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THE ROLE OF FINANCIAL
PERFORMANCE INCENTIVES IN
MOTIVATING EMPLOYEES FOR
IMPROVED JOB PERFORMANCE

BY
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1993

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The Role of Financial Performance Incentives
in
Motivating Employees for Improved Job Performance

A Thesis Submitted to the Management Department
of
The American University in Cairo
in Partial Fulfillment of the Requirements for
the Degree of Master of Public Administration

Thesis
1993/1054

By
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Thesis for The Degree of Master of Public Administration

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TABLE OF CONTENTS

<u>INTRODUCTION</u>	1
Problem Area	1
Major Research Question	1
Specific Research Questions	2
Worthiness of This Area of Research	2
Type of Research	3
Organization of the Research	3
<u>PART ONE :- SURVEY OF LITERATURE</u>	5
<u>CHAPTER ONE : Motivation for Improved Job Performance</u>	6
I.1 The Meaning of Motivation for Improved Job Performance	6
I.2 The Categories of Motivation Theories	10
I.3 Content Theories of Motivation	12
I.4 Process Theories of Motivation	20
I.5 Reinforcement Theory	26
I.6 Application of Motivation Theories for Setting Work Characteristics that Motivate	28
I.7 The Motivational Role of Money	32
I.8 Motivation in Public Organizations	35
<u>CHAPTER TWO : Payment Systems Design and Administration in Organizations</u>	41
II.1 Basic Considerations in Payment Systems Design and Administration	42
II.2 Elements of The Employee Pay	50
II.3 Determination of Job Pay Rates	51
II.4 Basic Issues in Pay Decisions	52
<u>CHAPTER THREE : The Design and Administration of Performance- Based Pay Systems in Organizations and its Impact on Motivation</u>	57
III.1 Use of Appraisal Results in Performance-Based Pay Systems	58
III.2 Types of Performance-based Pay Systems	61
III.3 Types of Financial Incentive Pay Plans	63
III.4 Typical Problems and Hindrances That Affect The Successful Use of Performance-Based Pay Systems	71
III.5 The Impact of Communication	82

<u>CHAPTER FOUR : The Egyptian Setting : The General Environment and Previous Relevant Research</u>	86
IV.1 The Overall Environment of Administration in Egypt	86
IV.2 Survey of Some Previous Relevant Research	91
<u>PART TWO : - CASE STUDY - THE MOTIVATIONAL IMPACT OF THE PAY-FOR-PERFORMANCE SYSTEM OF BLUE COLLAR WORKERS IN A TYPICAL MANUFACTURING ENVIRONMENT IN EGYPT- THE PRODUCTION DEPARTMENT OF CHLORIDE EGYPT</u>	99
<u>CHAPTER FIVE Conceptual Framework, Methodology, Operational Definitions and Data Items</u>	100
V.1 Conceptual Framework	100
V.2 Operational Definitions	103
V.3 Methodology	106
V.4 Data Items and How Data was Collected	109
V.5 Limitations (Risks) of the Case Study	110
<u>CHAPTER SIX : Overall Assessment of The Pay-for-Performance System in the Production Department of Chloride Egypt</u>	111
VI.1 Introduction To Chloride Egypt	111
VI.2 Pay-For-Performance Incentives: The Increased Productivity Bonus Scheme	116
VI.3 The Incentive Scheme of Sales/ General and Management	119
VI.4 The Incentive Scheme of the Production Department	124
VI.5 Preliminary Subjective Appraisal of Production Incentives	135
<u>CHAPTER SEVEN : Analysis of Employee Responses to Structured Interview Questions - Conclusion</u>	140
VII.1 Analysis of Employee Structured Interview Questions	140
VII.2 CONCLUSION	159
<u>BIBLIOGRAPHY</u>	167
<u>APPENDICES</u>	
Appendix I : Structured Interviews with Managers	174
Appendix II : Structured Interviews with Workers	176

INTRODUCTION

PROBLEM AREA

A central concern of both public and private sector management is the motivation of employees for improved job performance in order to help achieve organizational objectives. However, there exists the problems of the proper identification of the desired employee performance behaviors that would help achieve organizational success, the proper design and administration of performance evaluation tools as well as the identification of rewards that are valued by employees. Specifically, the optimum design, administration and implementation of the general organizational reward mix, including intrinsic and extrinsic rewards and financial/non-financial rewards in a way that would lead to motivation for improved job performance is of extreme importance. More specifically, the design and administration of financial pay-for-performance incentives - which could be one component of the general organizational reward mix - is a key element for sustained motivation for improved productivity and performance.

MAJOR RESEARCH QUESTION

Can financial performance incentives improve the motivation of employees for improved job performance? How? In what way? And to what extent may this apply to blue-collar manufacturing workers in a typical manufacturing setting in Egypt?

SPECIFIC RESEARCH QUESTIONS

- a. How can we motivate employees for improved job performance in general ?
- b. What are the elements that must be dealt with in the design, administration and implementation of the general organizational reward system in a manner that would motivate employees for improved job performance ?
- c. How can money be used to motivate employees for improved job performance, particularly for blue-collar manufacturing workers in a typical manufacturing unit in Egypt ? How should a pay-for-performance system be designed and administered as one component of the reward system, particularly for such a setting ?
- d. How can such financial pay-for-performance scheme be integrated successfully into the general organizational reward mix chosen ?

WORTHINESS OF THIS AREA OF RESEARCH

Concern for the proper design and administration of financial performance incentives is of extreme importance because such incentives have a direct and a measurable impact on the cost structure of companies and hence affect directly their profitability and competitiveness. On the other hand, if financial performance incentives - which are intended to motivate employees for improved job performance - are not properly planned and administered, they may result in a negative impact on workers' morale and organizational climate in addition to their costs thus having a negative contribution to corporate success. The performance of manufacturing employees - furthermore - is a key element for corporate success in manufacturing firms as they are the primary labor on which company activities center. On the other hand, the literature on motivation shows that motivation theories more or less underrate the role of money as a

motivating incentive and give more weight to intrinsic rewards. However, there is much doubt about whether this applies generally to developing countries like Egypt where per-capita incomes are low especially if such incentives could constitute a large portion of total pay. It should be noted here that the exploratory part of this research will apply to blue-collar manufacturing workers in a typical manufacturing setting where assessment of performance is relatively simple as the output of those employees is to a large extent readily measurable and where it is more likely to have such a reward system in the first place.

TYPE OF RESEARCH

A survey of the related literature is first presented, covering motivational concepts, theories and applications, payment systems design and administration, pay-for-performance problems and some previous relevant research about Egypt. A case study of pay-for-performance incentives of blue-collar manufacturing workers in a typical manufacturing unit in Egypt is then presented and is dealt with in an exploratory manner in order to gain insight into the role that financial performance incentives can play in the motivation for improved performance among blue-collar manufacturing employees in this unit.

ORGANIZATION OF THIS RESEARCH

This research consists of two main parts. The first part (Part One) is a brief survey of the relevant literature to the subject whereas the second one (Part Two) is a case study of the pay-for-performance scheme of blue-collar manufacturing workers in a typical manufacturing unit in Egypt, which is the production department of Chloride Egypt.

Part one is divided into four main chapters. Chapter one addresses the meaning of the concept of motivation for improved job performance and its implications, the various theories of motivation and the applications that have been designed in order to make arrangements at work that are conducive of employee motivation. Also, the role of money as a motivator is given special attention as a prelude to a latter discussion of pay-for-performance systems. Moreover, the peculiar motivational aspects of work in government are also discussed in the context of the concept of "public service motivation". Chapter Two includes a discussion of the problems of the design and administration of payment systems in organizations, raising such issues as employee objectives, employers' objectives, equity and reward mix composition. In Chapter three, however, the various types and typical problems of pay-for-performance systems are discussed. Chapter four, furthermore, offers a brief overview of some relevant research in the Egyptian setting.

Part Two, which deals with the case study, is divided into three Chapters. Chapter five presents the methodological framework, Chapter six provides the general relevant information about the company and its pay-for-performance system and chapter seven presents the findings of the exploratory part of the research, including the results and the conclusion. The case study part, therefore, attempts to investigate and test practically a range of the concepts discussed in the survey of literature.

CHAPTER I

MOTIVATION FOR IMPROVED JOB PERFORMANCE

1.1 THE MEANING OF MOTIVATION FOR IMPROVED JOB PERFORMANCE

According to Gellman, Pincus and Korman, the word "motivation" comes from the Latin word "movere" which means "to move".¹ It is a general term which is used to describe the state of mind which causes a person to act in a certain way. It is a state of mind which is characterized by a certain degree of intensity and direction. It is a state of mind which is characterized by a certain degree of persistence and stability. It is a state of mind which is characterized by a certain degree of awareness and understanding. It is a state of mind which is characterized by a certain degree of freedom and choice. It is a state of mind which is characterized by a certain degree of responsibility and accountability. It is a state of mind which is characterized by a certain degree of self-direction and self-control. It is a state of mind which is characterized by a certain degree of self-motivation and self-encouragement. It is a state of mind which is characterized by a certain degree of self-fulfillment and self-actualization. It is a state of mind which is characterized by a certain degree of self-achievement and self-satisfaction. It is a state of mind which is characterized by a certain degree of self-empowerment and self-efficacy. It is a state of mind which is characterized by a certain degree of self-compassion and self-kindness. It is a state of mind which is characterized by a certain degree of self-respect and self-worth. It is a state of mind which is characterized by a certain degree of self-love and self-care. It is a state of mind which is characterized by a certain degree of self-acceptance and self-approval. It is a state of mind which is characterized by a certain degree of self-compassion and self-kindness. It is a state of mind which is characterized by a certain degree of self-respect and self-worth. It is a state of mind which is characterized by a certain degree of self-love and self-care. It is a state of mind which is characterized by a certain degree of self-acceptance and self-approval.

PART ONE

SURVEY OF RELATED LITERATURE

The purpose of this survey is to provide a comprehensive overview of the literature related to motivation for improved job performance. The survey is organized into three main sections: (1) Theoretical Foundations, (2) Empirical Research, and (3) Practical Applications. The theoretical foundations section discusses the various theories of motivation, including Maslow's hierarchy of needs, Herzberg's two-factor theory, and Deci and Ryan's self-determination theory. The empirical research section reviews the findings of numerous studies that have investigated the relationship between motivation and job performance. The practical applications section provides a detailed overview of the various techniques and strategies that have been developed to enhance motivation in the workplace. The survey concludes with a summary of the key findings and a discussion of the implications for future research and practice.

CHAPTER I

MOTIVATION FOR IMPROVED JOB PERFORMANCE

I.1 THE MEANING OF MOTIVATION FOR IMPROVED JOB PERFORMANCE

According to Callahan, Fleenor and Knudson, the word "Motivation" comes from the latin word "movere" which means "to move".¹ Concerned about employee performance in particular, they refer to a definition whereby motivation is viewed as being "the process that causes behavior to be energized, directed, and sustained."² Another definition - supplied by Middlemist and Hit - holds that motivation refers to the " forces acting on and coming from within a person that account, in part, for the willful direction of one's efforts toward the achievement of specific goals."³ Pamela Kaul - however - provides an easy and a comprehensive definition of motivation that is particularly useful in the context of motivation of employees for better job performance.

"motivation is a condition within an individual to act, behave, perform, or do. A person is said to be positively motivated when he or she acts to gain something that is desired, such as a praise, a promotion, or some type of reward. A person is said to be negatively motivated when he or she behaves in a certain manner to avoid something considered undesirable, such as punishment or losing a job."⁴

1.

Robert E. Callahan, C.Patrick Fleenor, and Harry R. Knudson, Understanding Organizational Behavior : A Managerial Viewpoint, (London : A Bell & Howell Co., 1986), p.81.

2.

ibid. This definition is quoted by Callahan from R.M Steers and L.W. Porter, Motivation and Work Behavior, 3rd. ed. (NewYork: McGraw-Hill, 1983).

3. R. Dennis Middlemist and Michael A. Hit, Organizational Behavior: Managerial Strategies For Performance (St. Paul : West Publishing Company, 1988), p. 144.

Pamela Kaul holds further that we cannot "instill" motivation in people. Rather, motivation is induced from them as they actually behave so as to satisfy their needs from the most basic (existence) to the highest ones (self-actualization and self-development). In Kaul's view, each organization is faced with the "challenge" of providing a work environment that is conducive to the fulfillment of the various needs of various employees. It follows - as Kaul holds - that managers should learn about their individual subordinates' needs in order to be able to satisfy them. This entails the realization and the recognition of the fact that people are different and hence their needs are also different. However, managers are not required to manage each employee separately. Rather, they may create an overall organizational climate that rewards each employee according to his/her needs.⁵

In this research, the most important concern is the consequences of motivation of employees on their productivity and hence on organizational performance. This is because of the fact that organizational performance is a function of the performance of individuals and groups within the organization. On the other hand, the performance of an employee is a function of both his/her abilities (skills and talents) on one hand as well as his motivation (will to work) on the other hand.

Stephen Robbins quotes Einstein as saying that "genius is 10 percent inspiration and 90 percent perspiration" concluding that Einstein meant to underscore the importance of hard work.⁶ Robbins defines a need as a "physiological or

4. Pamela A. Kaul, "Motivation is more than pay," Association Management, vol. 40, August 1988, pp. 16-17.

5. Pamela A. Kaul, "Motivation is more than pay," Association Management, vol. 40, August 1988, pp. 16-17.

6. Stephen Robbins, Essentials of Organizational Behavior (2nd ed.),

psychological deficiency that makes certain outcomes appear attractive" and defines motivation as "the willingness to do something, and is conditioned by this action's ability to satisfy some need for the individual".⁷ Recognizing that motivation is function of both ability and motivation, Robbins explains motivation in terms of hard work, noting that some people work harder than others so that in some cases individuals with lesser capabilities outperform more gifted individuals.⁸

Campbell and Pritchard, however, regard the performance of an individual as being any behavior that aims at the accomplishment of some task/goal and express it as a function of both ability and motivation as follows :-⁹

a. "Performance = f (Ability x Motivation)" or more explicitly

b:	Aptitude	Skill	Understanding	Choice	Choice of	Choice to	Facilitating
	level	x level	x of the task	x to expend	x degree of x	persist	x and inhibiting)"
				effort	effort to		conditions not
					expend		under the control
							of the individual

Campbell and Pritchard also define motivation as "a summary label" that identifies a set of independent/dependent variable relationships (willingness to exert effort - choice of degree of effort to exert - choice to persist) that account for the magnitude, direction and persistence of in-

(Englewood Cliffs, NJ : Prentice Hall Inc., 1988), pp.27-28.

7. Stephen Robbins, Essentials of Organizational Behavior (2nd ed.), (Englewood Cliffs, NJ : Prentice Hall Inc., 1988), pp.27-28.

8. ibid.

9. John P. Campbell and Robert D. Pritchard, "Motivation Theory in Industrial and Organizational Psychology" in Handbook of Industrial and Organizational Psychology, ed. Marvin D. Dunnette (New York : John Wiley and Sons, 1983), pp. 63-65. (The equations below are also quoted from this source).

dividual behavior, keeping constant the effects of aptitude/skill level, understanding of the task and environmental factors/constraints.¹⁰

... that the different motivation theories or models do not address themselves to the same set of questions and that there are different categories of these theories operating in different aspects of the subject. They refer to a major distinction made in 1970 by Campbell, Dunnette, Lewler and Weick whereby such theories are classified into "mechanical or process theories" and "substantive or content theories".¹¹

It is suggested that substantive or content theories address themselves more to the substance of the variables influencing behavior and tend to be concerned with identifying people's basic needs, preferred rewards and the most powerful incentives.¹² A theory would, for instance, suggest that job performance outcomes are derived from promotions, salary increases, job security, recognition and friendly colleagues whereas another could suggest a different list.¹³

Mechanical or Process theories, on the other hand, are said to give general explanations of the processes which lead to choices among different courses of action, different degrees of efforts to exert and persistence over time.¹⁴ They first attempt to define the variables which are important for making such choices (such as incentive, drive,

10. J. B. Campbell and Robert B. Dunnette, "Motivation Theory in Personnel and Organizational Psychology" in *Handbook of Industrial and Organizational Psychology*, ed. Marvin S. Dunnette (Chicago: Rand McNally, 1971), pp. 15-24 referring to J. B. Campbell, R. B. Dunnette, J. E. Lewler and E. J. Weick, "Motivational Theories, Processes and Structures" (New York: McGraw-Hill, 1970).

11. *Ibid.*

12. *Ibid.*

10. *ibid.*

I.2 THE CATEGORIES OF MOTIVATION THEORIES

Campbell and Pritchard argue that the different motivation theories or models do not address themselves to the same set of questions and that there are different categories of those theories operating in different aspects of the subject. They refer to a major distinction made in 1970 by Campbell, Dunnette, Lawler and Weick whereby such theories are classified into "mechanical or process theories" and "substantive or content theories".¹¹

It is suggested that substantive or content theories address themselves more to the substance of the variables influencing behavior and less to the processes by which they do it and are hence typically concerned with identifying peoples' basic needs, preferred rewards and the most powerful incentives.¹² A theory could, for instance, suggest that job performance outcomes are derived from promotions, salary increases, job security, recognition and friendly colleagues whereas another could suggest a different list.¹³

Mechanical or Process theories, on the other hand, are said to give general explanations of the processes which lead to choices among different courses of action, different degrees of efforts to exert and persistence over time.¹⁴ They first attempt to define the variables which are important for making such choices (such as incentive - drive -

11. John P. Campbell and Robert D. Pritchard, "Motivation Theory in Industrial and Organizational Psychology" in Handbook of Industrial and Organizational Psychology, ed. Marvin D. Dunnette (New York : John Wiley and Sons, 1983), pp. 65-66 referring to J. D. Campbell, M.D. Dunnette, E.E. Lawler III and K. E. Weick, Jr., Managerial Behavior, Performance and Effectiveness (New York : McGraw-Hill, 1970).

