent (‘to a moderate extent’ rating from questionnaire)
3 = large extent (‘to a large extent’ rating from questionnaire).

If ‘to no extent’ was marked in the questionnaire, it was rated as no impact.

Figures 4 and 5 illustrate the gap analysis for both private and public sectors, showing the relationship between the extent of remuneration policy changes and the impact on the organisation. The remuneration policy components are rank ordered by extent of change.
Figure 4: Gap analysis of extent of change of remuneration policy and impact of change on the organisation – private sector
Figure 5: Gap analysis of extent of change of remuneration policy and impact of change on the organisation - public sector

b. Results of the analysis

Significance that the mean extent of change in components of remuneration policy is not equal across the categories of characteristics is evident for the following:

- Holding and subsidiary organisational structures
- HR Manager/Director and other positions
Significance that the mean extent of *impact* of change in components of remuneration policy on the organisation is not equal across the recorded frequencies of characteristics is evident for the following:

- Holding and subsidiary organisation structures
- Different industry sectors
- HR manager / director and other positions

No significance is evident across any other categories of characteristics.

The greater the extent of change in components of remuneration policy, the larger is the impact of change on the organisation. The groupings of extent of change against impact of the change on the organisation is presented in tables 25 and 26.
Table 25: Impact of remuneration policy component - private sector

| Impact  | Remuneration policy component                                      |
|---------|---------------------------------------------------------------------|
| **Positive** | Competence based pay  |
|         | Job evaluation                                                     |
|         | Long term incentives                                               |
|         | Market position                                                    |
|         | Merit pay / PRP                                                    |
|         | Remuneration mix                                                   |
|         | Retention strategy                                                 |
|         | Share schemes                                                      |
|         | Short term incentives                                              |
|         | Total package                                                      |
| **Neutral** | Base pay management                                               |
|          | Fixed period employment contracts                                  |
|          | Fringe benefits                                                    |
|          | International remuneration                                          |
|          | Legal compliance                                                   |
|          | Rand hedging of salaries                                            |
|          | Remuneration governance                                            |
|          | Retirement funds                                                   |

The top 5 changes to remuneration policy, in the private sector, were:

- Fringe benefits policy
- Total package policy
- Merit pay / PRP policy
- Short term incentives policy
- Long term incentives policy
According to table 25, only 1, namely fringe benefits policy, had a neutral impact, the other 4 had a positive impact on the organisation.

Table 26: Impact of remuneration policy component - public sector

| Impact    | Remuneration policy component                                      |
|-----------|-------------------------------------------------------------------|
| Positive  | Competence based pay                                               |
|           | International remuneration                                         |
|           | Long term incentives                                               |
|           | Market position                                                    |
|           | Merit pay / PRP                                                    |
|           | Total package                                                      |
|           | Remuneration mix                                                   |
|           | Short term incentives                                              |
| Neutral   | Base pay management                                                |
|           | Fixed period employment contracts                                   |
|           | Fringe benefits                                                    |
|           | Job evaluation                                                     |
|           | Legal compliance                                                   |
|           | Remuneration governance                                            |
|           | Retention strategy                                                 |
|           | Retirement funds                                                   |
| Negative  | Rand hedging of salaries                                           |
|           | Share schemes                                                      |

The top 5 changes to remuneration policy, in the public sector, were:
- Job evaluation policy
- Short term incentives policy
- Competence based pay policy
• Market position policy
• Merit pay / PRP policy

According to table 25, only 1, namely job evaluation, had a neutral impact, the other 4 had a positive impact on the organisation.

Components with positive impact on change that are common to both sectors are competence based pay policy, long term incentives, market position policy, merit pay / PRP policy, total package policy, remuneration mix and short term incentives.

4.3.6 Analysis of factors driving change to remuneration policy and outcomes of changes in remuneration policy

In this section the relationship between factors driving change to remuneration policy and the outcomes of these changes is explored.

a. Testing hypothesis

The null hypothesis test is that a correlation exists between the factors driving change to remuneration policy and the outcomes of these changes. The Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy (MSA) and Bartlett’s Test of Sphericity were conducted on the matrix (factors driving change to remuneration policy). Measure of Sampling Adequacy was done on the 24 factors driving change to remuneration policy. No factors driving change to remuneration policy were excluded and performing factor analysis on the factors driving change to remuneration policy yielded the results shown in table 27.
Table 27: KMO and Bartlett’s test on 24 factors driving change to remuneration policy

|                            |          |
|---------------------------|----------|
| KMO Measure of Sampling Adequacy | 0.746    |
| Bartlett’s Test of Sphericity | Approx. Chi-Square | 854.056 |
|                           | df       | 276     |
|                           | Significance p | 0.000   |

The KMO and significance p values indicate that the 24 factors driving change to remuneration policy can be subjected to Principal Component Analysis. The Principal Component Analysis method of extraction yielded communalities for each of the 24 factors driving change to remuneration policy and the initial Eigenvalues of the reduced matrix were calculated.

Seven factors are postulated according to Kaiser’s (1970) criterion (Eigenvalues greater than unity) that explain approximately 58% of the variance in the factor space. The component loadings on these five factors are shown in table 28. Therefore the null hypothesis is accepted.
Table 28: Component loadings on 7 first order postulated factors

| Extent of change                 | Factor 1 | Factor 2 | Factor 3 | Factor 4 | Factor 5 | Factor 6 | Factor 7 |
|----------------------------------|----------|----------|----------|----------|----------|----------|----------|
| Internal advisers                | 0.691    | 0.230    | 0.186    | 0.297    | 0.122    | 0.177    |          |
| Governance/King II report        | 0.592    | 0.384    | 0.201    | -0.187   | 0.234    | 0.163    |          |
| Strategic thrust                 | 0.518    | 0.101    | 0.255    | 0.163    |          |          |          |
| Remuneration committee           | 0.486    | 0.101    | 0.255    | 0.163    |          |          |          |
| External advisers                | 0.466    | 0.101    | 0.255    | 0.163    |          |          |          |
| Investment/Stock exchange analysts| 0.691    | 0.230    | 0.186    | 0.297    | 0.122    | 0.177    |          |
| Corporate failures               | 0.592    | 0.384    | 0.201    | -0.187   | 0.234    | 0.163    |          |
| Shareholders expectations        | 0.486    | 0.101    | 0.255    | 0.163    |          |          |          |
| Publicity                        | 0.383    | 0.209    | 0.107    | 0.252    | -0.150   |          |          |
| Productivity                     | 0.596    | 0.371    | 0.251    |          |          |          |          |
| Economic restructuring/different work patterns | 0.167 | 0.567 | 0.407 | 0.157 | 0.229 |          |          |
| Change in culture                | 0.285    | 0.340    | 0.384    | 0.223    |          |          |          |
| Advanced technological developments| 0.131   | 0.315    | 0.311    | 0.284    |          |          |          |
| Development/Career progression   | 0.131    | 0.315    | 0.311    | 0.284    |          |          |          |
| Financial results                | 0.239    | 0.160    | 0.199    | 0.615    | 0.192    |          |          |
| Board of directors               | 0.145    | 0.145    | 0.165    | 0.214    |          |          |          |
| Affordability/Rising costs       | 0.392    | 0.392    | 0.392    | 0.392    |          |          |          |
| Turbulence in business environment| -0.112   | 0.289    | 0.311    | 0.107    | 0.308    | 0.111    |          |
| Social upheaval/trade unions     | 0.103    | 0.138    | 0.141    | 0.605    | 0.106    |          |          |
| Legislation                      | 0.202    | 0.183    | 0.141    | 0.605    | 0.106    |          |          |
| Your competitors                 | 0.256    | 0.201    | 0.163    | -0.162   | 0.268    | 0.620    |          |
| Surveys/benchmarking             | 0.354    | -0.126   | -0.126   | 0.446    |          |          |          |
| Retention of key staff           | 0.256    | 0.201    | 0.163    | -0.162   | 0.268    | 0.620    |          |
| Staff loyalty                    | 0.137    | 0.222    | 0.122    | 0.616    |          |          |          |

First order factor analysis suggests that there is an interdependence of the components of each factor that could be assigned single descriptive labels as shown in table 29.

Table 29: First order factors

| Factor   | Descriptive Label            |
|----------|------------------------------|
| 1        | Governance                   |
| 2        | Shareholders/stakeholders    |
| 3        | Organisation and work design |
| 4        | Financial and leadership     |
| 5        | Legislation and agreements   |
| 6        | Competitors                  |
| 7        | Staff retention               |
It is now possible to understand the groupings of the forces that affect remuneration policy.

The first order matrix is suitable for second order factor analysis as shown by the KMO MSA and Bartlett’s Test of Sphericity in table 30.

**Table 30: KMO and Bartlett’s test on first order factors of factors driving change to remuneration policy**

| KMO MSA          | 0.716 |
|------------------|-------|
| Bartlett’s test  |       |
| Approx Chi-Square| 133.505 |
| Dp               | 21    |
| Siz-p            | 0.000 |

Anti-image correlation on all 7 factors excluded factor 6 (competitors) from the second order factor analysis because its MSA value was equal to 0.556 (below 0.7). In other words, competitors do not have as direct a bearing as a factor driving change. The resultant factor analysis Eigenvalues were calculated on this matrix to yield one factor (business strategy) that had an Eigenvalue greater than unity (Kaiser, 1970). This value was 2.308 and accounts for approximately 38% of the variance i.e. the business strategy is the most dominant driver of remuneration policy.

Component loadings on the second order postulated factor show consistent interdependence in table 31, sorted in descending order of component loadings.
Table 31: Component loadings on one second order postulated factor

| Factor     | 1          |
|------------|------------|
| Governance | 0.575      |
| Financial and leadership | 0.565      |
| Shareholder/ stakeholder | 0.557      |
| Organisation and work design | 0.541      |
| Legislation and agreements | 0.460      |
| Staff retention | 0.354      |

Second order factor analysis suggests that there is an interdependence of the components of each factor that could be assigned a single descriptive label as business strategy.

Finally, the second order factor driving change to remuneration policy was correlated to the second order factor: extent of change to remuneration policy and to the second order factor: impact of change to the organisation as shown in table 32.

Table 32: Correlations between the second order factor driving change to remuneration policy

| Second order factor driving change | Second order factor: Extent of change | Second order factor: Impact of change |
|------------------------------------|--------------------------------------|--------------------------------------|
| Pearson Coefficient                | 0.491                                | .457                                 |
| Significance (2-tailed)             | 0.000                                | 0.000                                |
| N                                  | 148                                  | 148                                  |
b. Results of the analysis

A first order factor analysis was done on the 24 factors driving change to remuneration policy to identify first order factors driving change to remuneration policy. The result yielded 7 distinct first order factors driving change to remuneration policy. Legislation was excluded from the second order factor analysis to yield one factor (business strategy) driving change to remuneration policy. There is a correlation between the second order factor driving change to remuneration policy and the extent of change of the remuneration policy and the impact of change on the organisation i.e. there appears to be an association between the factors driving change to remuneration policy and the impact of the changes of the remuneration policy on the organisation.

4.4 Summary

In this chapter, the results of the analysis for each construct were reported. The forces driving change to remuneration policy were validated, as well as the strength of each force. It is now known which components of remuneration policy were changed and by how much. The impact each policy change had on organisations is also known. Differences between respondents and organisation type and the effect on the dependent variable, is also reported on.