12. *ibid.*

13. *ibid.*

14. *ibid.*

reinforcement - expectancy) and then attempt to specify the ways in which such variables interact so as to influence a certain dependent variable(s). Drive, reinforcement, expectancy and equity could all be categorized as process theories.¹⁵

It is held also that process models such as those of Thorndike, Hull, Spence, Hebb, Tolman and Atkinson have been derived experimentally whereas content theories such as those of Freud, McDougall, Murray, McClelland and Maslow have been clinical-differential.¹⁶ It is held further that industrial and organizational psychology is one of few domains in which the two orientations are used jointly.¹⁷

Callahan also differentiates between content theories and process theories but identifies reinforcement theories as a distinct third category.¹⁸ To Callahan, reinforcement theory is not concerned with the internal conditions of the motivation of the employee and the satisfaction of his/her needs. Rather, it is concerned with the external working environment. Reinforcement aims at motivation by creating environmental conditions that are supposed to fulfill or match the requirements for repeating the desired behavior.¹⁹

15. John P. Campbell and Robert D. Pritchard, "Motivation Theory in Industrial and Organizational Psychology" in Handbook of Industrial and Organizational Psychology, ed. Marvin D. Dunnette (New York : John Wiley and Sons, 1983), pp. 65-66 referring to K.B. Madsen, "Theories of motivation : an overview and a synthesis", in M.R. Jones (ed.) Human Motivation : A symposium (Lincoln : University of Nebraska Press, 1965).

16. *ibid.*

17. *ibid.*

18. Robert E. Callahan, C.Patrick Fleenor, and Harry R. Knudson, Understanding Organizational Behavior : A Managerial Viewpoint, (London : A Bell & Howell Co., 1986), pp.81-82.

19. *ibid.*

I.3 CONTENT THEORIES OF MOTIVATION

I.3.1 MASLOW'S NEED HIERARCHY THEORY (Abraham Maslow-1940s)

According to the theory, people are motivated by their desire to satisfy their needs. Maslow suggests a hierarchy of five levels of human needs that range from the most basic needs to the most complex ones. According to the theory, people will be motivated to satisfy basic needs before moving to more complex ones. When a more basic need is substantially satisfied, it becomes no longer a motivator and the satisfaction of a higher order need becomes dominant. In other words, a more basic need is "prepotent" (predominant) over all higher level needs until it is substantially satisfied. In this way, a person is supposed to be always trying to fulfill some sort of needs. It is suggested further that there are more ways to satisfy higher order needs than there are for lower levels of needs.²⁰

The first and most basic level of needs is that of physiological needs which are the rudimentary needs that are necessary for life sustainment. These include the need for air, water, food, clothing and shelter. The second and immediately higher level of human needs is that of security and safety needs (also called self-preservation needs). They include the need to protect oneself against both the danger of deprivation of physiological needs and the physical dangers (calamities - misfortunes) in the present and in the future. The third level of human needs is that of social affiliation, association, and belonging whereby the human seeks to become socially accepted and to attain membership in whatever social groups.²¹

20. Robert E. Callahan, C.Patrick Fleenor, and Harry R. Knudson, Understanding Organizational Behavior : A Managerial Viewpoint, (London : A Bell & Howell Co., 1986), pp. 83-85.

21. *ibid.*

The fourth level of human needs is that of esteem needs. This includes self-esteem, recognition and respect of others. Satisfaction of this level of needs makes the person self-confident and allows him/her to develop some sense of prestige, status, and possibly power and control. The fifth and highest level of Maslow's hierarchy of human needs is that of self-actualization and self-development. It covers the need to fulfill and maximize one's potential through achievement and advancement in work, career creativity, and job perfection.²²

It is suggested by Middlemist and Hit that Maslow's need hierarchy concept has not had enough empirical support, especially with regards to the five specific categories. Also, they refer to some research that found that an individual could have strong social, esteem and self-actualization needs simultaneously and to Maslow's clinical studies that have shown that prepotency does not apply to all individuals.²³ However, it could be argued that Maslow's need hierarchy theory seems to be still quite useful and popular despite the limitedness of its empirical support.

22. Robert E. Callahan, C.Patrick Fleenor, and Harry R. Knudson, Understanding Organizational Behavior : A Managerial Viewpoint, (London : A Bell & Howell Co., 1986), pp. 83-85.

23. R. Dennis Middlemist and Michael A. Hit, Organizational Behavior: Managerial Strategies For Performance (St. Paul : West Publishing Company, 1988), p. 146. referring to

a) M.A. Wahba and L.G. Bridwell, "Maslow Reconsidered : A review of the research on the Need Hierarchy Theory" in Organizational Behavior and Human Performance 15 (1976) : 212 -240

b) J.B. Miner, Theories of Organizational Behavior (Hinsdale, III, Dryden Press, 1980), 23.

I.3.2 ALDERFER'S NEED THEORY (EXISTENCE-RELATEDNESS-GROWTH OR ERG THEORY)

Alderfer's theory is in a way similar to that of Maslow. However, one basic difference is that of Alderfer's categorization of human needs into three sets rather than five. The three broad categories of needs that are advanced by Alderfer are those of Existence, Relatedness, and Growth; hence ERG. Existence needs are those of material and physiological existence. Roughly speaking, Alderfer's existence needs correspond to Maslow's physiological needs and safety needs. Relatedness needs are those of social belonging, association, membership and friendship and they correspond, roughly speaking, to Maslow's social needs. Alderfer's growth needs refer to the person's needs for maximizing his/ her development potential and they more or less correspond to Maslow's esteem needs and self-actualization needs.²⁴

According to Charles Milton, Alderfer's theory is based upon some basic propositions.²⁵ First, the frustration of existence or relatedness needs results in an increased desire for the satisfaction of the need frustrated. Second, the less the satisfaction of relatedness needs of an individual is, the more the individual's desire for satisfaction of existence needs becomes. Similarly, the less the satisfaction of growth needs of an individual is, the more the individual's desire for satisfaction of relatedness needs becomes. As Milton holds, this "frustration regression" is a consequence of the idea that if an individual does not attain a "less concrete" need, the individual

24. R. Dennis Middlemist and Michael A. Hit, Organizational Behavior: Managerial Strategies For Performance (St. Paul : West Publishing Company, 1988), p. 146-147.

25. Charles R. Milton, Human Behavior in Organizations : Three Levels of Behavior, (Englewood Cliffs, NJ : Prentice-Hall Inc., 1981), pp.64-65.

"regresses" to a "more concrete" and a more certain one. In other words, a satisfied need could still be the dominant motivator if the higher one cannot be satisfied. In other words, Alderfer's theory holds that the three needs could be active simultaneously. This proposition or idea does not exist in Maslow's need hierarchy.²⁶

The third proposition upon which Alderfer's ERG theory is based is that individuals progress to less concrete needs the more they satisfy more basic ones. This proposition is consistent with Maslow's need hierarchy. However, Alderfer does not argue for a strict "prepotency" like Maslow who views the satisfaction of more basic needs as a more or less strictly prerequisite for seeking the satisfaction of more complex ones. Growth needs in both of Maslow and Alderfer's theories, however, are more desired the more they are satisfied.²⁷

Though they call for the importance of conducting further research on ERG theory to test it under several conditions, Middlemist and Hit view ERG as a refinement of Maslow's need hierarchy. They maintain also that there is more research support for Alderfer's ERG than for Maslow's need hierarchy and that such support includes the three-need classification and the proposition that a satisfied need may still remain as a motivator. It was also found that the more relatedness and growth needs are satisfied, the more they are desired.²⁸

26. Charles R. Milton, Human Behavior in Organizations : Three Levels of Behavior, (Englewood Cliffs, NJ : Prentice-Hall Inc., 1981), pp.64-65.

27. *ibid.*

28. R. Dennis Middlemist and Michael A. Hit, Organizational Behavior: Managerial Strategies For Performance (St. Paul : West Publishing Company, 1988), p.147. referring to :-

a) J.P. Wanous and A. Zwany, "a cross-sectional test of Need Hierarchy Theory", Organizational Behavior and Human Performance 18 (1977) : 78-79.

b) C.P. Alderfer, R.E. Kaplen and K.K. Smith, " The Effect of variations

I.3.3 HERZBERG'S TWO-FACTOR THEORY (TWO-NEED THEORY)

F.Herzberg conducted different investigations asking people to give detailed descriptions of situations where they felt particularly happy/unhappy at work and tabulated and categorized responses. He concluded from his investigations that there are two categories of human needs, namely "hygiene factors" and motivating factors. Hygiene factors, which are also called extrinsic factors, are the factors that prevent employee dissatisfaction. Employees should have appropriate pay and working conditions, security, status, adequate supervisory practices, adequate personal life conditions, adequate relation with others in the workplace (peers- subordinates - superiors) and adequate co. policies and administration in order to prevent dissatisfaction. However, the adequacy of such extrinsic factors does not by itself - ipso facto - result in satisfaction and motivation. Motivators, which are also called intrinsic factors, are those factors that can produce employee satisfaction and possibly motivation like recognition, responsibility, achievement, advancement in work and the nature of the work in general. Though there are criticisms to the research methodology of Herzberg, the theory is useful for understanding the intrinsic/extrinsic aspects of work.²⁹

in relatedness need satisfaction on relatedness desires", Administrative Science Quarterly, 19 (1974) : 507-532.

29. Robert E. Callahan, C.Patrick Fleenor, and Harry R. Knudson, Understanding Organizational Behavior : A Managerial Viewpoint, (London : A Bell & Howell Co., 1986), pp.83-92.

I.3.4 MCCLELLAND THEORY OF MOTIVATION

McClelland discusses three human needs or relevant motives in the workplace, namely the need for achievement, the need for affiliation and the need for power. According to his model on motivation, people with a high need for achievement like to be productive and to reach goals and success. They like to do something better than it has been done before.³⁰

According to the theory, people who have a high need for achievement typically have the following characteristics:³¹

- they like to set their own goals and to have a high degree of control to achieve those goals.
- they set goals that are reasonably difficult but achievable.
- they like to have feedback on their performance.
- they find solutions to life difficulties.³²

People with a high need for affiliation - on the other hand - like to be or tend to be associated with others and to be accepted and liked by others. People with a high need for power - furthermore - like to be influential, prestigious and to have some sort of impact on others. McClelland identifies two faces of the need for power, a negative face and a positive one. The positive face of the need for power is that of "socialized power" which is the desire to influence others but with concern for group goals and for helping others to achieve those goals. The negative face of the need for power is that of "personalized power" which is aimed at

30. Robert E. Callahan, C.Patrick Fleenor, and Harry R. Knudson, Understanding Organizational Behavior : A Managerial Viewpoint, (London : A Bell & Howell Co., 1986), pp.83-92.

31. *ibid.*

32. *ibid.*

personal gain, manipulation, and dominance. One implication of McClelland's theory is that a person with a high need for affiliation but with a low need for power is probably an ineffective manager. This is because he or she will seek belonging and being liked by others and may therefore make compromises in favor of some particular individuals. Good managers - as Callahan concludes - should not be motivated by the need to get along with people nor with the need to have personalized power but rather with the need to have socialized power in order to be able to influence the behavior of subordinates for the good of the organization.³³

Middlemist and Hit, however, note arguments that the three needs could be "learned ones" as they may be influenced by individuals' cultural backgrounds and could be learned by training.³⁴ They also stress the need for achievement as being important for managerial and entrepreneurial individuals and mention that it could be considered as a component of self-actualization.³⁵

33. Robert E. Callahan, C.Patrick Fleenor, and Harry R. Knudson, Understanding Organizational Behavior : A Managerial Viewpoint, (London : A Bell & Howell Co., 1986), pp.83-92.

34. R. Dennis Middlemist and Michael A. Hit, Organizational Behavior: Managerial Strategies For Performance (St. Paul : West Publishing Company, 1988), p. 147-148 referring to D.C. McClelland, "That urge to achieve", Think 32 (1966): 19-23.

35. *ibid* referring to :

a) D.C. McClelland, The Achieving Society, (Princeton, Nj : Van Nostrand, 1981).

b) P. Hersley and K.H. Blanchard, Management and Organizational Behavior, (Newyork : Prentice-Hall, 1972).

I.3.5 IMPLICATIONS OF CONTENT THEORIES OF MOTIVATION

Content theories of motivation - according to Middlemist and Hit - emphasize the needs and the various job intrinsic/extrinsic rewards that meet those needs and thereby affect motivation. They contend that the various content theories discussed are popular among managers as they sound true and that McClelland need for achievement and Herzberg's two-factor theory have more specific applications.³⁶

Managers have developed applications that are built upon conclusions drawn from content theories like :

- in the selection of employees, an attempt could be made to match employee needs with rewards offered by the organization.
- employees might have training and development to achieve their needs.
- goals might be set in a way that is amenable to matching employee achievement needs.
- there might be various ways that enrich job design like recognition, responsibility, advancement and growth.³⁷

36. R. Dennis Middlemist and Michael A. Hit, Organizational Behavior: Managerial Strategies For Performance (St. Paul : West Publishing Company, 1988), p. 151

37. *ibid.*

I.4 PROCESS THEORIES OF MOTIVATION

I.4.1 EQUITY THEORY

The concept of equity refers to the employees' perceptions of whether their treatment - as compared to that of others - is fair or equitable. This is done through the comparison of the person's outcomes and inputs to those of others. Positive inequity results when an employee feels that he or she has received outcome that is - relative to his inputs - more than others have received relative to their inputs. Negative inequity, on the other hand, results when an employee feels that he or she has received outcome that is - relative to his inputs - less than others have received relative to their inputs. According to equity theory, individuals are likely to behave in such a way that is amenable to restoring equity :-

- Trying to change work inputs by increasing or decreasing them to restore equity.
- Trying to influence and change outcomes or rewards received.
- Think of quitting the job.
- Think of reevaluating his/her perceptions of the worth of inputs and outputs.
- Try to distort the comparison.³⁸

One application of equity theory is when managers seek fairness and equity through seeking fairness in pay. This could be done via the introduction of merit-pay systems, which ties pay to the performance and the efforts of the employee. Overpaying of some employees relative to others should also be avoided.³⁹

38. Robert E. Callahan, C.Patrick Fleenor, and Harry R. Knudson, Understanding Organizational Behavior : A Managerial Viewpoint, (London : A Bell & Howell Co., 1986), pp. 92-99.

39. *ibid.*

I.4.2 EXPECTANCY THEORY

Victor Vroom came up with his expectancy-valence-instrumentality theory which aims at the explanation of the mechanism of the motivation of an individual to put effort to get specific tasks accomplished. Expectancy is a self-assessment by an individual employee of whether his/her effort will result in a certain performance level (effort-performance linkage). Instrumentality is the perception of an individual employee of rewards that would result from the successful performance of a certain task (performance-reward linkage). Valence is how the individual employee values different rewards (like pay increase, recognition, etc.). Therefore, motivation of an employee to perform a task depends upon the employee's belief about effort-performance relationship, performance-outcome relationship as well as the relationship of outcomes to his/her preferences and needs.⁴⁰

Vroom's model, however, makes implicit assumptions. First, it assumes voluntary behavior. This assumption could be viewed as being realistic because it is true that people may not have the option to perform or not to perform certain tasks in their workplace but the quality of their work, their productivity and task performance depends to a large extent on their motivation. In many cases, however, work effort may not necessarily lead to improved work output as machine stoppages, interruptions and various environmental constraints could affect outcomes. Second, the model assumes that people are rational in their decision making. This assumption could also be regarded as realistic. Although employees may not necessarily have the information or the

40. Robert E. Callahan, C.Patrick Fleenor, and Harry R. Knudson, Understanding Organizational Behavior : A Managerial Viewpoint, (London : A Bell & Howell Co., 1986), pp. 92-99.

analytical tools to estimate with accuracy and precision the weight of each reward, the expectancy of attainment of desired performances and whether improved performance will be rewarded, they can still use judgment to reach decisions which satisfy their marginal utility.⁴¹

Middlemist and Hit, however, offer a comprehensive analysis of the expectancy concept based on an integration of several approaches. To them, work motivation is said to be the result of five interacting variables, namely Intrinsic Valence 1 associated with task performance (IV1), Intrinsic Valence 2 associated with task accomplishment (IV2), Effort-Performance Expectancy (E1), Performance-Outcome Expectancy or Instrumentality (E2) and Extrinsic Valence (EV) :-⁴²

- Intrinsic Valence 1 refers to the rewarding outcome resulting from interest of the individual in the job and the individual's enjoyment of performing the job.

- Intrinsic Valence 2 refers to the satisfaction resulting from the accomplishment of a certain task. They suggest also that IV2 correlates positively with high need for achievement. They also refer to research indicating that where IV1 and IV2 are high, motivation is high regardless of the form of pay and that attaining difficult goals in particular is intrinsically rewarding. IV1 and IV2, in general, are believed to underscore the importance of intrinsic rewards.

41. Robert E. Callahan, C.Patrick Fleenor, and Harry R. Knudson, Understanding Organizational Behavior : A Managerial Viewpoint, (London : A Bell & Howell Co., 1986), pp. 92-99.

42. R. Dennis Middlemist and Michael A. Hit, Organizational Behavior: Managerial Strategies For Performance (St. Paul : West Publishing Company, 1988), pp. 152-155.

- Expectancy E1 indicates the perception of the achievement level that will result upon exerting a certain level of effort which in turn depends on perceptions about self-capabilities, supervisory support and perceived outside factors that may interfere with performance.

- Expectancy E2 is described as the expectation about the extrinsic rewards (pay - recognition - promotion) that will result if task goals are accomplished. E2 is said to depend upon the assessment by employees of the consistency/inconsistency of organizational reward policy, supervisor's fairness and ability to measure performance.

- Extrinsic valence is the value that employees place on the extrinsic rewards that result from reaching performance goals. It depends upon individual differences in preferences (pay - recognition - promotion). Attesting the usefulness of the theory, Middlemist and Hit indicate that there is supportive research to the theory, although it has not been thoroughly tested.⁴³

43. R. Dennis Middlemist and Michael A. Hit, Organizational Behavior: Managerial Strategies For Performance (St. Paul : West Publishing Company, 1988), pp. 152-155.

I.4.3 GOAL-SETTING THEORY

The "desires and aspirations" of an individual lead to having individual goals conducive to the attainment of individual welfare. Goals direct the person's behavior. If the goal is accomplished, the individual becomes satisfied and his/her motivation increases and vice versa. It is suggested further that :

- the more difficult the goal is, the higher the task performance.
- the more specific the goal is, the higher the task performance.
- the more the employee accepts the goal as his or her own goal and the more the employee is committed and dedicated to achieving this goal, the higher the task performance. Goal acceptance is higher by employees if there is employee participation in goal-setting, if there are personal benefits perceived from goal accomplishment and if there is perceived capability of accomplishing the goal. There is supportive research for the findings above.⁴⁴

44. Robert E. Callahan, C.Patrick Fleenor, and Harry R. Knudson, Understanding Organizational Behavior : A Managerial Viewpoint,(London : A Bell & Howell Co., 1986), pp. 97-98.