In the next chapter, the results and conclusions drawn from the literature survey and the empirical research are discussed. Interpretation is provided for the key findings.
CHAPTER 5 – INTERPRETATION

5.1 Introduction

This study attempted to establish and quantify the relationship, dependence and/or correlation that exists between factors driving change in remuneration policy, the extent of changes in components of the remuneration policy and the impact of these changes on the organisation. To distil meaning from a large number of drivers and components of remuneration, the descriptive factors are submitted in table 33.

Table 33: Summary of analysis

| Stimulus / Input (Construct 1) | Organismic / Throughput (Construct 2) | Response / Output (Construct 3) |
|-------------------------------|--------------------------------------|---------------------------------|
| Factors driving change        | Components of remuneration policy    | Impact on organisation          |
| Governance                    | Remuneration mix / governance        | Positive                        |
| Shareholders/stakeholders     | Guaranteed pay                       | Neutral                         |
| Organisation and work design  | International remuneration           | Negative                        |
| Financial and leadership      | Pay progression/ PRP                 |                                 |
| Legislation and agreements    | Retention strategy                   |                                 |
| Competitors                   |                                      |                                 |
| Staff retention                |                                      |                                 |

The linkage between each construct is now known.
Construct 1 – Stimulus / Input

The factors driving change in remuneration policy are driving different extents of change in the components of remuneration policy. The extent of change of these components are interdependent and make up the remuneration policy.

Factors driving change to remuneration policy (stimuli) are informed by business strategy including governance, stakeholders, organisation and work design, finance and leadership, legislation and staff retention. These factors driving change of a component of remuneration policy will have a significant impact on the extent of change of remuneration policy in an organisation.

Construct 2 – Organismic / Throughput

These organismic throughputs result in a response or output. If a component of remuneration policy was changed, the impact of change on the organisation has a strong dependence on the extent of the change of the component of remuneration policy. This relationship is not equal across holding or subsidiary structures, different industry sectors and may be position dependent.

The extent of change of remuneration policy has a high correlation with the impact of changes in remuneration policy on an organisation (response or outputs).

Construct 3 – Response / Output

The greater the extent of change in remuneration policy, the greater the impact on the organisation.
The policy components that had the most positive impact are total package, competence based pay, long term incentives, market position, merit pay / PRP, total package, remuneration mix, short term incentives and retention strategy.

The results of this study support the relationship between the factors driving change to remuneration policy and the impact of the changes of the remuneration policy on the organisation. This finding has closed the gap in our current level of knowledge.

### 5.2 Interpretation

#### 5.2.1 Construct 1 – Factors driving change to remuneration policy

A summary of the factors driving change to remuneration policy, their relative strength and the extent of change is shown in table 34.
Table 34: Summary of factors driving change to remuneration policy rank ordered by large extent

| Factors driving change to remuneration policy | To a large extent | To a moderate extent | To a small extent |
|-----------------------------------------------|-------------------|---------------------|------------------|
| Retention of key staff                        | 51.4%             | 43.2%               | 5.4%             |
| Financial results                             | 46.6%             | 44.6%               | 8.8%             |
| Strategic thrust                              | 43.9%             | 45.3%               | 10.8%            |
| Surveys / benchmarking                         | 35.1%             | 52.7%               | 12.2%            |
| Internal advisers                             | 31.8%             | 56.7%               | 11.5%            |
| Affordability / rising costs                  | 29.7%             | 61.5%               | 8.8%             |
| Productivity                                  | 29.1%             | 59.4%               | 11.5%            |
| Legislation                                   | 27.7%             | 48.7%               | 23.6%            |
| Board of directors                            | 27.0%             | 51.4%               | 21.6%            |
| Change in culture                             | 25.7%             | 51.3%               | 23.0%            |
| Your competitors                              | 24.3%             | 46.6%               | 29.1%            |
| Development / career progression              | 21.6%             | 65.6%               | 12.8%            |
| Economic restructuring / different work patterns | 21.6%         | 60.8%               | 17.6%            |
| Remuneration Committee                        | 19.0%             | 40.5%               | 40.5%            |
| Shareholder expectations                      | 15.5%             | 50.0%               | 34.5%            |
| Staff loyalty                                 | 14.2%             | 64.2%               | 21.6%            |
| Turbulence in business environment            | 14.2%             | 55.4%               | 30.4%            |
| Advanced technological developments           | 11.5%             | 44.6%               | 43.9%            |
| External advisers                             | 10.8%             | 53.4%               | 35.8%            |
| Social upheaval / trade union                 | 8.8%              | 41.9%               | 49.3%            |
| Governance / King II report                   | 7.4%              | 61.5%               | 31.1%            |
| Publicity                                     | 5.4%              | 34.5%               | 60.1%            |
| Investment / stock exchange analysts          | 3.4%              | 25.0%               | 71.6%            |
| Corporate failures                            | 2.0%              | 22.3%               | 75.7%            |

As a result of factor analysis, these factors may be categorised into the following 7 main headings:

- Governance
- Shareholder/stakeholders
- Organisation and work design
- Financial and leadership
- Legislation and agreements
- Competitors
- Staff retention
When conducting the phase 1 open ended interviews, retention of key staff was mentioned several times and added to the phase 2 questionnaire. It has proven to be a considerable driver of the remuneration policy.

In chapter 1, much emphasis was placed on media publicity of corporate failures and fat cat salaries. An unexpected finding was the low extent to which remuneration governance and corporate failures play in driving remuneration policy currently. The media onslaught continues with a Business Day headline, ‘FSB urges firms to rethink CE’s bonus schemes’ (Rose, 2003). A possible explanation for this low ranking is that South African organisations still have some way to go in the remuneration governance arena. Organisations in South Africa have not begun reacting to remuneration governance significantly yet but governance is one of the key drivers of remuneration change. This is an important finding for remuneration decision-makers.