I.4.4 IMPLICATIONS OF THE PROCESS THEORIES OF MOTIVATION

Unlike content theories - which concentrate on need fulfillment for motivation, process theories emphasize motivation as a complicated process that results from the interaction of many variables. Expectancy theory incorporates many of the concepts and the principles that are introduced in the other motivation models (McClelland's theory, Maslow's and Alderfer's theories, etc.). Equity theory, however, concentrates on interpersonal comparisons to evaluate the fairness of input/output relations. Goal setting theory, furthermore, emphasizes the processes by which goals are set.⁴⁵

45. R. Dennis Middlemist and Michael A. Hit, Organizational Behavior: Managerial Strategies For Performance (St. Paul : West Publishing Company, 1988), p. 161.

I.5 REINFORCEMENT THEORY

It is suggested that Reinforcement theory - unlike the previous ones - is "acognitive". It does not look into the inside of the individual. Rather, it centers on the individual's environment and tries to structure that environment through reinforcement in order to get the desired behaviors. A manager could use reinforcement for directing and sustaining employee behavior and thereby motivating employees. The concept of "Operant conditioning" introduced in the context of the theory is denotes that individual behavior is a voluntary and a function of its own consequences and not reflexive. In other words, it is more likely to be repeated if it is reinforced positively by consequences. Positive reinforcement takes place if a desired response is followed by a desired consequence. To be effective - however - the pleasant consequence should follow the desired response immediately. Negative reinforcement, however, occurs when a desired response takes place followed by the elimination of an unpleasant thing. Punishment is defined in this context as the introduction of an unpleasant thing in order to eliminate an undesirable behavior. Another way of reinforcement is "extinction" which is the practice of not making any reinforcement hoping that the behavior will be changed. To be effective, extinction should nevertheless be followed by positive reinforcement to help develop the undesirable behavior into a desirable one.⁴⁶

Stephen Robbins observes a contradiction between goal-setting theory and reinforcement theory as the former is cognitive, suggesting that the individual's actions are

46. Robert E. Callahan, C.Patrick Fleenor, and Harry R. Knudson, Understanding Organizational Behavior : A Managerial Viewpoint, (London : A Bell & Howell Co., 1986), pp. 99-106.

directed by his/her purposes whereas the latter employs a behavioristic approach, maintaining that behavior is conditioned by reinforcement.⁴⁷

47. Stephen P. Robbins, Essentials of Organization Behavior, 2nd. ed., (Englewood Cliffs, NJ : Prentice Hall, 1988).

I.6 APPLICATION OF MOTIVATION THEORIES FOR SETTING WORK CHARACTERISTICS THAT MOTIVATE

Stephen Robbins notes some implications of motivation theories for managers in organizations. Individuals are different in needs, attitudes and personalities. It is important, therefore, to have rewards individualized according to the different needs of different individuals in an organization. It is held also that it is motivationally beneficial to match individuals properly to jobs (for example according to their degrees of need for achievement vs. affiliation. vs. power. Furthermore, hard and specific goals are recommended and participation in goal setting is also recommended if goals are likely to be resisted but not advisable in a climate where organization culture is at odds with participation. Efforts should be made to ensure that goals are perceived as attainable and that employees are confident that efforts will lead to satisfaction of performance goals and that appraisals are reliable and valid. As to rewards, Robbins highlights also the importance of linking reward to performance, especially key rewards and of making such rewards visible via communication, ensuring system equity and realizing the importance of money in motivation.⁴⁸

Based on the theories of motivation, organizations have developed a variety of working characteristics and arrangements that are conducive of employee motivation. However, the literature is rich in documenting motivating characteristics that depend upon the intrinsic content of various jobs rather than those of extrinsic value such as financial rewards. It is suggested that the following characteristics of work are of a very important job motivational impact:⁴⁹

48. Stephen P. Robbins, Essentials of Organization Behavior, 2nd. ed., (Englewood Cliffs, NJ : Prentice Hall, 1988), pp.42-44.

49. Derek Torrington and Laura Hall, Personnel Management, pp.356-357.

- a. The greater the variety of the tasks, machines and tools and the people who interact with the individual employee in job, the greater the employee job motivation.
- b. The higher the degree of decision making autonomy in the determination of the work tools and the work methods to be used by the employee, the higher the employee job motivation.
- c. The greater the decision-making responsibility delegated to the individual employee, the greater the employee job motivation.
- d. The more the employee is given a chance to be creative or to have some sort of a "skill discretion" or challenge, the greater the employee job motivation.
- e. The more the employee is given a chance for personal interaction with others, the greater the employee job motivation.
- f. The greater the significance and importance of the task assigned to the employee, the greater the employee's sense of the achievement and hence the greater the employee job motivation.
- g. The clearer the goals set, the more the participation of employees in goal-setting and their acceptance of these goals, the greater the employee job motivation.⁵⁰

There is a variety of techniques available for utilizing the theories of motivation and the work characteristics identified above to boost employee satisfaction, job motivation and improved performance. Of these techniques, the most common ones are job rotation, job enlargement, job enrichment, and variants of autonomous working groups. The simplest way of job design (or redesign) for improved motivation is job rotation. Job rotation entails the movement of workers between different tasks that are of a

50. *ibid*

similar nature. In addition to its advantage to employees of reducing boredom and stress, job rotation provides managers with a more flexible workforce. In applying job rotation, however, managers are typically faced with difficulties like problems of tracing mistakes and the problems of using the technique with complex and skilled jobs.⁵¹

The technique of job enlargement entails the enlargement of the scope of the job and adding to the basic and central task of the individual employee other related tasks. This reduces the dependence of the employee on others and lessens the extent to which his/her work is being paced by others. However, in many cases additional tasks are made to be multiples rather than variants of the original task. This reduces the advantages of the technique, especially its impact for reducing boredom and improving employee morale. Also, this technique is more costly than the technique of job rotation because it entails the inclusion of additional costs for the additional required tools, machines, space, and training. The technique of job enrichment, on the other hand, provides an opportunity to employees for a more involvement in shaping their work environment. It entails adding supervisory or managerial tasks to employees and thereby giving them a chance to have tasks of varying nature. This technique, however, could be very useful but is often costly and difficult to apply.⁵²

Another very effective job design technique is the various forms of autonomous working groups. It is an arrangement whereby formal working groups are set forth in an attempt to reach an efficient subdivision of work that is beyond the capacity of one person alone. The basis for this arrangement is considerations of administrative convenience,

51. Derek Torrington and Laura Hall, Personnel Management, pp.356-357.

52. *ibid.*

maximization of the benefit from the use of space, facilities and equipment. Autonomous working groups arrangements aim further at providing job enrichment advantages, the individual's need for socialization and flexibility, and autonomy among a group of workers of diversified skills.⁵³

53. Derek Torrington and Laura Hall, Personnel Management, pp.356-357.

I.7 THE MOTIVATIONAL ROLE OF MONEY

Callahan refers to the standard classification of rewards into intrinsic rewards and extrinsic rewards.⁵⁴ Intrinsic rewards are defined as those rewards that are granted through the person himself as a result of the nature of the task and the task performance, such as the feelings of accomplishment, creativity, pleasure, and interest that are attributed to the work itself. Extrinsic rewards, on the other hand, are defined as those rewards that are granted by others (the management of the organization in which the employee is working, supervisors, friends etc.) as a result of task performance. Examples of extrinsic rewards are pay increases, promotions and various ways of recognition. The kinds of rewards that appeal to individuals depend upon what they value. This depends upon many factors like the person's background, experience, etc. Some researchers argue that pay is the most important extrinsic reward whereas others hold that it is much less important than other rewards. Referring to Alderfer, Callahan contends that individuals receiving a small amount of an extrinsic reward tend to give it a high value.⁵⁵ Callahan suggest also - referring to Vroom - that dissatisfaction occurs as a result of the perception of one that his reward level is below the equitable amount.⁵⁶

54. Robert E. Callahan, C.Patrick Fleenor, and Harry R. Knudson, Understanding Organizational Behavior : A Managerial Viewpoint, (London : A Bell & Howell Co., 1986), pp. 351-352.

55. Robert E. Callahan, C.Patrick Fleenor, and Harry R. Knudson, Understanding Organizational Behavior : A Managerial Viewpoint, (London : A Bell & Howell Co., 1986), pp. 351-352 referring to C.P.Alderfer, "An Empirical Test of a New Theory of Human Needs," Organizational Behavior and Human Performance, (4):142-175

56. *ibid* referring to V.H. Vroom, "Industrial Social Psychology", in G Lindzey and E. Aronson, eds.The Handbook of Organizational Psychology, 2nd. ed., vol. 5 (Reading, MA : Addison-Wesley, 1970) : 200-208.

Furthermore, it is suggested, referring to research by Lawler, that where pay matters are kept secret, the greater the person overestimates the pay of others, the greater the person's dissatisfaction.⁵⁷

The importance of the role of money as a motivator is a controversial issue. Many of the theories of motivation downplay the value of money as a motivator and give more weight to intrinsic rewards. This is particularly evident in Herzberg's two factor theory which considers financial rewards - as well as other extrinsic rewards - as "Hygiene factors" that can only prevent dissatisfaction unlike intrinsic rewards which are the motivating ones. Therefore, many writers criticize systems which make pay the basis of motivating employees. In his article "How to ruin motivation with pay", Hamner holds that such systems may be criticized as a failure either on the ground of whatever managerial pitfalls in running these systems or due to an inherent weakness in the philosophy upon which these systems are built. Such criticism suggests that externally mediated rewards may reduce the motivation of employees who are already intrinsically motivated by their jobs as it would make them feel that they are doing their work for only financial rewards.⁵⁸

57. Robert E. Callahan, C.Patrick Fleenor, and Harry R. Knudson, Understanding Organizational Behavior : A Managerial Viewpoint, (London : A Bell & Howell Co., 1986), pp. 351-352 referring to E.E. Lawler, "Secrecy and the Need to Know", in M. Dunnette, R. House and H. Tosi eds, Readings in Managerial Motivation and Compensation (MI : Michigan State University Press, 1972), pp.362-367.

58. W. Clay Hamner, "How to ruin motivation with pay," in Motivation and Work Behavior ed. Richard M. Steers and Lyman W. Porter (Newyork:McGraw-Hill Book Company, 3rd ed., 1983), pp.264-267.

On the other hand, there are views that acknowledge the role of money as a motivator. To Stephen Robbins, money is regarded as a crucial incentive to work motivation on the basis of several factors.⁵⁹ First, Being a medium of exchange, money could be used to buy "things" which will satisfy their needs. Though it is acknowledged that people do not work for money alone, money is regarded as necessary for satisfying basic physiological and safety needs. Second, money is regarded as a "score-card" that indicates the value that the organization attaches to the services of employees and it has, from the perspective of equity theory, a symbolic value from the message it delivers. Third, from the perspective of reinforcement theory, workers may be encouraged to exert more effort if pay is made contingent on performance. Fourth, considering expectancy theory, money will be motivating as long as it is perceived as dependent upon performance and able to satisfy various needs.⁶⁰ Robbins also refers to research by Edwin A. Locke as a strong case for money as a motivator. The impact of each of four methods of motivating employees for improved performance was compared as follows: goal-setting (16%), job redesign (17%), participation (less than 1%) and money (30%). Locke is also said to have reviewed other studies and found that in everyone where money was used as a motivator, it was found that it resulted in some improvement of employee performance.⁶¹ Schuler and Youngblood, furthermore, support

59. Stephen P. Robbins, Organizational Behavior : Concepts, Controversies and Applications. (EngleWood Cliffs, New Jersey : Prentice-Hall Inc., 1986), pp. 144-145.

60. Stephen P. Robbins, Organizational Behavior : Concepts, Controversies and Applications. (EngleWood Cliffs, New Jersey : Prentice-Hall Inc., 1986), pp. 144-145.

61. *ibid* referring to E.A. Locke et al, " The Relative Effectiveness of Four Methods of Motivating Employee Performance" in Changes in Working Life, eds. K.D.Duncan, M.M. Gruneberg and D. Wallis (London : John Wiley, ltd., 1980), pp.363-83.

the view which attests the motivational importance of money:

"People who question the motivational value of money," says Towers, Peerin, Forster, and Crosby's Mr. Crystal," tend to be mostly in academia or the news media. They have a much lower greed content than executives in industry and are motivated by other things. And that's good, because if they measured their success by the money they make, they'd probably kill themselves."⁶²

62. Randall S.G. Schuler and Stuart A. Youngblood, Effective Personnel Management 2nd ed. (St. Paul : West Publishing Co, 1966), p. 327. quoting from Industry Week, 4 May 1981, pp.66.

I.8 MOTIVATION IN PUBLIC ORGANIZATIONS

The literature on motivation in general, which covers various aspects of the subject, is useful for analysis regardless of whether an organization is public or private, not-for-profit or profit-seeking and so on. It is believed, however, that there are aspects which are peculiar to public organizations that makes motivation in those organizations somewhat distinct. Perry and Wise present the concept of "Public Service Motivation" of an individual as the "individual's predisposition to respond to motives grounded primarily or uniquely in public institutions".⁶³ They refer also to a decline of public trust in government institutions in the US to do what is right and to calls for a renewal of public service motivation, concluding that it is important for the efficiency and effectiveness of public service. Commitment to desirable values such as "personal sacrifice" and "duty to public interest" are mentioned. They refer also to the breadth and depth which Elmer Staats associates to public service, describing it as a "concept", "an attitude", "a sense of duty" and "a sense of public morality".⁶⁴

The authors, however, present two contradictory views, the first questions the strength of the public service ethic and is manifested in the public choice movement which is based on a human behavior model that envisages people to be primarily motivated by self-interest - especially as monetary incentives grow in importance - whereas the second considers public service motives to be important for be-

63. James L. Perry and Lois Recasino Wise, "The Motivational Bases of Public Service", Public Administration Review, May/June 1990, p.368

64. James L. Perry and Lois Recasino Wise, "The Motivational Bases of Public Service", Public Administration Review, May/June 1990, pp.367-369 referring to:- Elmer B. Staats, "Public Service and the Public Interest," Public Administration Review, vol. 48 (March/April 1988) p. 601.

havior at the civil service. Though they refer to research that indicates that there are few differences in motivation of public and private managers, Perry and Wise refer also to prestige as a factor that affects the attractiveness of public jobs (though they hold that it is not believed that it forms the basis of government service as distinct from other employment). Rather, prestige is regarded as an incentive deriving from the size and growth of an organization - public or private. In general, however, public service employment is said to have limited satisfaction of "rational motives" but considerable satisfaction of "norm-based" and "affective motives".⁶⁵

Perry and Wise summarize how public service employment satisfies various categories of motives as follows :-⁶⁶

Fulfillment of Rational Motives in Public Organizations:

Public service motivation could be grounded on the maximization of an individual's utility through :-

- a. participation in public policy formulation.⁶⁷
- b. commitment to a public program as a result of an identification of the individual with that particular program. An example is referred to in that context, which is Hyman Rickover's dedication to the nuclearization of the US navy.⁶⁸

65. James L. Perry and Lois Recasino Wise, "The Motivational Bases of Public Service", Public Administration Review, May/June 1990, pp. 367-369.

66. *ibid.*

67. James L. Perry and Lois Recasino Wise, "The Motivational Bases of Public Service", Public Administration Review, May/June 1990, pp. 367-369 referring to :

- a. Steven Kelman, "Public Choice and Public Spirit", The Public Spirit, no. 87 (spring 1987), pp.80-94.
- b. John Rawls, A Theory of Justice, (Cambridge, MA : Belknap Press, 1971).

68. James L. Perry and Lois Recasino Wise, "The Motivational Bases of Public Service", Public Administration Review, May/June 1990, p. 368

c. advocating the special interests of special groups, whether consciously or unconsciously, as a result of the concept of "representative bureaucracy", whereby bureaucrats are chosen such that they include a wide range of policy interests in the society.⁶⁹

Fulfillment of norm-based motives (desire to conform to norms) in public organizations :-

The desire to serve the public interest is considered to be crucial as a normative explanation for public employment, with a dedication deriving from values such as nationalism and loyalty to the country.⁷⁰ Another normative element is loyalty to duty and to the government. A related normative element is the activities intended to enhance the well-being of minorities and other groups lacking resources. The authors also refer to the argument of Frederickson and Hart that there are problems of US public administration that resulted from an excessive reliance on values of business administration.⁷¹

referring to :- Anthony Downs, Inside Bureaucracy (Boston : Little Brown, 1967).

69. James L. Perry and Lois Recasino Wise, "The Motivational Bases of Public Service", Public Administration Review, May/June 1990, pp. 367-369

70. James L. Perry and Lois Recasino Wise, "The Motivational Bases of Public Service", Public Administration Review, May/June 1990, pp. 367-369 referring to :- Anthony Downs, Inside Bureaucracy (Boston : Little Brown, 1967).

71. James L. Perry and Lois Recasino Wise, "The Motivational Bases of Public Service", Public Administration Review, May/June 1990, pp. 367-72 referring to H. George Frederickson and David K. Hart, "The Public Service and the Patriotism of Benevolence", Public Administration Review, vol. 45 (September/October 1985), pp. 547-553.

Fulfillment of Affective motives in public organizations :-

Belief in the social importance of a particular public program could lead to a commitment to that program. Luther Gulick is referred to as have considered motives grounded on service to society as being more lasting than those based on the profit motive. Perry and Wise refer to the concept of "Patriotism of Benevolence", which is defined by Frederickson and Hart as the love of all nationals and the desire to protect their basic rights, combining love of regime values and of other people and a willingness to sacrifice for others.⁷²

Perry and Wise summarize the behavioral implications of public service motivation as follows :-⁷³

- a. Referring to empirical research, it is held that individuals are more likely to seek employment in public institutions, to remain in those institutions, to participate and to perform the more they have public service motivation. Some evidence also exists that different types of individuals are attracted to private vs. public employment.
- b. There is a positive correlation between public service motivation and performance in those organizations. Task significance is high in questions of social equality and social programs, loyalty to the interests of one's country and so on. Public service motivation is also associated to organizational commitment, with implications for innovative behavior.

72. James L. Perry and Lois Recasino Wise, "The Motivational Bases of Public Service", Public Administration Review, May/June 1990, pp. 367-72 referring to H. George Frederickson and David K. Hart, "The Public Service and the Patriotism of Benevolence", Public Administration Review, vol. 45 (September/October 1985), pp. 547-553.