There is a link between organisation size and the number of factors driving change in remuneration policy. The larger the organisation, the more elastic the relationship on factors driving change to remuneration policy. An implication of this is the staffing levels required or the extent of external assistance required for the larger, more complex organisations.

It is now known which factors driving changes in remuneration policy are independent of organisation characteristic, and should be on the radar screen for all entities. Organisations with different characteristics are able to place additional focus on the factors that may be dependent on their characteristic. This allows remuneration decision-makers to hone in on these drivers. The findings support the literature
review regarding the drivers of remuneration policy. What is now known is the strength of each driver.

5.2.2 Construct 2 – Components of remuneration policy

The literature review and pilot study yielded 18 components of remuneration policy. What was not known was the extent on change of these policies in South Africa over the past 3 years. Table 35 shows each remuneration policy component. Firstly, they are rank ordered by mean extent of change. Secondly, they are ranked by the mean impact of the remuneration policy change on the organisation. A score of 1 = small extent, 2 = moderate extent, and 3 = large extent.

Table 35: Mean extent of change of remuneration policy and impact on organisation

| Sorted by extent | Sorted by impact |
|------------------|------------------|
| Extent | Impact | Extent | Impact |
| Short term incentives | 2.13 | 2.63 | 2.10 | 2.68 |
| Job evaluation | 2.11 | 2.52 | 1.91 | 2.68 |
| Total package | 2.10 | 2.68 | 2.09 | 2.64 |
| Merit pay / PRP | 2.09 | 2.64 | 2.13 | 2.63 |
| Market position | 2.08 | 2.59 | 1.95 | 2.63 |
| Long term incentives | 2.06 | 2.60 | 2.06 | 2.60 |
| Fringe benefits | 2.01 | 2.17 | 2.08 | 2.59 |
| International remuneration | 1.97 | 2.47 | 1.94 | 2.54 |
| Base pay management | 1.96 | 2.44 | 2.11 | 2.52 |
| Retirement funds | 1.96 | 2.38 | 1.97 | 2.47 |
| Retention strategy | 1.95 | 2.63 | 1.96 | 2.44 |
| Remuneration mix | 1.94 | 2.54 | 1.85 | 2.44 |
| Competence based pay | 1.91 | 2.68 | 1.96 | 2.38 |
| Legal compliance | 1.89 | 2.35 | 1.89 | 2.35 |
| Share schemes | 1.85 | 2.44 | 1.81 | 2.32 |
| Remuneration governance | 1.81 | 2.32 | 1.76 | 2.25 |
| Fixed period employment | 1.76 | 2.25 | 1.70 | 2.18 |
| Rand hedging of salaries | 1.70 | 2.18 | 2.01 | 2.17 |

The literature review is validated in that the components of remuneration policy were identified and not one participant added
another component to the ‘other’ column in the questionnaire. What is now known is the extent to which the various components of remuneration policy were changed over the last 3 years in South Africa and the extent of the impact on the organisation.

Many articles on remuneration policy speak of the move to variable pay. This is borne out in table 35 where the top change was made to short term incentives. The smallest change was made to Rand hedging of salaries. This is surprising given the so called ‘brain drain’ in South Africa.

The groupings of the first order factors into 5 groups yields insight into the development of a remuneration framework that transcends current thinking and the findings in a review of the literature. The groups yielded are:

- Remuneration mix and governance
- Guaranteed pay
- International remuneration
- Pay progression / PRP
- Retention strategy

Knowledge of these groupings provide insight into the structuring of the remuneration policy and the inter-relatedness of the components in each grouping.

The importance of pay progression and retention was underestimated in the literature review. The component loadings on the second order factor demonstrate the significance of the pay progression policy.
A possible explanation of this could be the increased implementation of broadbanding in organisations, the success of which is hugely dependent on pay scale progression.

Retention strategy/policy may have become increasingly important as organisations strive to stem the outflow of skilled and professional staff overseas. This situation is probably fairly unique to South Africa because of past political situations and inequities associated with this. Given the relatively small changes made to Rand hedging of salaries and international remuneration, it seems as if organisations believe that the overseas moves are attributed to other factors, not remuneration. This is borne out by the literature review, where it states that money on its own is not a motivator and it needs to be complemented by sound management practice.

Variable pay remains an important part of remuneration and enjoyed amongst the greatest extent of change in participating organisations.

The insignificance of competence based pay and retirement fund policy is an unexpected finding. This could be due to the relative newness of competence based pay and the fact that retirement provisions are seen as a ‘given’ in the employment deal. There is also relatively little competitive advantage that can be gained by the retirement fund policy, as they are all similar in nature. The relatively large impact of competence based pay was, however, shared by both private and public sector and should therefore be watched as it unfolds in future years.

Another unexpected finding was the small extent to which share schemes were changed. With imminent changes to share scheme accounting procedures, this is likely to change over the next few years.
Finally, the relatively small changes to governance procedures given the vast amount of attention received over the past year is also unexpected. Possible explanations are that South African organisations believe their governance to be good, or that the changes are coming over the next few years.

5.2.3 Construct 3 – Impact of change

By far the most significant finding was that the top 3 policy components that had the greatest impact on organisations were all linked to fixed pay. This finding is not supported by the literature review. A possible explanation is that, specifically in South Africa, there is the need for stability and the desire to know what one earns each month. Another possible explanation for the highest impact component, total package, is the need for flexibility and this is borne out in the literature review under the concept of ‘my pay – my way.’ The impact of total package could also be explained from an organisation point of view regarding the effectiveness of cost control.