73. James L. Perry and Lois Recasino Wise, "The Motivational Bases of Public Service", Public Administration Review, May/June 1990, pp. 367-72.

c. Reward systems in public organizations, where employees have a high public service motivation, are more likely to be less dependent on utilitarian rewards that address rational motives and may have to include affectual and normative rewards in order to manage individual performance effectively.⁷⁴

74. *ibid.*

CHAPTER II

PAYMENT SYSTEMS DESIGN AND ADMINISTRATION IN ORGANIZATIONS

There is more than one term that is used to denote the money that employees receive in return for their work. Torrington and Hall present their evaluation of the various terms used, mentioning that the terms compensation, reward, remuneration, and payment could be used to mean the same thing. The first term "compensation" is viewed as suggesting that employees are being paid in return for a damage or a loss and therefore is regarded as not representative of the meaning of the money that employees receive in return for their work. The second term "reward" sounds like money is earned by the employees for doing a specific act rather than on a regular basis. The terms "Remuneration" and "payment" are considered the best ones that are representative of the meaning desired.⁷⁵ Because the term payment is the easier one, it will be used throughout this thesis in referring to the money that employees receive in return for their work.

75. Derek Torrington and Laura Hall, Personnel Management, p. 487.

II.1 BASIC CONSIDERATIONS IN PAYMENT SYSTEMS DESIGN AND ADMINISTRATION

II.1.1 STRATEGIC ASPECTS

It is suggested that compensation systems should be designed according to strategic considerations in order to help achieve organizational objectives. It is suggested as well that senior line managers should take part in formulating the compensation strategy in their organizations.⁷⁶

II.1.2 MATCHING PAY TO OTHER MANAGEMENT PROCESSES AND SYSTEMS

Another related aspect to the one above is the consistency between pay and other management processes and systems. Hall and Goodale emphasize the importance of integrating pay to other management systems. They call for a formulation of a pay philosophy that should decide on issues like which goals to stress, degree of openness, degree of centralization / decentralization, pay level compared to the market, mix between cash and benefits, the role of performance appraisal and performance-based pay and how change in the pay system is managed.⁷⁷

II.1.3 FAIRNESS

Fairness is a very important concept that should be carefully considered in the design and administration of payment systems. However, the term "fairness" means different things to different people. Nobody would reject the premise that employees should get "fair pay". However, what this very term " fair " means depends upon the judgment of the person himself/herself. The perception of employees that they are getting fair payment has a very important bearing on their job satisfaction and motivation.

76. Douglas T. Hall and James G. Goodale, Human Resource Management : Strategy, Design and Implementation, (Glenview, Illinois : Scott, Foresman and Company, 1986), pp. 490-498.

77. *ibid.*

Torrington and Hall provide a variety of approaches on how to achieve fairness in pay.⁷⁸ One way is to relate total payment or a portion of it directly to the employee's "added value" to the business. In other words, the payment of the individual employee is made linked to his/her own contribution to the organization as it is assessed by management. However, as Torrington and Hall argue, this is only feasible if the contribution of the individual employee is easily and readily measurable like in the cases of consultancy services, financial services and marketing and sales activities. Another approach to fairness is that denoted by the saying "A fair day's pay for a fair day's work". In this category, pay is related to the employee's skill and effort in a specified period of time and is tied up to what could be reasonably expected by him/her from his/her own contribution. However, this approach is often criticized as being too conservative. A third approach is that advocated by leftist thinkers "from each according to his ability : to each according to his need". However, this seems to be a philosophical sort of idealization that is inadequate for the design of pay systems in organizations.⁷⁹

In that context also, Hall and Goodale refer to the concept of "comparable worth", which means that men and women should get equal compensation for doing different jobs that have comparable levels of difficulty and that require comparable levels of skills. They stress the importance of taking a "proactive stance" by organizations in formulating their policy towards comparable worth rather than wait for employees to take action. In particular, they call for a policy statement that emphasize equal pay for equal work in addition to proper compensation programs.⁸⁰

78. Derek Torrington and Laura Hall, Personnel Management, pp. 487-488.

79. *ibid.*

Groenekamp and Yaney, however, stress also the importance of system equitability both internally and relative to the external market. For internal equitability of the wage structure, they point out to the importance of employees' perceptions of equitable pay relative to their colleagues. They refer to the roles of job analysis/ evaluation/ description, grouping into grades, ranking on the basis of pay differentials and periodic audits for reclassification. For external equitability, they stress the pricing of job levels relative to competitors according to supply and demand, taking into consideration "key jobs" that can be easily compared to the market or that are heavily populated.⁸¹

II.1.4 OBJECTIVES OF EMPLOYEES FROM PAY

According to Torrington and Hall, the most important objective an employee seeks from pay is a suitable standard of living.⁸² They also suggest that this is further reinforced by inflation and by rising expectations. Also, as explained before - employees should perceive that they are getting fair pay. If employees feel that they are underpaid, they may go late to the workplace, experience a high degree of absence, look for another job, etc. If, on the other hand, employees feel that they are overpaid, they may feel dishonest, try to justify their pay, etc. Perception of fair pay could also encompass issues of division of "fruits of labor" and relativities. A third objective of employees

80. Douglas T. Hall and James G. Goodale, Human Resource Management : Strategy, Design and Implementation, (Glenview, Illinois : Scott, Foresman and Company, 1986), pp. 492- 493.

81. William A. Groenekamp and Dr. Joseph P. Yaney, "Essentials of a Sound Wage and Salary Program", in Famularo, Joseph J, Handbook of Human Resources Administration (US : McGraw-Hill, Inc., 1986), pp. 27-3 to 27-6.

82. Derek Torrington and Laura Hall, Personnel Management, pp. 488-490.

from pay is a suitable composition package. The pay composition depends on the various preferences of various employees. For instance, youngsters, unlike elders, are typically more interested in getting higher direct earnings rather than pension increases. Also, incentive payments for improved performance are liked by those who perceive a prospect for adequate pay increases through such plans. Overtime, furthermore, is liked more by those who can stay for extra time but is not welcomed by those who cannot, like - in some cases - married women.⁸³

II.1.5 OBJECTIVES OF EMPLOYERS FROM PAY

Employers seek the satisfaction of many objectives from pay systems. According to Lawler III, payment systems may influence organizational effectiveness through their impact on the attraction and retention of employees, the motivation of employees for improved performance, the motivation of employees for skill development, maintaining cultural norms in the organization, the definition and the reinforcement of the organizational structure as well as cost-effectiveness.⁸⁴

1. Attraction and Retention of Employees

It is suggested that the design of a payment system has an impact on the ability of the organization to attract and retain employees. The higher the pay level, the higher the ability of the organization to attract new employees. This is because people's choice of their careers and jobs is influenced by pay matters. Also, the higher the pay level in the organization, the higher the ability of the organization to retain employees. Though the effect of turnover on organizational effectiveness depends upon its rate, the type

83. Derek Torrington and Laura Hall, Personnel Management, pp. 488-490.

84. Edward E. Lawler III, "The design of Effective Reward Systems " in Handbook of Organizational Behavior ed. Jay W. Lorsch (Englewood Cliffs, New Jersey : Prentice Hall Inc., 1987), pp.255-270.

of employees affected (skilled/ unskilled - high performers/low performers) and their replacement costs, turnover is regarded as often expensive and leads to reducing organizational effectiveness. It is hence suggested also that organizations should design effective pay systems that retain the most valuable employees and should induce them to stay in order to counter the effects of external comparisons. Furthermore, the pay system of an organization is said to have an impact on the level of absenteeism in the organization. However, absenteeism could be reduced by rewarding attendance - which is readily and easily measurable. In this case, a parallel effort should be exerted for improving work content and working conditions.⁸⁵

2. Motivation of Employees for Improved Job Performance

According to the expectancy model, motivation of people to follow certain behaviors depends upon the belief of those people that their behavior or performance level would lead to a certain outcome like a bonus or recognition on the one hand and that performance at the desired level is possible to reach on the other hand. Moreover, employees motivation will not take place unless they feel that performance outcomes are valuable to them. For instance, promotion may be attractive to some people as it would satisfy their need for achievement and power whilst staying with the same work group (i.e. with no promotion) might be attractive to other groups seeking to satisfy their needs for affiliation. Also, pension plans might be more attractive to elderly people than to younger ones. Ultimately, an individual who has a number of different alternative levels of behavior or performance (e.g to produce 20, 30, 50 units/hr) will choose

85. Edward E. Lawler III, "The design of Effective Reward Systems " in Handbook of Organizational Behavior ed. Jay W. Lorsch (Englewood Cliffs, New Jersey : Prentice Hall Inc., 1987), pp. 255-270.

the one with the highest motivation to him/her. Such a choice depends upon the combination of expectancies, outcomes, and values.⁸⁶

Groenekamp and Yaney suggest that in order to motivate employees for improved performance, incentives might be built into the job evaluation plan of the organization by pricing jobs so as to have every job with a wage or a salary range rather than a flat rate. This is done to allow enough range spread to vary according to performance. The width of the range depends upon the complexity of the job and the responsibilities of it as well as other monetary and non-monetary reward.⁸⁷

86. *ibid.*

87. William A. Groenekamp and Dr. Joseph P. Yaney, "Essentials of a Sound Wage and Salary Program", in Famularo, Joseph J., Handbook of Human Resources Administration(US : McGraw-Hill, Inc., 1986) pp. 27-7.

3. Motivating Employees to Develop Their Skills

Pay-for-performance systems indirectly motivate employees to develop their skills because high performance results from improved skills. On the other hand, there are "skill-based" pay system plans that pay employees for skill development. However, there are the problems of the difficulty of measuring acquisition of skills. Also, skill development may not necessarily lead to organizational effectiveness as the latter is a function of the technology used by the organization and the availability of skilled workforce.⁸⁸

4. Promoting a Certain Chosen Organizational Cultural Climate

As they influence motivation, satisfaction and belonging, payment systems may shape the culture prevailing in the organization. For example :

1. The practice of linking or delinking pay to performance communicates certain performance norms in the organization.
2. A company which provides high pay to its employees promotes a feeling among the employees that they are working for a top company and that they are elites.
3. A company which provides a flexible benefits package promotes a spirit of innovation.
4. If employees are involved in making pay decisions, a spirit of participative corporate culture is promoted.⁸⁹

88. Edward E. Lawler III, "The design of Effective Reward Systems " in Handbook of Organizational Behavior ed. Jay W. Lorsch (Englewood Cliffs, New Jersey : Prentice Hall Inc., 1987), pp.255-270.

89. *ibid.*

5. Other Considerations

1. The payment system can define and reinforce the organizational structure, including the status hierarchy e.g. form of compensation (salaries - hourly wages - etc.)

2. Companies are likely to be concerned about making payment cost-effective in order to maintain their profitability and competitiveness.⁹⁰

90. Edward E. Lawler III, "The design of Effective Reward Systems " in Handbook of Organizational Behavior ed. Jay W. Lorsch (Englewood Cliffs, New Jersey : Prentice Hall Inc., 1987), pp.255-270.

II.2 ELEMENTS OF THE EMPLOYEE PAY

The payment package of an employee, according to Torrington and Hall, typically consists of a basic rate that is an irreducible minimum, a fixed component that is almost always regular, contractual, and rarely variable in addition to a variable component that is irregular, discretionary and usually variable. The fixed component consists of "plussages", and "benefits". Plussages are those payment components that recognize a particular aspect of working conditions or employee capability. These include payment of employees for their educational qualifications, supervisory duties as well as start-up allowances, dirt money and mask money payments. Benefits are extra services having a cash value that organizations offer to their employees like sick pay, pensions, car or mileage allowance, accommodation and various fringe benefits. The variable component consists of items like overtime payment, pay for performance incentives and various gratitutory bonuses provided by the employers.⁹¹

91. Derek Torrington and Laura Hall, Personnel Management, pp. 492-495.

II.3 DETERMINATION OF JOB PAY RATES

A very common technique that is used in the determination of job pay rates is the technique of Job Evaluation. Such technique is concerned with the assessment of the relative demands of the various jobs in an organization. It is used in organizations to provide a basis for setting up pay rate differences according to the different job requirements of jobs in the organization. However, managers making pay decisions are also influenced by factors like :

1. The proportion of labor costs relative to total costs of the product.
2. The "going rate" of the various jobs in the external job market, taking into consideration the influence of customs and prevalent practices.
3. The labor market inside the organization.
4. Labor collective bargaining and trade union arrangements.
5. Technological advancements which may, for instance, foster the need for new skills.⁹²

92. Derek Torrington and Laura Hall, Personnel Management, pp. 508-510.

II.4 BASIC ISSUES IN PAY DECISIONS⁹³

II.4.1 DETERMINATION OF BASES FOR REWARDS

Lawler III gives three bases on which pay systems could be designed. These are "job-based" pay systems, "skill-based" pay systems and "performance-based" pay systems. In "job-based" pay system design, employee pay - except for bonuses and merit increases - is determined according to the person's type of job as determined by job evaluation. Such systems assume that the job worth could be assessed and that the person's worth to the organization is determined by the job worth to the organization. This is to a great extent an objective basis for pay, especially because it ensures that the company is in line with its competitors as far as pay matters are concerned.⁹⁴

On the other hand in a "skill-based" system, pay is determined according to the person's skill. This system could produce a workforce that is talented, knowledgeable, flexible and oriented to personal growth and development. Such system may also have the advantage of diverting employee attention from the traditional upward career progression orientation. However, this system results in higher pay by the organization and is somehow difficult to administer due to the difficulty of assessing the worth of the different skills to the company as well as the difficulty of skill-assessment of an individual. Such systems suit starting up organizations with greatest need for

93. Edward E. Lawler III, "The design of Effective Reward Systems " in Handbook of Organizational Behavior ed. Jay W. Lorsch (Englewood Cliffs, New Jersey : Prentice Hall Inc., 1987), pp.255-270. Section II.4 of this thesis draws heavily on Lawler's article and summarizes ideas from it.

94. *ibid.*

skill-development and with a workforce that is flexible, oriented towards self development and to a great extent permanent (low turnover).⁹⁵

A performance-based system is one which links pay to job performance. If such a system is designed and administered effectively, it can be successful in attracting and retaining employees and in motivating them for improved job performance. If not - which is typically the situation - the poorly-designed performance-based pay system may harm rather than benefit the organization. As Lawler holds, many organizations have become worse off as a result of using systems which relate pay to performance in the wrong way . This is mainly due to erroneous specification of the desirable performances and the erroneous assessment of employee performance. Detailed discussion of performance-based pay systems is provided in chapter three.⁹⁶

II.4.2 RELATIONSHIP OF THE ORGANIZATION'S PAY MIX TO THAT OF OTHER ORGANIZATIONS

The size of the reward package an organization provides for its employees is a decision that should be made taken into consideration the organization's overall business strategy. Paying above market levels is suitable for organizations where turnover is costly and where the nature of work requires highly-skilled, highly-talented and a stable workforce. If, on the other hand, the organization's jobs are not highly-skilled and if there is a surplus or an abundance in the labor market of the needed skills, then a cost-effective strategy may require companies to pay not more than average salaries. Also, organizations may differentiate between the employees with key skills - who are

95. *ibid.*

96. Edward E. Lawler III, "The design of Effective Reward Systems " in Handbook of Organizational Behavior ed. Jay W. Lorsch (Englewood Cliffs, New Jersey : Prentice Hall Inc., 1987), pp.255-270.

given high pay and the rest - who are given not more than average pay. This latter strategy, however, could have undesirable social effects. The size of the reward package of an organization affects not only the caliber of those who are attracted and retained by the organization and the turnover rate but also the overall organizational climate.⁹⁷

97. Edward E. Lawler III, "The design of Effective Reward Systems " in Handbook of Organizational Behavior ed. Jay W. Lorsch (Englewood Cliffs, New Jersey : Prentice Hall Inc., 1987), pp.255-270.

II.4.3 INTERNAL EQUITY VERSUS EXTERNAL EQUITY ORIENTATION

An internal equity oriented company is one that tries to ensure that employees who do similar work across the different geographic locations or different businesses of the same company are given the same pay. Such a system facilitates transfers from one location of the organization to another and produces an organizational climate of equitable treatment, homogeneity and fairness thus reducing dissatisfaction and conflicts. However, this strategy could perhaps be very expensive because it would require the company to seek the satisfaction of equity demands in addition to the requirements, in some cases, of keeping pace with the highest levels of market pay rates across the diversified corporation. Alternatively, the company may look for the external labor market for the determination of pay. However, this approach may produce different pay for people doing the same job along different units of the same company. It is suggested that, in general, highly diversified companies often adopt an external market orientation whereas organizations with a single industry or technology typically have an internal equity focus.⁹⁸

II.4.4 DEGREE OF CENTRALIZATION OF THE PAY STRATEGY

In a centralized pay system, the corporate staff of the organization develops single standard pay grades , pay ranges, and promotion systems along the different units of the organization. In a decentralized pay system, on the other hand, such decisions are left to local staff according to the needs of their units. Centralized pay systems foster homogeneity, a clear corporate image, a feeling of internal

98. Edward E. Lawler III, "The design of Effective Reward Systems " in Handbook of Organizational Behavior ed. Jay W. Lorsch (Englewood Cliffs, New Jersey : Prentice Hall Inc., 1987), pp.255-270.

equity, and fosters the development of expertise at the central level. A decentralized system, however, offers the advantages of innovation and the tailoring of reward practices to local circumstances. This system is particularly useful if the business units of the organization are in a different market or at different stages of their lifecycle.⁹⁹

II.4.5 DEGREE OF HIERARCHY OF THE PAY STRATEGY

A "hierarchical" system of payment is a traditional one that offers payment on the basis of the position of the employee in the organizational ladder. This approach fosters the climate of hierarchy position and their association with bureaucracy, status and power. An "egalitarian" system, however, is a system where pay is high not only for upper management but also for those who are in the "technical ladder". In such a system, it is often found that people regardless of their position work together, eat together and share ideas in decision making. This is commonly found in high-tech, knowledge-based industries.¹⁰⁰

II.4.6 REWARD MIX DECISIONS

A program which offers a "cafeteria" of benefits allows employees to tailor the reward package to their needs. In this way, the organization gets the best value for its money, people are given what they want and are treated as mature people.¹⁰¹

99. Edward E. Lawler III, "The design of Effective Reward Systems " in Handbook of Organizational Behavior ed. Jay W. Lorsch (Englewood Cliffs, New Jersey : Prentice Hall Inc., 1987), pp.255-270.

100. *ibid*

101. *ibid.*

CHAPTER III

THE DESIGN AND ADMINISTRATION OF PERFORMANCE-BASED PAY SYSTEMS IN ORGANIZATIONS AND ITS IMPACT ON MOTIVATION

Performance-based pay systems are systems which relate employee pay or a portion of employee pay to employee performance. They are set up in organizations in order to motivate employees to upgrade their productivity and job performance for the ultimate objective of improving organizational performance, profitability and competitiveness on one hand as well as improve employees' morale, well-being and job satisfaction on the other hand. The proper design and administration of those systems is of extreme importance. It is believed by many academics and practitioners that a poorly-designed performance-based pay system could make an organization worse off.