Generally speaking, the greater the extent of change in components of remuneration policy, the larger the impact is on the organisation. A possible explanation is that a ‘step change’ in policy is more noticeable and dramatic for organisations. Incremental changes may not be that noticeable. Although possibly obvious, this does inform remuneration decision-makers of the notion that to have the greatest impact, large scale changes are required. This would be especially useful for organisations undergoing transformation or those that wish to institutionalise a change in culture.
There is an association between the factors driving change to remuneration policy and the impact on the organisation. Business strategy seems to have the greatest single impact as a driver. This is a compelling finding for remuneration decision-makers, and is supported in the literature review that remuneration strategy should underpin business strategy. Remuneration decision-makers should therefore be fully conversant with the organisations strategy and design compensation plans to support it and drive it.

The high correlation between extent of remuneration policy change and impact of change is clear, except for the Rand hedging of salaries. A possible explanation is the strengthening of the Rand at the time of the research and that few organisations in South Africa have Rand hedging as a component in their remuneration structure. It was nevertheless an important feature when the Rand was weaker for international organisations. Although excluded now, it should be kept on the radar screen during times when the Rand is weak in order to attract and retain talent, particularly for internationals.

5.3 Linkage to research questions

A synopsis of the major findings linked to the research questions is provided below in summary format. This closes a gap in current knowledge and provides a guide to remuneration decision-makers.

*Question 1: What factors are important in driving remuneration policy decisions?*
A review of the literature and pilot study yielded 24 factors that drive remuneration policy. The strength of each was determined and the top 5 drivers in order of strength are:

- Retention of key staff
- Financial results
- Strategic thrust
- Surveys/ benchmarking
- Internal advisers

**Question 2: To what extent do these factors influence decision-making?**

The research has shown that there is a strong correlation between the factors driving change and the extent between the factors driving change and the impact of change. The factors therefore influence decision making directly.

**Question 3: Which components of the remuneration policy were changed and to what extent were they changed?**

The research provided a good indication of which components were changed and the extent to which they were changed. For private sector participants, the top 5 changes in order of extent of change were in:

- Fringe benefits policy
- Total package policy
- Merit pay/ performance related pay policy
- Short term incentives policy
- Long term incentives policy

In public sector and parastatals, the top 5 changes in order of extent of change were in:

- Job evaluation / broadbanding policy
- Short term incentives policy
- Competency based pay policy
- Market position policy
- Merit pay/ performance related pay policy

Common to both public sector/ parastatals were short term incentives, and merit pay/ performance related pay policies. Variable pay continues to be an important component of the remuneration mix with it receiving the most attention in participating organisations as most organisations wish to tie the onerous salary and wage bill to the fortunes of the organisation. Wealth sharing is a concept that has gained momentum over time, especially since organised labour has warmed to the concept.

The need to review market position policy is possibly linked to the retention driver. There is also a move in the market to focus on market related guaranteed packages pegged at the median or upper quartile. This is a shift from the common wisdom over the past 10 years where organisations aimed for a lower guaranteed package relative to the market and used to aim for lower quartile to the median.

Question 4: What impact did the changes to the remuneration policy make on the organisation?
The greatest positive impact in the private sector in order of strength for the top 5 was in the following areas:

- Total package policy
- Merit/ Performance related pay policy
- Retention strategy policy
- Short term incentives policy
- Competence base pay policy

For the public sector/ parastatals, the greatest positive impact in order of strength for the top 5 was in the following areas:

- Competency based pay policy
- Long term incentives policy
- International remuneration policy
- Total package policy
- Market position policy

Common to both is the total package concept which demonstrates the need for equity, cost containment and flexibility. International remuneration in the parastatals shows a significant interest in cross border expansion. While an anticipated domain for private sector, the parastatals are facing the challenge of international pay. The strength of the impact of competency based pay in the public sector and parastatals perhaps demonstrates the usefulness of this reward vehicle where capacity building and training are big issues.

_Question 5: Are there differences in the responses for different participants?_
There are distinct differences in the extent of change and impact of change across organisation structure and industry sector and particularly between private and public sector. This is telling from a survey and benchmarking point of view, in that the best data for comparative purposes will come from organisations structured similarly and in the same industry sector.

5.4 Summary

All research questions have empirical data to support remuneration decision making. The strength of the forces driving remuneration policy decision making are known. So are the extent of remuneration policy changes over the past 3 years. The impact of each policy on the organisation is now known and this provides a useful guide to remuneration policy decision-makers. It is hoped that decisions can be taken with more confidence and that the main gaps in knowledge have been closed somewhat.

In the next and final chapter, a summary is provided with conclusions and recommendations.
CHAPTER 6 – CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

In this chapter a summary is provided of the motivation for this study, the aims and contribution of the research. Recommendations, further research and limitations are outlined followed by conclusions.

6.2 Motivation for the study, aims and contributions

The motivation for the study was driven by the following:

- Changing nature of work
- Investor confidence
- Lack of knowledge
- Governance issues
- Attracting and retaining high performing employees
- Return on investment

The main findings of this research revealed that these are important issues. It has filled gaps in our knowledge which allow remuneration decision-makers to focus on specific areas with more confidence. It is envisaged that a better understanding of the incidental, associative and causal links between the factors driving remuneration policy and the impact on the organisations, will positively affect remuneration policy decision making.

Remuneration decision-makers now have a clear understanding of the strength of the relationships between the variables. The contribution of this research is to improve remuneration decision making which will have a greater positive impact on the organisation in that:
• Reward underpins organisation strategy
• Retention is improved
• Governance policies are sound
• There is a strong ink between performance and pay
• Publicity is positive
• The organisation performs better financially
• Remuneration costs are maintained

6.3 Recommendations

Recommendations are made from a methodological and practical perspective.

6.3.1 Recommendations in terms of methodology

It is recommended that:
• The questionnaire has fewer biographical questions which would tighten the focus
• The scale on impact of change be expanded to provide alternative answers. This would enrich the study

6.3.2 Recommendations in terms of practice

It is recommended that:
• More emphasis be placed on the qualitative part of the study. In this way, it is believed that richer meaning will be distilled from respondents
6.4 Value add: what is now known

The results of this research provide useful insights to remuneration policy decision-makers. Firstly, the forces driving change to remuneration policy are known as well as the strength of each force. The forces dependent on the type of organisation are also known. Secondly, the changes made to remuneration policy over the last 3 years is also known as well as the extent of the changes. This provides guidance to the focus areas and indicators as to which components need to be watched over the next few years. Thirdly, the impact of change of each component of remuneration policy on the organisation is known. This guides remuneration policy makers as to the most positive impacts on the organisation.

More important is the discovery of those components that have a neutral impact on the organisation. Expectations can therefore be managed accordingly. Finally, the differences between the various types of organisation are known and that has implications for the remuneration strategists regarding what to keep on the ‘radar screen.’

The estimated value for remuneration policy makers and organisations is that:
- Guidelines are provided as to the forces driving remuneration policy change
- The strength of each force provides a guide as to how much research and emphasis should be placed on each driving force
• Guidelines as to the changes made to remuneration policy are reported and it is now known where the focus areas have been. This informs remuneration policy decision making and provides competitive advantage
• The impact of each remuneration policy change on the organisation is known and this provides clear guidance on how to manage the implementation of the policy. Those policies that have a neutral impact should not be hyped up by management and implemented routinely without unrealistic expectations
• Guidelines as to which driving forces play a role by organisation demographics are reported. This allows a focused approach when doing the annual compensation review

6.5 Limitations of this research

The following limitations need to be considered relative to this study:

• The main focus was on the quantitative study and the completion of the questionnaire. This results in a respondent's perception, which would have been better captured in conjunction with a more thorough qualitative analysis
• The dependent variable – impact on organisation – was described in broad terms. This needs to be expanded on so as to provide deeper understanding of the impact of remuneration policy changes on organisations
• This study captures management’s view of the situation. It would be useful to complement this with the views from employees
6.6 Future research

Emanating from this study, the following research is suggested:

- There is an increasing interest in the needs of generation X and Y employees (Huysamen, 2003). It would be useful to repeat this study with a special emphasis on these categories of employees.

- An in-depth study of other important components of remuneration policy i.e. remuneration mix and retention is recommended. It may include design issues and application of the strategy and implementation.

- It is recommended that a more detailed understanding of the impact on organisations is researched. This study was limited to a positive, neutral or negative impact, which could be expanded to provide richer understanding.

- Lastly, the linkages between retention of key staff and the organisation scorecard measures like customer loyalty, finance, learning and growth and organisation processes could be explored.

6.7 Conclusions

Whilst the literature review provided a useful insight into all the drivers and remuneration components, little was known about the strength, extent and links between these. This research provided answers on which to base remuneration decision making. There were expected
and unexpected findings, both of which provided rich insight and scrambled some assumptions.

It is hoped that this research will provide a useful base from which to build and further enhance our understanding of a subject that touches all working people’s pockets. Money matters.
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Appendix 1 – Qualitative study questionnaire

Phase 1 – Qualitative Study Questionnaire
(All questions apply to the last three-year period i.e. from 2000)

Name:
Company:
Position Title:

Question 1 – What factors are important in driving remuneration policy decisions? What has influenced you to change your remuneration policy?

Question 2 – Which part or parts of your remuneration policy did you change and how? I.e. describe before and after

Question 3 – What outcomes were achieved by the changes?
Appendix 2 – Participant cover letter

Dear Colleague,

Re: Doctoral research – Factors driving changes to remuneration policy and outcomes

I am conducting research into the above topic, for the purpose of writing a research thesis. This is being done as part of the course requirements for the degree of D.Com, for which I am registered at the Rand Afrikaans University (RAU). It is hoped that the results of the research could be used to guide remuneration policy decision-making.

The University is aware of and supports the research as a means of adding to the body of knowledge on the subject. An executive summary will be sent to all participants. The full report will be made available on request.

Attached, please find a copy of the questionnaire and the definitions of terminology. I would be most grateful if you could complete the questionnaire and return it to me via email mbussin@21century.co.za, fax (011) 788-1832, or alternatively please phone me (011) 447-0306 and I will arrange for a courier to pick it up. I would appreciate it if it could be returned to me by Monday 21 July 2003 or sooner.

Completing the questionnaire should take approximately 20 minutes of your time.

The confidentiality of your response is guaranteed and it will be impossible for you to be individually identified by your responses to the questions. I would therefore ask you to be as honest as possible with your answers.

Thank you in advance for taking the time to complete and return the questionnaire.

Yours sincerely

Mark Bussin
Student Number 200306753
Remuneration Definitions

These definitions are provided to ensure consistent understanding of the questionnaire. For ease of use, they appear in alphabetical order.