III.1 USE OF PERFORMANCE APPRAISAL RESULTS IN PERFORMANCE-BASED PAY SYSTEMS

A performance appraisal system is a formal, periodic, systematic and comprehensive process that is used by organizations to evaluate the performance of their employees. Such system provides information to managers about the performance of their employees that has so many benefits and uses like the assessment of training and development needs, the assessment of past performance to help improve future performance and the assessment of pay-for-performance for employees.¹⁰²

Many organizations have performance appraisal systems that cover all the employees and managers. Others do it for only some of the jobs where assessment of performance is easy and/or feasible. According to Torrington and Hall, appraisal could be made by the immediate superior, the superior of the superior, a member of the personnel department, or others in the organization or a combination of all those. Also, there could be some sort of participation in performance appraisal by the person whose performance is being assessed, by peers and by subordinates.¹⁰³

As held by Torrington and Hall, appraisal could be qualitative or quantitative (or in actual practice a combination of both).¹⁰⁴ In qualitative appraisal, an unstructured narrative is written by the appraiser about the general performance of the appraisee or specific areas of performance are provided for the appraisee to comment on. Such a method could lead to leaving important areas unappraised and is not useful for making comparisons. In quan-

102. Derek Torrington and Laura Hall, Personnel Management, pp. 403-418.

103. *ibid*, pp.405-409.

104. *ibid.*, p. 409.

titative appraisal, on the other hand, there are specific categories for rating the performance of an individual like "excellent", "exceeds requirement", "acceptable", and "inadequate". Even-numbered point scales could be used to avoid central tendencies and to make the appraiser take a position. Such tendency may be due to the lack of knowledge of the appraiser on the appraisee, the lack of ability to differentiate between good performance and poor performance, the lack of confidence or just the desire of the appraisee not to take a position or to be too tough.¹⁰⁵

It is suggested that there are two common categories of approaches that could be used in conducting performance appraisal. The first is that of performance appraisal that evaluates personality traits that are relevant for the job like drive, enthusiasm, intelligence, etc. However, such traits are viewed differently by different people, are not mutually exclusive, may not necessarily be relevant to the job and may lead to bias or prejudice. Therefore, performance appraisal based on personality traits is often inadequate. The second category of approaches for conducting performance appraisal tries to link ratings to behavior and performance on the job. One way of doing this is through the use of behaviorally-anchored rating scales (BARS). In such a method, raters suggest examples of behavior at work for each dimension of work behavior being assessed, and each example is given a grade on a scale that ranges, for instance, from "A" to "F". Another way of rating is through the use of behavioral observation scales (BOS). In such technique, a number of dimensions of employee performance are indicated, with corresponding behavioral statements for each dimension.

105. Derek Torrington and Laura Hall, Personnel Management, p. 409.

Individuals' performances are assessed - on a scale - according to the extent to which they meet each of these dimensions.¹⁰⁶

... incentive pay systems. Incentive pay systems are defined as performance-based pay plans where performance is measured by standards of productivity and output of individual, group or organization-wide performance. With incentive pay systems, the major portion of an individual's pay is tied up to his/her performance, as measured by the performance of the individual or the organization (e.g. sales volume, production output, etc.) which are one form of incentive pay - could constitute the entire pay (salary). Incentive pay plans are used more often if labor costs are relatively high, markets are cost-competitive, technology is very advanced and when the output of an employee is independent of that of others.¹⁰⁷

With merit pay plans, on the other hand, it is held that performance is measured more or less subjectively by supervisors and managers like ratings and rankings of supervisors. The merit pay affects only a small proportion of the employee's salary as merit increases could pay only give rise to a rate range that is adjusted annually and therefore a salary range as by supervisor pay later and to some extent in steps but not in rate range.¹⁰⁸ Many companies, furthermore, pay cost-of-living adjustments or general increases that are not based on performance but are used for budgets. This results in a large proportion of the money available for pay adjustments, with less funds left available for merit pay plans.

106. Derek Torrington and Laura Hall, Personnel Management, , pp. 409-412.

III.2 TYPES OF PERFORMANCE-BASED PAY SYSTEMS

According to Schuler and Youngblood, performance-based pay systems could be grouped into the two categories of incentive pay systems and merit pay systems. Incentive Pay Plans are defined as performance-based pay plans where performance is often measured by standards of productivity and direct indexes of individual, group or organization-wide performance. With incentive pay systems, the major portion of an individual's pay is tied up to his/her performance, the performance of his/her workgroup or the performance of the organization at large (e.g. salespersons commissions - which are one form of incentive pay - could constitute the major part of the salesperson's salary). Incentive pay plans are used more often if labor costs are relatively high, markets are cost-competitive, technology is not very advanced and when the output of an employee is independent of that of others.¹⁰⁷

With Merit Pay Plans, on the other hand, it is held that performance is measured more or less subjectively through indirect methods like ratings and rankings of supervisors. The merit pay affects only a small proportion of the employee's salary as merit pay increases could move pay only within a rate range that is adjusted annually and therefore most of the total pay received by an employee remains a function of job evaluation and steps in rate range.¹⁰⁸ Many companies, furthermore, pay cost-of-living adjustments or general increases that are not based on performance but compete with merit pay plans for budgets. This results in diverting a large proportion of the money available for pay increases to such adjustments, with less funds left avail-

107. Randall S. G. Schuler and Stuart A. Youngblood, Effective Personnel Management, 2nd. ed. (St. Paul : West Publishing Company, 1966), p.327.

108. *ibid.*

able for merit increases. Even if merit pay is given, the difference between top increases and average ones are low thus reducing the motivational value of merit pay.¹⁰⁹ Schuler and Youngblood generally hold that merit pay plans are more widely used than incentive pay plans as they are easier to administer though the latter have higher motivational impact.¹¹⁰

109. Randall S. G. Schuler and Stuart A. Youngblood, Effective Personnel Management, 2nd. ed. (St. Paul : West Publishing Company, 1966), p. 332.

110. Randall S. G. Schuler and Stuart A. Youngblood, Effective Personnel Management, 2nd. ed. (St. Paul : West Publishing Company, 1966), p.330.

III.3 TYPES OF FINANCIAL INCENTIVE PAY PLANS :-

According to Schuler and Youngblood, incentive pay plans are of three types, namely individual-level incentive plans, group incentive plans and organization wide incentive plans.¹¹¹

III.3.1 INDIVIDUAL-LEVEL INCENTIVE PLANS¹¹²

They are those plans where an employee is given incentives according to his/her own performance. Examples of individual-level incentive plans are the piecework plan, the standard hour plan, the measured day work, sales incentive plans, managerial incentive plans, suggestion systems and positive reinforcement systems.

- The piecework plan is one of the most common types of incentive pay. It guarantees the employee a standard pay rate per unit of output that is typically assessed according to motion and time studies and the job's base rate. The final rate is determined taking into account also other objective techniques, the employee bargaining power and other considerations.
- The standard hour plan, on the other hand, is essentially a piecework plan but standards are based upon the time taken to produce a unit of output.
- Measured Day Work :- offers less precise and less objective standards such as ratings or ranking to assess employee performance, upon which employee performance is judged.
- Sales incentive plans are the commissions that salespersons receive as a function of the extra sales they make.

111. Randall S. G. Schuler and Stuart A. Youngblood, Effective Personnel Management, 2nd. ed. (St. Paul : West Publishing Company, 1966), pp.332-340.

112. *ibid.*, pp.332-336. (source for the discussion presented in this subsection about individual-level incentive plans).

- Managerial incentive plans (such as stock options, performance shares and junior stocks) are typically cash bonuses for the good performance of the department or unit or organization.
- Suggestion systems are systems which reward employees for the useful ideas they come up with.
- Positive reinforcement systems are unique incentive systems whereby employees are not given monetary rewards but are offered with praise and recognition as they are told about how well they perform (meeting deadlines - quality standards).¹¹³

III.3.2 GROUP INCENTIVE PLANS :-

They are incentive plans whereby pay-for-performance is given to individuals of a working group on the basis of the joint performance of the entire group. This is suitable for jobs that are interdependent like those jobs that follow one another in a sequence of operations and those jobs which require the joint effort and cooperation of a group of employees to achieve the desired results. In such cases, measurement of individual performance becomes difficult and individual incentive plans become difficult to administer as well as not conducive to rewarding cooperation. The use of group incentive plans in lieu of individual incentive plans increases with the advent of the technological advances that make jobs increasingly interdependent. However, a group incentive plan becomes successful only if there is an objective measure of performance for the group, if individuals believe in the significance of their efforts in affecting this measure and if the system successfully rewards coopera-

113. Randall S. G. Schuler and Stuart A. Youngblood, Effective Personnel Management, 2nd. ed. (St. Paul : West Publishing Company, 1966), pp. 332-336.

tion and group performance. Many of the common group incentive plans are just but adaptations of individual-level plans.¹¹⁴

According to Edward Lawler, group incentive plans, which are basically called "Gainsharing Plans", entail the establishment of a historical base period as a base for determining whether financial "gains" in organizational performance have occurred (taking into consideration only controllable costs) and usually stays the same throughout the period of the use of the plan. Such gains are "shared" with all employees according to some formula.¹¹⁵

Jerry Newmann, however, provides a brief account of various forms of such plans.¹¹⁶ According to Newmann, in all those plans, the numerator is an input factor - a labor cost expressed in monetary terms or hours worked, the denominator is an output factor such as net sales or value-added and the incentive is based upon the difference between the current value of the ratio and the ratio in the agreed-on base year.¹¹⁷ Newmann, on the other hand, stresses the importance of fostering the potential of linking various human resource systems, such as the compensation system planning and strategy, to the overall organizational planning and strategy strategy. In Newmann's formulation, this entails identifying when does an incentive plan complement organizational strategy and the form that such plan should assume.

114. *ibid.*, p.337.

115. Edward E. Lawler. "Gainsharing" in New Perspectives on Compensation, ed. David Balkin and Luis R. Gomez-Mejia (Englewood Cliffs, New Jersey : Prentice-Hall, Inc., 1987, p. 225.

116. Jerry M. Newmann, "Selecting Incentive Plans to Complement Organizational strategy" in New Perspectives on Compensation, ed. David Balkin and Luis R. Gomez-Mejia (Englewood Cliffs, New Jersey : Prentice-Hall, Inc., 1987) pp. 214-224.

117. *ibid.*, pp.221.

In other words, the decision to adopt an incentive compensation plan should be handled as a strategic management decision that affects other organizational subsystems so that it is designed in a way that would fit with the overall organizational strategy, the human resources strategy as well as organizational design and work relationships. This calls for the involvement of top-level management who shape organizational strategy in incentive pay decisions. The choice among the different group-level plans presented, however, would depend upon the circumstances in the organization.¹¹⁸

118. *ibid.*

Though Newmann does not provide rules, he offers two main considerations upon which a choice could be made, namely the kind of employee behavior that fulfills organizational needs and technical factors. Individual incentives are recommended when competition between individuals is needed, when individuals are expected to perform and accept responsibility on their own and when individuals are required to take risks. Group incentives are generally recommended when cooperation and collective success are required, when communication needs to be improved and when competition between performance units rather than individuals is needed. Also, when individual contributions are difficult to assess, when work stoppages are frequent and difficult to control and when management information and cost accounting are rudimentary, individual incentives tend to give way to group ones.¹¹⁹

Newmann also notes that all incentive plans compare inputs to outcomes and that differences in organizational strategies and management values result in different approaches to behavioral and organizational considerations and to aspects of incentive systems, including strength of reinforcement (which determines the role of base pay relative to incentive pay), scope of the formula used (labor cost reduction - quality improvement - improved customer satisfaction - increased market share), way of dealing with change, perceived fairness of the formula and strive to achieve a balance between cooperation and competition, ease of administration and ways of dealing with production variability. He presents Scanlon plans, Rucker plans and Im-

119. Jerry M. Newmann, "Selecting Incentive Plans to Complement Organizational strategy" in New Perspectives on Compensation, ed. David Balkin and Luis R. Gomez-Mejia (Englewood Cliffs, New Jersey : Prentice-Hall, Inc., 1987) pp. 214-224.

proshare. In Scanlon plans, the \$ labor cost required to produce an \$X worth of goods (sales value) is made a standard for subsequent calculations. If the ratio of labor costs to sales value of goods is less than the standard, a bonus is given to employees. Gains from improvements in the standard ratio are split between the company and the workers, with formulae that depend upon whether there were cost-saving improvements due to improved performance or to non-labor improvements (e.g. technology). The Rucker plan, however, corrects the formula of the Scanlon plan for inflation. With ImproShare "improved productivity via sharing" , a standard of the hours needed to produce an acceptable output level is determined through motion and time studies so that if fewer hours are taken later, gains are shared between the organization and the employees. To Newmann, the Scanlon Plan and Improshare are fairer and easier to administer than the Rucker plan. The former has the merit of getting employees to cooperate in administering the plan while the latter is easy to explain. Rucker plans, however, are suitable for situations of changing economic circumstances. The choice of a particular plan among the three gainsharing formulae above depends upon organizational objectives . On the other hand, more than one plan can be adopted by an organization for different groups and an organization can also have its own tailor-made plan.¹²⁰

It is suggested that gainsharing plans have been started in the 1930s in the US and remained until recently confined to small and medium-sized manufacturing organizations.¹²¹ The popularity of such plans are believed

120. Jerry M. Newmann, "Selecting Incentive Plans to Complement Organizational strategy" in New Perspectives on Compensation, ed. David Balkin and Luis R. Gomez-Mejia (Englewood Cliffs, New Jersey : Prentice-Hall, Inc., 1987) pp. 214-224.

121. Edward E. Lawler. "Gainsharing" in New Perspectives on Compensation, ed. David Balkin and Luis R. Gomez-Mejia (Englewood Cliffs, New Jersey : Prentice-Hall, Inc., 1987, pp, 225-229.

to have improved so that large organizations such as GE and TRW and other non-manufacturing firms such as banks and hospitals currently use such plans. In many of those large organizations, furthermore, different individual organizational units can have their own gainsharing plans. Lawler also contends that a gainsharing plan should fit with the overall organizational strategy and observes other benefits to the plan in addition to labor cost -saving. He envisages gainsharing as an organization development strategy whose use makes it necessary to install a participative management style so that employees trust managers and gainsharing plans succeed thus resulting in better work attitudes, cooperation and teamwork spirit and cost saving innovative ideas.¹²²

III.3.3 ORGANIZATIONAL-LEVEL INCENTIVE PLANS :-

Such plans reward individual employees on the overall performance of employees in the organization or on overall organizational performance. This is a more extreme case of group-level incentive plans where organization-wide cooperation is encouraged. According to Edward Lawler, Profit-Sharing and Stock Ownership - which are forms of organization-wide incentive plans - are older and more widely practiced than gainsharing plans, have no participative management component, have no formulae to measure labor improvements in performance, are less effective than gainsharing plans especially when the link between individual performance and organizational performance is not clear and that they are largely of symbolic value as they emphasize the sense of belonging to the organization. Lawler concludes that motivation is greatest when both types of rewards exist

122. Edward E. Lawler. "Gainsharing" in New Perspectives on Compensation, ed. David Balkin and Luis R. Gomez-Mejia (Englewood Cliffs, New Jersey : Prentice-Hall, Inc., 1987, pp, 225-229.

in organizations :- financial rewards that are associated with performance and non-financial rewards such as quality circles, autonomous working groups and so on.¹²³

Although the principle of pay-for-performance seems to be logical, intuitively appealing and compatible with common sense, systems which link pay to performance are difficult to design and administer properly so that - in actual practice - they fail to work as they are intended to do. Despite the existence of some typical difficulties of administering appropriate pay-for-performance systems, many academic and practitioners still refuse the idea that such systems should be abandoned.¹²⁴

There are two categories of criticism of performance-based pay systems. The first is concerned with the philosophy upon which such systems are used. Critics of the pay-for-performance philosophy hold that such systems do not result in motivating employees as money - according to their viewpoint - is not a good motivator. Other critics suggest further that the introduction of a performance-based pay plan to an intrinsically rewarding job will result in reducing job motivation. The role of money as motivation was discussed in section 1.7 where it is shown that money could be a very effective motivator if it is valuable to employees relative to other rewards and if the pay-for-performance system is administered in the right way. The second category of criticism of performance-based pay systems is based upon the actual experience of such systems in organizations. In other words, this category of criticism is based upon the validity of the philosophy of pay-for-

123. Edward E. Lawler. "Gainsharing" in New Perspectives on Compensation, ed. David Balkin and Luis R. Gomez-Mejia (Englewood Cliffs, New Jersey : Prentice-Hall, Inc., 1987, pp, 225-229.

III.4 TYPICAL PROBLEMS AND HINDRANCES THAT AFFECT THE SUCCESSFUL USE OF PERFORMANCE-BASED PAY SYSTEMS

Though the principle of Pay-for-Performance seems to be logical, intuitively appealing and compatible with common-sense, systems which link pay to performance are difficult to design and administer properly so that - in actual practice - they fail to work as they are intended to do. Despite the existence of some typical difficulties of administering appropriate pay-for-performance systems, many academics and practitioners would refuse the idea that such systems should be abandoned.¹²⁴

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124. Referring to :-

- a. Herbert H. Meyer. "The pay-for-Performance Dilemma" in Dale S. Beach. Managing People at Work : Readings in Personnel, 3rd.ed. (Newyork : Macmillan publishing co., Inc., 1980), pp.332-333
- b. David B. Balkin and Luis R. Gomez-Mejia, New Perspectives on Compensation, Englewood Cliffs, NJ : Prentice Hall, Inc., 1987, pp.159-161.

performance in bringing about motivation but rather upon the problems of the actual design and administration of such systems.

III.4.1 PROBLEMS WITH THE REWARD THEORY ON WHICH PAY-FOR-PERFORMANCE IS BASED :-

According to Herbert Meyer, money is not the only reason why people work. People may work harder for their pursuits outside the job than they would in the job. Even in their jobs, it is difficult to prove that workers will work harder (exert more effort) if they are paid more (keeping the challenge and interest of work constant). He argues further that there could be even an inverse relationship. Meyer refers further to research by Edward Deci of the University of Rochester, which shows that to the extent that pay is linked to task performance, intrinsic interest in the task worsens as individuals focus on the goal (pay) rather than on task performance.¹²⁵

III.4.2 PROBLEMS OF PERFORMANCE APPRAISAL :-

When pay-for-performance is decided upon according to a performance appraisal system, typical problems are summarized by Balkin and Gomez-Mejia as follows :-¹²⁶

- a. the judgmental and subjective nature of performance appraisals make it subjected to errors and to the possibilities of biases of evaluating supervisors.
- b. common rating errors in performance appraisal such as leniency and the halo effect.

125. Herbert H. Meyer. "The pay-for-Performance Dilemma" in Dale S. Beach. Managing People at Work : Readings in Personnel, 3rd.ed. (Newyork : Macmillan publishing co., Inc., 1980), pp.333.

126. David B. Balkin and Luis R. Gomez-Mejia, New Perspectives in Compensation, (Englewood Cliffs, NJ : Prentice Hall, Inc., 1987), pp.159-161.

c. performance appraisals are not designed for assessing pay-for-performance alone but are used for other purposes as well.

d. negative effects of disagreements between supervisors and subordinates over evaluations.

e. short-run orientation resulting from performance evaluation appraisal period being specified. On the other hand, the long period between performance and reward reduces the reinforcement effect of such rewards.

Herbert Meyer, however, notes that it was found that self-ratings of blue-collar employees are not as skewed as those of managerial or professional employees who are more likely to have higher occupational self-esteem. Meyer highlights also the problems of the dependency of pay increases on supervisor ratings and its consequent impact on supervisor-subordinate relationships. He points to the fact that supervisors are not necessarily able to make valid and objective judgments about the performance of their subordinates. He notes as well that workers might feel that they have to please their supervisors if they feel that they have a great role in determining the rewards and adds that this is a reason for the refusal of unions to accept such plans. He contends, however, that if plans are based upon objective criteria, a plan could get rid of this defect.¹²⁷

III.4.3 SMALL DIFFERENCES IN PAY BETWEEN LOW PERFORMERS AND HIGH PERFORMERS :-

Herbert Meyer observes that in actual practice, managers tend to make small differences in pay between individuals in the same job, regardless of their perceptions of differences in performance. He argues that if discriminations are made,

127. Herbert H. Meyer. "The pay-for-Performance Dilemma" in Dale S. Beach. Managing People at Work : Readings in Personnel, 3rd.ed. (Newyork : Macmillan publishing co., Inc., 1980), pp.332-340

they are likely to be based on factors other than performance such as the tendency to raise the salaries of low-paid employees, length of service and so on.¹²⁸

128. Herbert H. Meyer. "The pay-for-Performance Dilemma" in Dale S. Beach. Managing People at Work : Readings in Personnel, 3rd.ed. (Newyork : Macmillan publishing co., Inc., 1980), pp.332-340

III.4.4 COUNTERPRODUCTIVE COMPETITION :-

When merit pay systems emphasize individual rather than group goals, unhealthy competition could result. According to Herbert Meyer, as pay budgets are typically a limited resource, if a pay budget is distributed on the basis of relative performance, employees are forced into a win-lose competition that could contribute negatively to the fulfillment of organizational goals as competing employees could develop hostile attitudes towards one another, employees' perceptions of themselves become positively distorted and of others become negatively distorted and as interaction and communication between individuals decreases.¹²⁹

III.4.5 PROBLEMS OF THE EFFECT ON EMPLOYEES' SELF-ESTEEM :-

Meyer refers to some research findings indicating that merit pay plans threaten the self-esteem of the great majority of employees as they may not receive pay that they believe their performance justifies. He refers particularly to research carried out in the General Electric Company about two-three decades ago whereby employees were asked to give confidential and candid appraisal of their own performance compared to that of others doing similar jobs at similar salary levels and their managers were also asked to rate them. It was found that 85% were rated lower by their managers than they rated themselves. Meyer also holds that follow up research vindicated such results with diverse groups. Meyer refers also to research that suggests that confidential self-ratings done for research purposes were significantly higher than self-ratings made at the superior's request in the context of an appraisal interview and that confidential self-ratings are substantially higher than superior's confidential ratings for the same in-

129. Herbert H. Meyer. "The pay-for-Performance Dilemma" in Dale S. Beach. Managing People at Work : Readings in Personnel, 3rd.ed. (Newyork : Macmillan publishing co., Inc., 1980), pp.332-340

dividuals. Meyer concludes that the implications of the fact that most people do not get salary increases that reflect very high performance makes those people feel that they are discriminated against and makes it likely that increases may have a negative impact on motivation. He concludes also that it is not very likely that people will respond to a threat to their self-esteem caused by smaller than expected increases by working harder to improve their productivity but that they are more likely to try to exert pressures to lower standards, downgrade the activity which poses a threat to their self-esteem or question raters' capabilities.¹³⁰

III.4.6 LACK OF UNDERSTANDING BY EMPLOYEES OF WHAT IS EXPECTED OF THEM :-

In many cases, it is difficult to determine precisely what the product is. In such cases, it becomes difficult also to determine the desired performance behaviors and to assess performance levels.

III.4.7 BUDGETARY CONSTRAINTS AND OTHER BUREAUCRATIC FACTORS:-

Budgetary constraints could result in applying too small differentials thus reducing the effectiveness of pay-for-performance. Also, the size and frequency of pay-for-performance could be affected by other bureaucratic factors such as the position of the employee in the salary grade, pay compression, pay in the unit of an employee relative to that of other units.¹³¹

130. Herbert H. Meyer. "The pay-for-Performance Dilemma" in Dale S. Beach. Managing People at Work : Readings in Personnel, 3rd.ed. (Newyork : Macmillan publishing co., Inc., 1980), pp.332-340

131. David B. Balkin and Luis R. Gomez-Mejia, New Perspectives in Compensation, (Englewood Cliffs, NJ : Prentice Hall, Inc., 1987), pp.159-161.

III.4.8 PROBLEMS OF INDIVIDUAL-BASED PERFORMANCE PAY :-

Jone Pearce criticizes plans that base pay upon individual performance.¹³² Though he acknowledges that such plans communicate performance expectations and allow employees - through their own efforts - to improve their incomes, he argues that such plans have their problems and that advises aimed at the improvement of their implementation did not work and that we should no longer concentrate on blaming implementing managers or suggesting amendments and conditions thinking that they are sufficient to improve the working of those plans. He also questions the assumption behind the actual implementation of those systems - that overall organizational performance is the simple addition of separate individual contributions and holds that the greater the uncertainty, interdependence and complexity of work in organizations the greater the cooperation needed. He maintains that individual performance-based pay could discourage that cooperation.¹³³

To Pearce, traditional employment contracts are designed such that in exchange for pay, employees are expected to accept the authority of their superiors without questioning the merits of their orders. Such contracts are/should be intended to give managers the necessary flexibility to allow managers to respond to future uncertainty of performance requirements. Pay for performance arrangements, however, makes such contracts more closed-ended as the required behaviors are specified in advance. Even if

132. Jone L. Pearce, "why merit pay does not work : implications from organizational theory" in New Perspectives on compensation by David B. Balkin and Luis R. Gomez-Mejia (Englewood Cliffs, New Jersey : Prentice-Hall, Inc., 1987), pp. 169-178.

133. Jone L. Pearce, "why merit pay does not work : implications from organizational theory" in New Perspectives on compensation by David B. Balkin and Luis R. Gomez-Mejia (Englewood Cliffs, New Jersey : Prentice-Hall, Inc., 1987), pp. 169-178.

subjective judgments are added to objective performance measures, they lessen the clarity and fairness of the system and require high levels of trust. Therefore, as Pearce notes, individual performance-contingent pay contracts are not compatible with typical uncertainties facing supervisors.¹³⁴

As Pearce maintains, the more the work is interdependent, the more it becomes difficult for managers to assign credit and blame to particular individuals. It also undermines employee commitment to colleagues, to the employer and undermines employee-employer relationships as well, especially as they communicate the idea that performance is important in accordance with "contract measures" thus neglecting past performance, potential for other kind of work and outside circumstances. Pearce concludes that individually-contingent pay can cover only a portion of the desired performance behaviors in conditions of uncertainty, interdependence and complexity and hence can become an artificial representation of the desired performance that is amenable to effective organizational cooperation and performance.¹³⁵

III.4.9 "CONTAMINANTS" OF PAY-FOR-PERFORMANCE :-

Frederic Cook provides his list of "contaminants of pay-for-performance" which he suggests as leading to employee dissatisfaction and loss of management credibility. They include the rising costs of living, the desire of companies to maintain their competitiveness, the need to adjust the skewed salary grades and ranges, the low standards set

134. *ibid.*

135. Jone L. Pearce, "why merit pay does not work : implications from organizational theory" in New Perspectives on compensation by David B. Balkin and Luis R. Gomez-Mejia (Englewood Cliffs, New Jersey : Prentice-Hall, Inc., 1987), pp. 169-178.

forth in appraisal, the so-called "merit matrices", open communication about pay matters, fear of demotivating workers or of being charged with discrimination.¹³⁶

The first contaminant, that is the rising costs of living, results in making the companies give all of their employees merit raises - regardless of their actual performance - in lieu of cost-of living allowances. It is suggested that this practice confuses workers and results in the avoidance of the necessary confrontation between low performers and the management. A "second" contaminant takes place when market surveys indicate that the company in question pays its employees below market rates. In this case, the company may resort to justifying salary increases to everybody regardless of performance at the cost of sacrificing pay-for-performance plan effectiveness. A third "contaminant" comes into effect when companies give incentive pay according to the employee's position in the salary grades, range structures and midpoints and regardless of the actual performance of the employee. If this is used to justify incentive pay to some low performers, high performers will be discouraged and the link between pay and performance - in the perceptions of employees - is diluted. The fourth "contaminant" is related to performance appraisal and review where job objectives are often achievable and within employee capabilities. In this case most employees reach their objectives and get above-average ratings while they still get only average incentives. This results in further confusion.¹³⁷

136. Frederic C. Cook, "Contaminants of pay-for performance", Personnel, vol. 63, July 1986, pp.8-10.

137. Frederic C. Cook, "Contaminants of pay-for performance", Personnel, vol. 63, July 1986, pp.8-10.

A fifth "contaminant" of pay-for-performance results from the use of the so-called "merit matrices". Such matrices - which are used by many companies - relate the amounts of salary increases to the employee position in the salary range as well as the employee's performance rating. If the performance rating of two employees is the same but one employee has a salary below midpoint and the other one has a salary above midpoint, the one with a below midpoint salary receives a higher increase. Sometimes low performers even receive higher increases than high performers. The sixth "contaminant" - maintained by Cook - stems from open communication about pay matters. As Cook suggests, open communication ultimately leads to a less differentiation in pay between low-performers and high-performers. This is because employees get to understand the pay systems and its relationship to their performance, evaluate their pay relative to that of others and thus expect to get above-average increases. This will be the case especially if the performance assessment ratings are skewed to the high side. Undermining pay-for-performance is further increased by the desire of managers not to demotivate their workers. In fact some managers believe that withholding increases from some workers while giving others may demoralize those who have not received increases, undermine teamwork, as well as have an impact that goes far beyond the money withheld (youngsters might be discouraged and might leave, elders might have their pensions affected, etc.) or that if they make large differences in incentives, they might be charged with discrimination.¹³⁸

138. Frederic C. Cook, "Contaminants of pay-for performance", Personnel, vol. 63, July 1986, pp.8-10.

III.4.10 OVEREMPHASIS ON MONEY AND EXTERNALLY-MEDIATED REWARDS AND NEGLECT OF INTRINSIC REWARDS :-

To some researchers, externally mediated rewards satisfy only lower-order needs rather than higher-order ones.¹³⁹ On the other hand, as discussed in section III.4.1, there are arguments that introducing extrinsic rewards to an intrinsically interesting job reduces intrinsic interest. Other, however, argue that a combination of both kinds of rewards increases motivation to perform the task more than for a task where only one form is present. It is suggested, therefore, that a factor that hinders the effectiveness of pay-for-performance systems is the practice by many companies of viewing money as the primary motivator and ignoring intrinsic job rewards, including interesting and creative jobs and participative management systems.¹⁴⁰

139. W. Clay Hamner, "How to ruin motivation with pay" in Motivation and Work Behavior ed. Richard M. Steers and Lyman W. Porter (Newyork:McGraw-Hill Book Company, 3rd ed.,1983), pp.264-276.

140. *ibid.*

III.5 THE IMPACT OF COMMUNICATION BETWEEN WORKERS AND MANAGEMENT AND WORKER PARTICIPATION ON PAY MATTERS ON THE SUCCESS OF PAY-FOR-PERFORMANCE SYSTEMS

Pay secrecy eases up the administration of pay as it relieves managers from the burden of making detailed explanations to workers to justify pay incentive decisions . As it was shown in the previous section, open communication about pay matters could comprise a "contaminant" that undermines the success of pay-for-performance plans . However, if the company applies a secrecy in pay system, employees will not stop making equity comparisons and any perceptions of equity might undermine motivation, morale, and a healthy corporate climate. Therefore, many academics and practitioners argue for communication and for a more open system on pay matters.

As seen by Renken, communication between employees and management on pay matters is of great importance for the success of performance-based pay systems.¹⁴¹ Bookbinder and Seraphin hold further that many attempts to implement pay-for-performance plans fail because of the lack of communication and the lack of training rather than the lack of proper plan design. In Bookbinder and Seraphin's view, communication and training have their advantages for the success of performance-based pay systems. Communication facilitates the understanding of employees of how to benefit from the rewards of the system. This improves job satisfaction and employee self esteem. It is suggested further that communication and training improve the confidence of the employees in the pay plan fairness and competitiveness. It follows that companies should not regard discussion about compensation as being taboo and should not rely on the

141. Henry J. Renken, " An Employee - Incentive Program can be the Answer to Increased Productivity ," Advanced Management Journal, vol. 49, Spring 1984, pp. 8-12.

limited explanations that are found in employee handbooks or during recruitment or annual performance assessments. In particular, employers should try to close the "credibility gap" of employees by explaining the pay in connection to economic conditions like inflation to give them the right perception about their actual pay in real rather than nominal terms.¹⁴²

Companies would be better off if they invest time and money on training and communication about pay matters. If the objectives are well-defined and if the programs of communication and training are executed in the right manner, a company may improve the attitudes of its employees without creating too high and unrealistic expectations. Furthermore, a compensation training and communication program may take a long time. The benefits might be fully utilized in 2-3 years because information communication is linked to the sequence of performance assessment, salary design, and salary review. Therefore, a long-term commitment from top management is needed for the proper use of such programs.¹⁴³

According to Lawler III, however, there is no right or wrong approaches in the communication policies of companies regarding pay matters. Rather, the issue is a choice among different degrees that range from open communication to complete secrecy according to considerations of the type of corporate climate desired and its impact on corporate efficiency and effectiveness. Strong secrecy policies may lead to a climate of mistrust and belief distortions in the organization. On the other hand, open systems put pressures on the administration and management to effectively administer rewards or else eliminate pay discriminations. The

142. Stephen M. Bookbinder and Robert M. Seraphin, "Making Pay for Performance Work", Personnel, vol. 64, sept. 1987, pp 60-69.

143. *ibid.*

problem is that if little time is supposed to be spent on the administration of pay systems, and if such systems are to be based on performance, secrecy could be a way out, though it would limit pay-for-performance effectiveness.¹⁴⁴

There should be the style of organization needed to accomplish strategic corporate objectives. If a participative, high involvement climate is desired, then a participative system is best. Otherwise, a traditional approach is used, with decisions made in a top-down fashion, desired only by the management with the aid of their staff, and administrative control through the chain of command. Experience suggests that various ways of employee involvement and participation have had favorable results.¹⁴⁵

144. Edward E. Lawler III, "The design of Effective Reward Systems " in Handbook of Organizational Behavior ed. Jay W. Lorsch (Englewood Cliffs, New Jersey : Prentice Hall Inc., 1987), pp.255-270.

A closely related issue to the communication policy on pay is the issue of the degree of involvement and participation of employees in the design and administration of their own pay system. The determinant of the degree of participation should be the style of organization needed to accomplish strategic corporate objectives. If a participative, high involvement climate is desired, then a participative system is set. Otherwise, a traditional approach is used, with decisions made in a top-down fashion, design made by top management with the aid of their staff, and administration made through the chain of command. Experience suggests that various ways of employee involvement and participation have had favorable results.¹⁴⁵

145. Edward E. Lawler III, "The design of Effective Reward Systems " in Handbook of Organizational Behavior ed. Jay W. Lorsch (Englewood Cliffs, New Jersey : Prentice Hall Inc., 1987), pp.255-270.

CHAPTER FOUR :- THE EGYPTIAN SETTING : THE GENERAL ENVIRONMENT AND PREVIOUS RELEVANT RESEARCH

In this chapter, the general environment of administration in Egypt is briefly surveyed and a generalized account of some relevant research to the subject of employee motivation and performance incentives in industry in the Egyptian setting is presented.

IV.1 THE OVERALL ENVIRONMENT OF ADMINISTRATION IN EGYPT

It could be argued that a brief investigation of the social, political, economic and other "environmental" factors - to this research - in the country is useful for a thorough understanding of organizations' systems of management, including the pay-for-performance "subsystem".

IV.1.1 THE OVERALL SETTING

Darwish and Takla account for the factors that constitute the environment of administration in Egypt.¹⁴⁶ Geographical factors are assumed to be important in that regard, given the fact that the population of the country is concentrated in the relatively small cultivated area around the River Nile Valley and the Delta and the impact of such situation on the relative ease of transport and communication in the country. The country's position, on the other hand, represents a link between Africa, Asia and Europe and has largely affected its history and political life. It is argued that the need to control the Nile resources and to regulate the use of water and floods has fostered the establishment of a strong centralized system. Also, agricultural society and rural values and traditions have affected life in Egypt, especially with the rural background of Egyptian employees, traditional values and the desire to migrate to urban areas. Moreover, the role of the educational system in

146. Abdel-Kerim Darwish and Laila Takla, Fundamentals of Public Administration (Arabic), 2nd. ed. (Cairo : The Anglo-Egyptian Bookshop, 1972), pp. 106-134.

Egypt, which is largely affected by the British one, and the particularly important role of religious values are emphasized.¹⁴⁷

IV.1.2 DEVELOPMENT OF THE POLITICAL ECONOMY IN CONTEMPORARY EGYPT

The country was under British influence throughout the period 1882-1952 and the economy was basically a free-enterprise system with open door for foreign investment. After the 1952 revolution and the subsequent termination of British influence, the government launched ambitious modernization and economic developmental programs. In fact, free market open-door economy continued after 1952 for some time until it was reversed in the 1960s. When Britain, France and Israel attacked Egypt in 1956 after the decision of the Egyptian government to nationalize the Suez Canal, the government nationalized their banks and businesses.