| Definition                                                                                                      |
|-----------------------------------------------------------------------------------------------------------------|
| **Base pay**: the guaranteed basic pay received each month by employees.                                        |
| **Competence based pay**: refers to a pay system where the organisation has an express policy that recognises competence and pays for it. |
| **Fixed period Employment contracts**: refers to employment contracts that are for a fixed period of time, say 5 years, with performance goals attached. |
| **Fringe benefits**: refers to benefits received in addition to base pay for example company cars or car allowances. |
| **International remuneration**: refers to any remuneration that is received overseas for example director’s fees, bonuses, retirement. |
| **Job evaluation or broad banding**: the system used to rank the relative worth and complexity of one job to another in the organisation and in the market. |
| **Legal compliance**: refers to complying with any law e.g. Employment Equity Act, SARS.                         |
| **Long term incentives**: incentive schemes where the measurement period or payout period is longer than one year, usually several years e.g. Economic Value Add (EVA) schemes, which ‘bank’ the bonus over say, 3 years, phantom share schemes, Deferred compensation |
| **Market position policy**: refers to where relative to salary surveys, does the company want to pay its employees. |
| **Merit pay/PRP**: merit pay or performance related pay refers to paying for individual contribution usually measured by way of performance management system. |
| **My pay – my way**: refers to structuring the employment contract and conditions of employment in the most flexible way. The impact is greater than total package described above. |
| **Rand hedging of salaries**: refers to remuneration practices designed to protect salary against a slide in currency. |
| **Remuneration committee**: the appointed committee, usually comprising executive and non-executive directors, that decides on remuneration policy and important remuneration decisions such as the CEO’s pay. |
| **Remuneration governance**: refers to the governance issues that apply to remuneration including how decisions are taken and limits of authority. |
| **Remuneration mix**: refers to the mix or ratio between guaranteed pay (e.g. base pay or total package) and variable pay (e.g. short term incentives, long term incentives and share schemes. |
| **Remuneration policy**: the policy in the organisation that governs remuneration decisions.                       |
| **Retention strategies**: refers to strategies put in place to retain employees.                                 |
| **Retirement funds**: refers to provident funds, pension funds, deferred compensation.                           |
| **Share schemes**: this refers to any type of share scheme, the most common being share options, performance shares, share purchase schemes. |
| **Short term incentives**: incentive schemes where the measurement period is around one year and payments are in cash e.g. profit share, gain share, commission, bonus scheme. |
| **Total package**: refers to the concept of all remuneration grossed up and monetised, and then employee has the choice of structuring their own package within company regulations. |
Appendix 3 – Research questionnaire

Kindly complete the following short questionnaire aimed at establishing the factors that drive changes to remuneration policy in organisations and the outcomes of these changes on the organisation.

Kindly note that there are no right or wrong answers to opinion related questions. Your response is anonymous.

Please read the instructions provided for each section before answering the questions that follow. The questionnaire consists of 3 sections:

Section 1 - Background information
Section 2 - Factors driving change to remuneration policy
Section 3 - Remuneration policy changes and impact of the changes

Section 1 – Background information regarding your organisation

(Please mark the most appropriate box)

1. Type of company
   - Private sector
   - Public sector
   - Parastatal
   Other (please specify):

2. Listing of company
   - Not listed
   - JSE listed
   - International listing
   Other (please specify):

3. Organisation Structure
   - Holding company
   - Subsidiary of local company
   - Subsidiary of international company
   - Single unit company
   - Not applicable
   Other (please specify):

4. Organisation Revenue / Turnover / Budget (per annum)

| Revenue/Budget Range | R ≤ R30m | R31m – R100m | R101m – R300m | R301m – R750m | R751m – R1.5bn | R1.51bn – R5bn | Over 5bn |
|----------------------|---------|--------------|--------------|---------------|----------------|----------------|----------|
| Marked              |         |              |              |               |                |                |          |

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5. **Current number of employees in your organisation**

|       | 0 – 100 | 101 – 500 | 501 – 1000 | 1001 – 5000 | 5001 – 10000 | 10001 – 25000 | Over 25000 |
|-------|---------|-----------|------------|-------------|--------------|---------------|------------|
| ✅     |         |           |            |             |              |               |            |

6. **For approximately how many years has your organisation been in existence?**

|       | 0 – 5 | 6 – 10 | 11 – 20 | 21 – 30 | 31 – 40 | 41 – 50 | Over 50 |
|-------|-------|--------|---------|---------|---------|---------|---------|
|       | ✅     |        |         |         |         |         |         |

7. **Does your company have a Remuneration Committee?**

- YES: ✅
- NO: ☐
- DO NOT KNOW: ☐

8. **Industry sector type (please mark ONE option only):**

| 8.1  | Resources (e.g. Mining, oil and gas) | ☐ |
|------|-------------------------------------|---|
| 8.2  | Basic Industries (e.g. Chemicals, forestry and paper, steel and metals, construction and building) | ☐ |
| 8.3  | Financials (e.g. Investment companies, banks, specialty and other finance, life assurance, insurance, real estate) | ☐ |
| 8.4  | Non-Cyclical Consumer Goods (e.g. Beverages, food producers and processors, health, pharmaceuticals and biotechnology) | ☐ |
| 8.5  | Cyclical Consumer Goods (e.g. Household goods and textiles, automobile and parts) | ☐ |
| 8.6  | Cyclical Services (e.g. General retailers, support services, leisure and hotels, media and entertainment, transport) | ☐ |
| 8.7  | General Industrials (e.g. Diversified industries, electronic and electrical equipment, engineering and machinery) | ☐ |
| 8.8  | Information Technology (e.g. Hardware, software and computer services) | ☐ |
| 8.9  | Non-Cyclical Services (e.g. Food and drug retailers, telecommunications services, development capital, venture capital) | ☐ |
| 8.10 | Professional Services (e.g. Legal, audit, consulting) | ☐ |

8.11 Other (please specify):
9. **What is your position title? Mark ONE option only**

|   |                                                                                           |
|---|-------------------------------------------------------------------------------------------|
| 9.1 | Remuneration / Compensation manager                                                       |
| 9.2 | HR manager / director                                                                      |
| 9.3 | Finance manager / director                                                                 |
| 9.4 | Managing director / CEO                                                                   |
| 9.5 | Operations manager / director                                                              |
| 9.6 | Remuneration / Compensation analyst                                                        |

9.7 Other (please specify):
Section 2: Factors driving change to remuneration policy

To what extent did each of the following factors drive changes to your company’s remuneration policy over the past 3 years (i.e. since 2000)? Please indicate your answer by crossing the number that best describes your view. Use the following scale: 1 = To no extent
7 = To a very large extent
The numbers 2 to 6 lie at equal intervals between 1 and 7

For each factor, mark the number most appropriate to your view. Please mark only one answer per question and kindly complete the whole list.