It is suggested that the prevalent governmental attitude during President Nasser's era (1954-1970) towards foreign investment was largely skeptical, considering foreign investment to be conducive to control by multinationals and to dependency. It is also suggested that the introduction of the socialist laws of 1961, which included a Presidential Decree to nationalize banks and insurance companies, resulted in a reduced role of the private sector throughout the period 1961-74. Such period is said to have witnessed change towards a socialist (or actually state capitalist) system and the public sector was considered the main pillar of economic development.¹⁴⁸

147. Abdel-Kerim Darwish and Laila Takla, Fundamentals of Public Administration (Arabic), 2nd. ed. (Cairo : The Anglo-Egyptian Bookshop, 1972), pp. 106-134.

148. Ibrahim M. Oweiss, "Egypt's Open-Door Policy : An Economic Assessment, Columbia Journal Of World Business, Spring 1988, pp.73-77.

The term "Infitah", which - in Arabic - refers to "The Open-Door Policy" or the fundamental shift in the Egyptian Economic policy and foreign economic relations that took place in the 70s (President Sadat's era) from controlled development based on direction by the state to development that is based upon market forces of supply and demand and upon private initiative and entrepreneurship.¹⁴⁹ Such policy was manifested in a set of laws which aimed at liberalizing the Egyptian economy, such as law 65 (1971), law 47 (1971) and its amendments through law 32 (1977) to encourage foreign investment, the import/export law 118 (1975), law 97 (1976) on foreign exchange liberalization, the own import system (introduced in 1974), phasing out of bilateral agreements and restructuring of the public sector.¹⁵⁰ According to Gouda Abdel-Khalek, though some growth is achievable through open-door policy, especially in early stages of integration into world markets, growth later slows down, inequality could take place and very little socioeconomic development is attained. He also maintains that the successive laws of Infitah regarding foreign trade show a trend towards giving additional incentives that were - in his view - "counterproductive" and "self-defeating", making the economy vulnerable to control by multinationals and to unfavorable economic and political consequences. Similar criticisms are also given to other infitah laws.¹⁵¹

149. Gouda Abdel-Khalek, "The Open Door Economic Policy in Egypt : A Search for Meaning, Interpretation and Implications" in Studies in Egyptian Political Economy, ed. Herbert M. Thompson. (Cairo, Cairo Papers in Social Science, Monograph 3, 2nd. ed., July 1983), pp.73-100.

150. Gouda Abdel-Khalek, "The Open Door Economic Policy in Egypt : A Search for Meaning, Interpretation and Implications" in Studies in Egyptian Political Economy, ed. Herbert M. Thompson. (Cairo, Cairo Papers in Social Science, Monograph 3, 2nd. ed., July 1983), pp.73-100.

151. *ibid.*

A different view to the one above suggests a positive impact of Infitah. According to Ibrahim Oweiss, the open door policy resulted in increased domestic and foreign investment, very high increase in the growth rate of the economy, including a very high increase in growth of the industrial sector, contrary to leftists arguments that open-door promoted unproductive services and consumption. Oweiss also argues that gross fixed investment in physical infrastructure including electricity, transport, communication, housing and public utilities increased by 10 times in 1974-1981 compared to 1961-1973, unemployment was drastically reduced during 1974-1981, exports increased to catch up with imports and that productivity increased because of improved role of the private sector and also because of rendering the necessary funds for replacement and maintenance available for public sector companies. The author concludes that the overall impact of Infitah was positive despite some shortcomings.¹⁵²

IV.1.3 CONTINUING REFORM EFFORTS

Denis Sullivan acknowledges the existence of continuous efforts aimed at achieving economic reform in Egypt though he maintains that the economy is still "state-led", highly subsidized, highly centralized, with too many price controls, misdirected subsidies, quotas and procurement regulations on farmers, mismanagement of marketing and so on. He attributes the fact that the government maintains those policies to political reasons to maintain stability and the status quo, stressing the necessity of "gradualism" of reform. To Sullivan, there is open inter-ministerial rivalry about the substance of reform due to differences in organizational responsibilities of ministries as well as to individual interests. Sullivan also enlists the effect of

152. Ibrahim M. Oweiss, "Egypt's Open-Door Policy : An Economic Assessment, Columbia Journal Of World Business, Spring 1988, pp.73-77.

international economic problems, bureaucratic and political struggles in policy-making between bureaucracies and within them, competition between Egyptian bureaucracy and foreign donors bureaucracies and within foreign donors bureaucracies, especially as donors also seek stability and the status quo. Though he admits that economic growth in Egypt increased throughout the 70s, he holds that it fell again during 1984 and 1987 in addition to problems of inflation, trade and budget deficits and foreign debts as well as decline in Suez Canal revenues, tourism, workers' remittances and oil.¹⁵³

However, the Egyptian government is currently taking continuous steps to introduce further liberalization and reform of the country's economy based on the principles of free market and with also due regard to social conditions. Agreement with the IMF has been recently reached on a reform formula to that end.

153. Denis J. Sullivan, "The Political Economy of Reform in Egypt", International Journal of Middle East Studies, vol. 22 (1990), pp.317-334.

IV.2 SURVEY OF SOME PREVIOUS RELEVANT RESEARCH

IV.2.1 FINANCIAL INCENTIVES AND JOB SATISFACTION :-

An exploratory study of the relationship between financial incentives of management in the public sector and job satisfaction in Egypt, which was conducted in 1971 and included a sample of over 100 employees, indicated that :-

- a. a close relationship exists between financial incentives and job satisfaction.
- b. money works as an important motivator for supervisory staff and middle management.
- c. middle managers have shown more concern with organizational and intellectual aspects than do supervisory managers.
- d. public sector incentives are inadequate for managers.
- e. Egyptian managers did not give enough attention to non-financial rewards.¹⁵⁴

The same study also recommended that :-

- a. top managers in the public sector should be given more flexibility to make decisions regarding incentives.
- b. more flexible labor laws should be devised and adapted according to the circumstances in each case.
- c. revision of promotion laws and practices which heavily base promotions on seniority.
- d. due regard to performance appraisal in deciding promotions and incentives while at the same time devising objective criteria to avoid subjectivity of appraisals.
- e. we should not overestimate the importance of profit-sharing as an incentive.¹⁵⁵

154. Adel A. Asaad, Motivation : An Exploratory Study of Workers' Attitudes Towards an Incentive Wage Scheme in The United Arab Republic, (Cairo : American University in Cairo Thesis, 1970).

155. *ibid*

IV.2.2 LEADERSHIP, MOTIVATION AND JOB SATISFACTION :-

Another study compares the satisfaction levels and the ways in which leaders motivate their employees in a public sector company in Egypt to those in another one in the private sector. Both companies are in the pharmaceuticals industry, which is considered a successful one in Egypt, covering some 80% of domestic consumption. The researcher notes that both companies are reputed in the industry and that employees are satisfied by their status derived from that regard. The research also notes that :-

- a. personnel records are better kept in the private sector company than in the public sector one.
- b. employees in the private sector company think that their management is well-informed of their job duties than those of the public sector one. The study attributes this to better training in the private sector case.
- c. more interaction and participation and better feedback in the private sector company.
- d. private sector company personnel are excited with their interesting work whereas public sector ones enjoyed relaxation.
- e. in both cases, there is a lack of supervision, coaching and guidance and bosses do not know enough about the work of their subordinates.¹⁵⁶

156. Mohamed Hafez Abdel-Hamid, Leadership, Motivation and Job Satisfaction among Employees of State and Private Enterprises in the Pharmaceutical Sector in Egypt : A Comparative Study, (Cairo : American University in Cairo Thesis, 1987).

IV.2.3 EFFECTIVE INCENTIVES IN THE EGYPTIAN SETTING¹⁵⁷

Leila, Yassin and Palmer refer to the "Apathy" problem in Egypt and its impact on productivity. It is assumed in their study that in order to improve economic conditions in Egypt, productivity has to be fostered especially within the Egyptian Bureaucracy, which is suggested as still playing a leading role in planning and directing the economic policies of the country and operating its major industrial organizations since the socialist laws of 1961.¹⁵⁸ The revitalized private sector, which has been playing an increasingly important role since the "Infitah" era, is still engaged in services, tourism and real-estate activities whereas the public sector retains the economy's industrial sector. The study of the authors, which depends upon research findings, questions the incentives which are intended to improve the productivity of Egyptian Bureaucrats, especially monetary ones. Though the authors acknowledge that monetary incentives have actually improved productivity under certain circumstances, they assume that this should not necessarily be automatically applicable to Egypt.¹⁵⁹ They suggest the following reasons for this contention:-¹⁶⁰

a. The low productivity is not necessarily the result of "laziness" or "apathy". Rather, there are structural problems like overstaffing, unclear definition of responsibilities, centralization and duplication of activities.

157. This section VI.2.3 draws heavily on : Ali Leila, ElSayed Yassin and Monte Palmer, "Apathy, Values, Incentives and Development : The Case of The Egyptian Bureaucracy," The Middle East Journal, vol. 39, no. 3, summer 1985. pp.341-361.

158. *ibid.*, p.343.

159. *ibid.*

160. *ibid.*, pp.343-344.

b. Monetary incentives have a high cost that could make it unfeasible to adopt monetary incentive plans, taking into consideration the low salaries of the government, especially in comparison with those of the private sector, and the possibilities of further liberalization of prices - the factors which put pressures for applying "across-the-board" increases.

c. The possibility of unfavorable social and political consequences taking into consideration the prevalent ideas of social justice and social equality. Such ideas have led to excessively large size of bureaucratic institutions, which fit in too many people in order to achieve full employment.

d. We have to examine the values of Egyptian bureaucrats before we design incentive systems. The authors hold that the recognized benefits of employment in Egypt are security, stability and prestige. They also suggest that a combination of monetary and non-monetary incentives or non-monetary incentives alone could perhaps be better than applying monetary incentives alone.¹⁶¹

Based on the findings of their survey study¹⁶², the authors have come to the following conclusions :-

1. Regarding The Level of The Apathy Problem in Egypt :- apathy is not necessarily the main problem that causes low productivity. Productivity is not absent but is affected by the lack of organizational flexibility, excessive centralization by top-level bureaucrats and reluctance of junior ones to take risks or to differ with their superiors.¹⁶³

161. Ali Leila, ElSayed Yassin and Monte Palmer, "Apathy, Values, Incentives and Development : The Case of The Egyptian Bureaucracy," The Middle East Journal, vol. 39, no. 3, summer 1985, pp. 343-344.

162. The study was conducted in 1983 on a stratified random sample of 825 Egyptian bureaucrats, selected from various levels of management by the al-Ahram Center for Political and Strategic Studies.

163. *ibid*, pp.350-351

2. Explanations of low productivity :-

a. Recruitment practices favor full employment to efficiency of bureaucratic organization. Some bureaucrats join through favoritism or routine appointments of university graduates rather than through competitive examinations. Also, government service is seen as a means to the end of security.

b. Poor economic circumstances of the bureaucracy. It is suggested that during President Nasser's era of socialist commitment, salaries and promotions were regulated by the government and were low by international standards, but the difference between high and low salaries was not very high. Furthermore, inflation increased after Infitah and the gap between public and private sector pay increased and public sector salaries have henceforth become more inadequate. As a result, many government employees have looked for extra employment in the private sector (though this is generally prohibited by law) and to divide their efforts and talents between more than one job. Others looked for employment in oil-rich Arab states or for leaving their governmental posts for better paid jobs in the private sector. In fact the authors also note that senior level bureaucrats complain that those who leave are their best employees and that turnover of skilled employees is high.¹⁶⁴

3. Values and Incentives of Egyptian Bureaucrats :- Referring to literature on bureaucracy in LDCs and to research, the authors of the article on Values, Incentives and Bureaucracy in Egypt argue that six motivational values are of interest to Egyptian Bureaucrats, namely money, prestige, urban location, proximity to relatives as well as security and comfort and that :-

164. Ali Leila, ElSayed Yassin and Monte Palmer, "Apathy, Values, Incentives and Development : The Case of The Egyptian Bureaucracy," The Middle East Journal, vol. 39, no. 3, summer 1985, pp. 352-354.

a. Prestige is found to be the most important of all the values investigated and for all employees regardless of differences in sex, education, age, level in the hierarchy and type of ministry.

b. For money, males are more concerned than females, more educated and higher levels in the hierarchy are more concerned with pay than less educated and lower levels in the hierarchy.

c. For urban location and proximity to relatives, females are more concerned than males, and Cairenes are more reluctant to work in rural areas - considering those areas culturally stifling, than others.

d. Security and comfort were found to be more important for employees in lower levels of the hierarchy.¹⁶⁵

The authors concluded that monetary incentives are not necessarily the best way towards attaining high levels of productivity. Though the study identified low pay to be the primary source of dissatisfaction among Egyptian bureaucrats, prestige came before pay as the incentive that is most likely amenable to induce improved productivity and performance. The authors explain both of these observations which seem to be contradictory in light of Herzberg's two-factor theory. Salary structure, work conditions and security are among hygienic (negative) stimuli that could constitute a basis for job dissatisfaction, complaints and depressed performance if they fall below a certain level whereas achievement potential, recognition and growth at work are motivational (positive) stimuli. If the minimum satisfactory Hygienic conditions are met, they cease to be of motivational value, whereas motivators could be a source of job satisfaction, motivation and improved performance.

165. Ali Leila, ElSayed Yassin and Monte Palmer, "Apathy, Values, Incentives and Development : The Case of The Egyptian Bureaucracy," The Middle East Journal, vol. 39, no. 3, summer 1985, pp.355-357.

The authors refer also to research in different countries that more or less confirmed such contention, stressing monetary factors as a possible source of job dissatisfaction - if the need for money is not satisfied - but holding that money is not necessarily the major source of job satisfaction.¹⁶⁶

The authors argue that Egyptian bureaucrats seek supplemental jobs to get supplemental income out of necessity and as a stimulus for survival given the low salaries of Egyptian bureaucrats. They also hold that this does not contradict the importance of prestige as a dominant motivational value once acceptable salary and other hygienic considerations are fulfilled. They refer in that regard to Egyptian migrant labor to the Arab Oil-rich Gulf state who seek to transfer their life conditions considerably and they then return back to their positions.¹⁶⁷

Given all of the above considerations, the authors have concluded that :- a. Egyptian bureaucrats - because of their low pay - divide their energies and talents between jobs. This leads to ascertaining the importance of the need for higher salaries.

b. Hindrances to devising effective incentive systems in Egypt include:-lack of resources - difficulty of making incentive-based evaluations - pay in the public sector, including whatever incentives still does not compete with that of the private sector.

c. Prestige-based incentives in Egypt are quite effective. However, because salary levels are low, the effectiveness of prestige-based incentives is reduced.

166. *ibid.*, pp.357-61.

167. Ali Leila, ElSayed Yassin and Monte Palmer, "Apathy, Values, Incentives and Development : The Case of The Egyptian Bureaucracy," *The Middle East Journal*, vol. 39, no. 3, summer 1985, pp.357-361.

d. Superior-subordinate relationships are very important in that regard.¹⁶⁸

It seems reasonable from the research surveyed above that money could play an important role as a motivator in the Egyptian setting. However, money alone is not necessarily sufficient and is not necessarily the most important motivator in all cases. The importance of money as a motivator depends upon the particular circumstances and the conditions in which it is used. Therefore, the use of money as a motivator in the context of a performance-based pay system might work if such system properly designed, administered and implemented and if it fits the overall environment in which it is used.

168. *ibid.*

CHAPTER X CONCEPTUAL FRAMEWORK, METHODOLOGY, OPERATIONAL DEFINITIONS AND DATA ITEMS

CONCEPTUAL FRAMEWORK

In order to achieve organizational objectives with the least amount of resources, concern of management should be directed to the improvement of productivity and the increase of efficiency of their organizations. It could be argued that the necessary and sufficient condition for doing this is the maximization of the utilization of organizational resources in an efficient and effective way. This entails the maximization of the contribution of every unit or function of the organization. Of concern in this study is the performance of the organization with respect to its resources.

PART TWO

CASE STUDY

THE MOTIVATIONAL IMPACT OF THE PAY-FOR-PERFORMANCE SYSTEM OF BLUE-COLLAR WORKERS IN A TYPICAL MANUFACTURING ENVIRONMENT IN EGYPT :- THE PRODUCTION DEPARTMENT OF CHLORIDE EGYPT

It is a great concern for the productivity and performance of human resources. In manufacturing firms in particular, the productivity of blue-collar manufacturing workers is a key element. This is because these workers are the primary labor, whose output constitutes what the manufacturing firms' activities center. But differently, the performance of these workers is a prerequisite for, or at least paces, the success of other units and functions of the organization in addition to the productive function. The performance of these employees is a function of their skills, talents and motivation on one hand and their will to work and their motivation for improved job performance on the other hand. Therefore, one way of upgrading the performance of these workers is to motivate them for improved job performance. Motivation for improved job performance could be pursued through securing a stimulating job context and various "intrinsic activators".

CHAPTER V CONCEPTUAL FRAMEWORK, METHODOLOGY, OPERATIONAL
DEFINITIONS AND DATA ITEMS

V.1 CONCEPTUAL FRAMEWORK

In order to achieve organizational objectives with the least amount of resources, concern of management should be directed to the improvement of productivity and the increase of efficiency of their organizations. It could be argued that the necessary and sufficient condition for doing this is the maximization of the utilization of organizational resources in an efficient and an effective mix. This entails the maximization of the contribution of every unit or function of the organization. Of concern in this study is the performance of the organization's human resources.

In the private sector or the public enterprise sector, where the objective is to achieve profitability and competitiveness, to maximize the wealth of owners and to maximize the well-being and the potential of the business, there is a great concern for the productivity and performance of human resources. In manufacturing firms in particular, the productivity of blue-collar manufacturing workers is a key element. This is because those workers are the primary labor, whose output constitutes what the manufacturing firms' activities center. Put differently, the performance of those workers is a prerequisite for, or at least paces, the success of other units and functions of the organization in addition to the production function. The performance of those employees is a function of their skills, talents and education on one hand and their will to work and their motivation on the other hand. Therefore, for improved job performance on the other hand. Therefore, one way of upgrading the performance of those workers is to motivate them for improved job performance. Motivation for improved job performance could be pursued through securing a motivating job content and various "intrinsic motivators"

and/or through the introduction of extrinsic rewards such as a performance-based pay system in the context of an overall organization strategy and planning. In order to judge on whether such system in a particular organization is successful in motivating employees for improved performance, we have to consider lessons from the actual experience of using such systems and conditions that could undermine or foster their effective design, administration and implementation. This was taken care of in the literature survey presented in Part I, whereby a general background was also provided so as to cover a broad spectrum and to offer a theoretical background on the subject. The case study, however, provides an application of the theoretical concepts discussed in the first part, applying them on blue-collar manufacturing workers in a typical manufacturing environment in Egypt.