1 = To no extent  7 = To a very large extent

| Factors Driving Change                                                                 | Extent |
|----------------------------------------------------------------------------------------|--------|
| 1. Advanced technological developments                                                  |        |
| 2. Affordability / Rising costs                                                         |        |
| 3. Board of directors                                                                   |        |
| 4. Change in culture                                                                    |        |
| 5. Corporate failures, e.g. Enron                                                       |        |
| 6. Development / Career progression                                                     |        |
| 7. Economic restructuring / different work patterns                                     |        |
| 8. External advisers, e.g. Legal, Auditors, Consultants                                 |        |
| 9. Financial results / organisation success                                             |        |
| 10. Governance / King II report                                                         |        |
| 11. Internal advisers, e.g. HR Department, stakeholders                                |        |
| 12. Investment / Stock exchange analysts                                                |        |
| 13. Legislation, e.g. Employment Equity Act, SARS audit                                 |        |
| 14. Strategic thrust                                                                    |        |
| 15. Productivity                                                                        |        |
| 16. Publicity, e.g. media, customers                                                    |        |
| 17. Remuneration Committee                                                               |        |
| 18. Retention of key staff                                                              |        |
| 19. Shareholder expectations                                                             |        |
| 20. Social upheaval / trade union                                                       |        |
| 21. Staff loyalty                                                                       |        |
| 22. Surveys / benchmarking                                                               |        |
| 23. Turbulence in business environment                                                  |        |
| 24. Your competitors                                                                    |        |
| 25. Other (please specify and specify the extent (1-7) to which that factor drives the change): |
### Section 3: Remuneration changes

To what extent did the following components of your organisation’s Remuneration Policy change since 2000, and what impact did the change have on your organisation?

Please note: Two responses are required for each of the components listed below:

Please indicate (1) the extent to which the component was changed, as well as (2) the impact that change had on the organisation? In each case, use the scale provided.

| Component of remuneration policy | (1) Extent of change | (2) Impact of change |
|----------------------------------|----------------------|---------------------|
|                                  | To no extent | To a small extent | To a moderate extent | To a large extent | Not applicable | Extremely negative | Negative impact | No impact | Positive impact | Extremely positive |
| 1. Base pay management policy. | 1 | 2 | 3 | 4 | N | 1 | 2 | 3 | 4 | 5 |
| 2. Competence based pay policy | 1 | 2 | 3 | 4 | N | 1 | 2 | 3 | 4 | 5 |
| 3. Fixed period Employment Contracts (i.e. for a fixed period of time) policy | 1 | 2 | 3 | 4 | N | 1 | 2 | 3 | 4 | 5 |
| 4. Fringe benefits policy | 1 | 2 | 3 | 4 | N | 1 | 2 | 3 | 4 | 5 |
| 5. International Remuneration (i.e. All or part of remuneration paid overseas) policy | 1 | 2 | 3 | 4 | N | 1 | 2 | 3 | 4 | 5 |
| 6. Job evaluation or broad banding policy | 1 | 2 | 3 | 4 | N | 1 | 2 | 3 | 4 | 5 |
| 7. Legal compliance (e.g. Employment Equity Act) policy | 1 | 2 | 3 | 4 | N | 1 | 2 | 3 | 4 | 5 |
| 8. Long term incentives (e.g. EVA, Banking of bonus over several years – not shares) policy | 1 | 2 | 3 | 4 | N | 1 | 2 | 3 | 4 | 5 |
| 9. Market position policy, Benchmarking practice policy | 1 | 2 | 3 | 4 | N | 1 | 2 | 3 | 4 | 5 |
| 10. Merit pay/individual performance leading to a higher annual increase/performance related pay (PRP) policy | 1 | 2 | 3 | 4 | N | 1 | 2 | 3 | 4 | 5 |
| 11. Rand hedging of salaries policy | 1 | 2 | 3 | 4 | N | 1 | 2 | 3 | 4 | 5 |
| 12. Remuneration governance policy | 1 | 2 | 3 | 4 | N | 1 | 2 | 3 | 4 | 5 |
| 13. Remuneration mix (the ratio of guaranteed to variable pay) policy | 1 | 2 | 3 | 4 | N | 1 | 2 | 3 | 4 | 5 |
|   | Extent of change | Impact of change |
|---|-----------------|-----------------|
|   | To no extent   | To a small extent | To a moderate extent | To a large extent | Not applicable | Extremely negative impact | Negative impact | No impact | Positive impact | Extremely positive impact |
| 14. | Retention strategy policy | 1 | 2 | 3 | 4 | N | 1 | 2 | 3 | 4 | 5 |
| 15. | Retirement funds policy | 1 | 2 | 3 | 4 | N | 1 | 2 | 3 | 4 | 5 |
| 16. | Share schemes policy | 1 | 2 | 3 | 4 | N | 1 | 2 | 3 | 4 | 5 |
| 17. | Short term incentives (e.g. profit share, gain share, bonus schemes, commission) policy. | 1 | 2 | 3 | 4 | N | 1 | 2 | 3 | 4 | 5 |
| 18. | Total package concept / all inclusive remuneration / my pay -my way policy | 1 | 2 | 3 | 4 | N | 1 | 2 | 3 | 4 | 5 |

19. Other (please specify and specify the extent to which the component was changed as well as the impact that change had on the organisation):

Thank you for your time and effort to complete this questionnaire.

Should you wish to receive an executive summary of the research findings, kindly complete the following:

1. Your first name: __________________________
   Surname: __________________________
2. Title: __________________________
3. E-mail address: __________________________
4. Name of organisation: __________________________
5. Postal address: __________________________
   Postal Code: __________________________