Referring to the expectancy theory introduced in the literature survey, we can classify the necessary requirements for the effectiveness of pay-for-performance systems into three broad categories. First, there should be a proper identification of rewards (type - amount) that are valued by employees based upon which an effective reward mix in general and an effective performance-based pay system in particular are designed in the context of an overall sound organizational reward system. Second, there should be an effective performance evaluation tool that would foster an appropriate, bias-free, rating to employees and that would result in a close connection between pay and performance. Third, there should be concern for securing a work environment whereby it becomes easy for employees to influence their work outcomes if they exert reasonable effort and where it also becomes highly unlikely that an employee job performance falls because of factors beyond his/her control (such as machine stoppages - work and performance of others).

In studying the role of financial pay-for-performance incentives in motivating employees for improved job performance, there are also few issues that should be of concern. For instance, there should be concern about how employees perceive the relationship between pay and performance, the level of trust between employees and managers and the perceptions of employees about the fairness of the system. Also, we have to consider the degree to which an employee can influence his/her own performance, the degree to which performance is measurable as well as the fairness of performance ratings. Also, there should be concern about whether pay is important to the employee. Moreover, budgetary considerations and the relative size of the budget for pay-for-performance are important elements to study. On the other hand, the pay-for-performance system should be in tune with the overall organizational objectives, strategy, climate and culture.

V.2 OPERATIONAL DEFINITIONS

The following list contains a brief definition of some of the concepts as they will be used throughout the case study :

1. BASE

The term "base" is used to refer to the minimum output that an employee has to achieve within a certain period of time as a standard rate of output above which he/she may earn a bonus. In other words, the base output is the zero-bonus output.

2. PAYMENT OR PAY

The term "payment" or pay is used throughout the case study to mean the total amount of money that an employee earns in return for his/her work. This includes all pay components, including basic pay and variable pay components such as incentives for improved performance.

3. MOTIVATION

The term "motivation" or "employee motivation" will be used throughout this thesis to mean the degree to which the employee has a will to work for improved job performance.

4. PAY-FOR-PERFORMANCE or INCENTIVE or BONUS

The term "pay-for-performance" will be used to mean the money that employees receive in return for only their high level of performance. It is the difference between what the employee actually earns and what he/she could have earned had he/she produced only the standard rate of output, keeping other factors constant. It is perhaps used interchangeably with the term incentive and with the term that the company uses (BONUS).

5. EFFORT-TO-PERFORMANCE EXPECTANCY (Expectancy)

The term "Effort-to-performance expectancy" is used to mean the perception of an individual employee of whether the efforts he/she makes would lead to a certain job performance level.

6. PERFORMANCE-TO-OUTCOME EXPECTANCY (Instrumentality)

The term "Performance-to-outcome expectancy" is used to mean the perception of an individual employee of whether his/her job performance would lead to a certain level of financial incentive.

7. PERCEIVED OUTCOME ATTRACTIVENESS (Valence)

The term "Perceived outcome attractiveness" is used to mean the perception of an individual employee of his/her marginal utility of financial incentives for improved performance as distinct from other rewards.

8. REWARDS OR REWARD MIX

The term "rewards" or "reward mix" is used to mean the various benefits and facilities, whether they are monetary or nonmonetary, that the organization offers to its employees as their rights derived from the working relationship and/or for performance motivation. Such rewards are composed of two types :

1. Non-Monetary Rewards : e.g. job design arrangements of a rewarding nature like earned time off, flextime, etc.
2. Monetary Rewards : the money that the organization pays to its employees as a basic salary, pay-for-performance, etc. and the various benefits that are readily transferable into cash.

9. CONTINGENT REWARDS

The term "Contingent Rewards" is used to mean the various monetary and non-monetary rewards that the organization offers to its employees based on their performance.

10. WORKER

The term worker is used to mean a blue-collar manufacturing employee (direct or indirect) working the production department in Chloride Egypt.

11. MANAGER

The term "manager" is used to mean a supervisor, a manager of a department or a director in Chloride Egypt.

V.3 METHODOLOGY

V.3.1 AIM OF RESEARCH

This research aims at gaining insight into the role that financial pay-for-performance incentives can play in motivating employees for improved job performance in pursuit of maintaining organizational productivity, profitability and competitiveness. The relevant literature was surveyed and an exploratory case study is to be presented. The literature survey was intended to provide comprehensive coverage of the subject, including motivational concepts and theories, their standard applications, the motivational role of money, the distinct nature of public service motivation, payment systems design and administration in organizations and the various concepts and issues related to the installation, design and administration of pay-for-performance systems in organizations. This is because such theoretical survey provides a unique chance to investigate as much as possible a wide range of aspects relevant to the subject and to provide a broad framework for the empirical part of the thesis (the case study). The ultimate objective is an insight into how to use financial pay-for-performance incentives in a manner that is conducive to motivating employees for improved job performance and on how to maximize the return of companies on their investment in financial pay-for-performance incentives.

The case study, on the other hand, is an exploratory and empirical one that aims at gaining insight into the role that a typical financial pay-for-performance system has in motivating blue-collar manufacturing workers for improved job performance in a typical manufacturing environment in Egypt. In other words, it covers a subset of what is covered in the literature in terms of scope (as to the specificity of the country of the organization - the type of organization - type of workers - etc) . Also, it was believed that

it was more likely to find a typical pay-for-performance system for blue-collar manufacturing workers than for other employees as their output is readily measurable. Such case study of a typical manufacturing unit in Egypt (the production department in Chloride Egypt) is used to apply the theoretical foundations of the subject and gain further insight.

V.3.2 TYPE OF RESEARCH

The Survey of Related Literature presented in part one is a brief summary and presentation that provides a broad framework for the investigation of a case study that addresses an actual working pay-for-performance system. The case study, which is to be presented in the remaining part of this work, has some features of survey research and some features of evaluation research. There is a brief investigation (survey) of the motivational impact of the pay-for-performance system of blue-collar manufacturing workers in a typical manufacturing unit in Egypt within the context of the organization's overall pay system. Such system is also evaluated in order to learn more about those systems and in order to benefit from such analysis in the future design of pay-for-performance incentive plans in the context of overall organizational rewards, particularly in manufacturing firms.

V.3.3 POPULATION

There are two categories of the population. First, the blue-collar manufacturing employees themselves - who benefit from the pay-for-performance scheme and who are the target of the study. Collection of data from this category takes place through meeting a sample of employees and conducting face-to-face structured interviews with them. Such interviews have prepared questions that are of use in doing the analysis. On the other hand, the interviewer can ask the

questions and at the same time observe the facial expressions and behavior of the interviewee and write comments. This technique (structured interviewing) is used instead of other techniques like questionnaires because workers may not necessarily show interest in filling questionnaires with due consideration, may not necessarily be educated enough to do so and may not necessarily understand the questions according to their intended meaning.

The second population category is that of management and supervisory staff. The technique of structured interviewing is also used with this category in order to give a chance of interaction between the interviewer and the interviewee in order to give the interviewee a chance of answering open-ended questions and discussing related issues. Therefore, the interviews in this case are used only as a guide for an open-ended discussion. In this way, a pool of information that would help in the analysis could be collected.

V.3.4 SAMPLE DESIGN

For the intended targeted population of the study, the blue-collar manufacturing workers, stratified random sampling is used to achieve accuracy and a balanced representation of the population. Balanced representation is pursued through the inclusion of a number of workers from each section that is more or less proportionate to the total number of employees in each section. Knowing that each section has one form of incentive pay (individual - group - indirect), the sample is also stratified in the sense that workers are also classification whether they receive an individual incentive, a group incentive or an indirect one.¹⁶⁹

For relevant managerial and supervisory employees, most of them are included.¹⁷⁰

169. In fact the sample size - after excluding few interviews - is 24, which covers about 10%-12% of the total targeted population

V.4 DATA ITEMS AND HOW DATA WAS COLLECTED

1. The rewards of the company

Non-financial rewards

Financial rewards

Financial rewards not related to performance

Financial incentives based on performance

Source : documents of the organization

interviews with managers

2. The maximum increase of pay of an employee due to performance as a percentage of non-performance pay

Sources : documents of the organization

interviews with employees and managers

3. Employee's valued rewards

Source : Interviews with employees and managers

4. The difference in pay between the lowest performers and the highest ones in the last three years of using the system

Source : documents of the organization

interviews with employees and managers.

5. Employee's perceptions of appraisal criteria and rating

Source : interviews with employees and managers

6. Machine stoppages and other job problems that undermine employee job performance

Source : interviews with workers and managers

7. Employee's understanding of what is expected of them.

Source : interviews with employees and managers

8. Communication and participation of employees in pay matters

Source : interviews with employees and managers

9. System equity and perceptions of equity

Source : interviews with employees and managers

10. Impact of incentives on intrinsic interest in work

Source : interviews with employees and managers

170. 14 or 70% of relevant managerial staff, who are all about 20 employees, are included.

V.5 LIMITATIONS (RISKS) OF THE CASE STUDY

1. Lack of full information on the company systems and lack of accessibility to sufficient documents to obtain more accurate and authentic information.
2. Limitations of time and accessibility impeding enlargement of the sample and inclusion of other companies in the study, perhaps for making comparisons or generalizations.
5. Difficulty of making concrete recommendations concerning the pay-for-performance system in the organization under study because the study does not go into other related aspects of the organization, especially that dealing with employee behavioral patterns is a complicated task. Only some issues are raised for consideration. It is suggested that only the company staff can decide on whether changes should be made on various aspects of the system.

CHAPTER SIX OVERALL ASSESSMENT OF THE PAY-FOR-PERFORMANCE
SYSTEM IN THE PRODUCTION DEPARTMENT OF CHLORIDE
EGYPT

In this chapter, an overview of the pay-for-performance system of Chloride Egypt is presented, with emphasis on the motivational impact of pay-for-performance incentives of blue-collar manufacturing employees in the production department. Such assessment is presented in the context of basic information about the company, its organization structure, nature of its market and so on. The assessment in this chapter is based upon information drawn from various managerial employees and from investigating and analyzing information from few relevant available documents about the organization. In chapter seven, however, conclusions are drawn about the system after complementing the preliminary analysis provided in chapter six with the results of targeted employees' responses to interview questions.

VI.1 INTRODUCTION TO CHLORIDE EGYPT

VI.1.1 BASIC INFORMATION AND TYPE OF BUSINESS

Chloride Egypt (S.A.E.) is a Joint Venture operating in Egypt, established by a decree of the Minister of Economy, Foreign Trade and Economic Cooperation and funded as follows :

1. Exide International (which is running overseas activities of Chloride Group International - based in UK) : 50%
2. General Batteries Company or GENBAT (an Egyptian public sector batteries company) : 38%
3. University Education Endowment Fund (UEEF) - a company in Egypt - : 10%
4. Barclays Bank : 2%¹⁷¹

171. A joint venture in Egypt is a company that has an Egyptian stake and a foreign one and that operates under a set of laws that are promulgated in the 1970s in the context of the open-door or "Infitah"

The company is located in the Industrial Area in Abou Rawash, Giza Governorate. It has :
P.O.Box 1006 Cairo, Egypt
Tel 727100-727122-727341 Cairo Egypt
Cable <<Chloride>> Cairo, Egypt
Telex 20695 CHLOR UN
Fax. 869709 - 730120

The company is working essentially on the manufacturing and marketing of :-

1. Automotive Batteries, which account for the bulk of the company's production and sales.
2. Industrial Batteries for computers, telephones, standby power supply and electronics and electrical systems, which represent only a small portion of the company's production and sales.¹⁷² According to company officials, the company is a market leader in the batteries market in Egypt, with a market share of about 50%.

policies. Such laws aim at encouraging economic activity, facilitating free enterprise and encouraging foreign trade and foreign investment. The information about Chloride Egypt presented above is drawn from interviews and discussions with some managerial employees.

172. An Example of Industrial Batteries are the batteries of the UPS (Uninterruptable Power Supply). The UPS is a system based upon Industrial Batteries and electronics and electrical systems that provides instantaneous power supply if normal power supply goes off. It is used in computer centers, in hospitals in some operations, etc. Very few units are produced as it takes a considerably long time to produce a unit of output. Also, the cost of every unit is quite high.

VI.I.2 ORGANIZATION STRUCTURE OF THE COMPANY
ORGANIZATION CHART¹⁷³



1. Top Management :

The Managing Director presides over the company's hierarchy. He/she is the company's top boss and management figurehead. Under his/her direction, there are the five top managers (The Directors), namely the Finance Director, the Manufacturing Director, the Marketing Director, the Technical Director and the Personnel Director :-

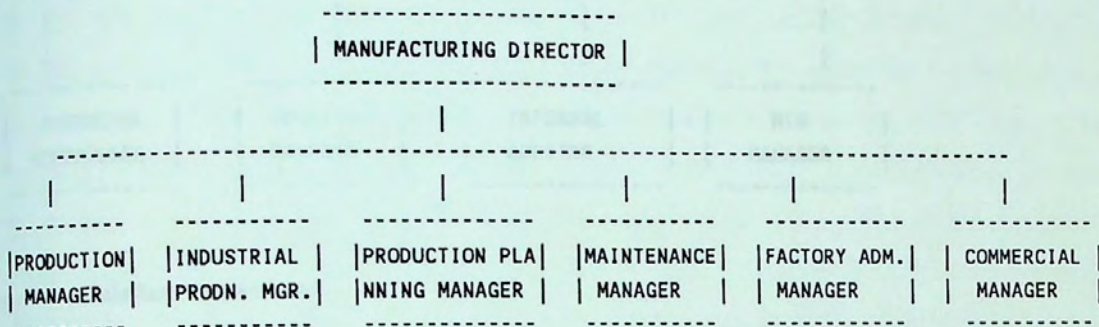
- The Finance Director runs all activities related to accounting, costing, auditing, financial control, MIS and so on. The Finance Director's position is the most senior one after that of the Managing Director.
- The Manufacturing Director presides over all activities related to manufacturing and production processes.
- The Technical Director runs activities related to production quality control, technical support and manufacturing know-how.
- The Marketing Director takes care of running all activities related to marketing and sales of the company's products.

 173. This Chart and other charts below are drawn after discussions with various managers.

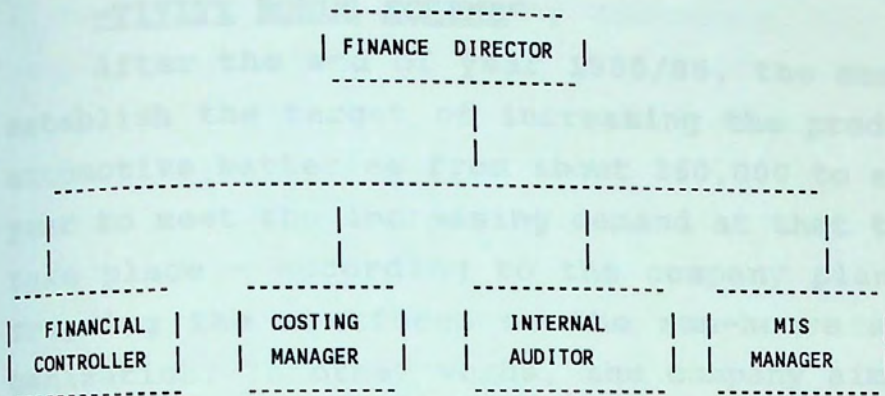
- The Personnel Director directs all activities related to personnel, including recruitment, selection, training, and so on.

2. The Individual Departments :-

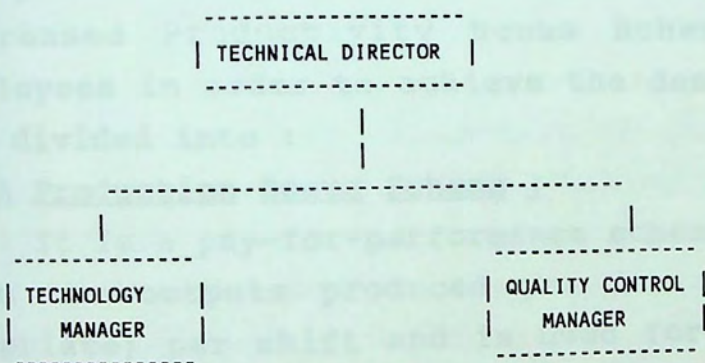
a. The Production Department



b. The Finance Department



c. The Technical Department



VI.2 PAY-FOR-PERFORMANCE INCENTIVES : "THE INCREASED PRODUCTIVITY BONUS SCHEME"

After the end of year 1985/86, the company decided to establish the target of increasing the production volume of automotive batteries from about 260,000 to about 460,000 per year to meet the increasing demand at that time. This was to take place - according to the company plans - without increasing the workforce or the man-hours spent in the organization. In other words, the company aimed at increasing the production level using mainly the existing resources. It was seen that this was not to take place without increasing the productivity. Therefore, the company established "The Increased Productivity Bonus Scheme" to motivate all employees in order to achieve the desired goal. The scheme was divided into :

a. A Production Bonus Scheme :

It is a pay-for-performance scheme whereby pay is based upon the outputs produced per man (or per crew - as appropriate) per shift and is used for all employees of the Production (Works and Technical) Departments, including workers, foremen, supervisors and managers.

b. A Sales Bonus Scheme :

It is a pay-for-performance scheme whereby pay is based upon marketing targets to be achieved per salesman (or per salesteam - as appropriate) per month or per quarter and is used for all employees of the marketing department.

c. A General Bonus Scheme :

It is a pay-for-performance scheme whereby pay is based upon the bonuses earned under the Production and the Sales Bonus Schemes and is used for all employees of the Finance and General Administration Department.

General Remarks on the Scheme

a. According to the company documents, the scheme aims at encouraging and rewarding efficient work, maximizing company returns as well as giving all employees the opportunity to have a share of the advantages derived from the increased productivity in all departments. It seems that it could be more appropriate from a conceptual perspective to reason it this way : all employees are given the chance to increase productivity and henceforth increase their earnings - rather than just giving employees a chance to have a share of the bonus. Some company officials have observed that the company perhaps encounters low performance of some employees who get their bonuses as a function of the bonus given to others rather than their own performance; a situation that many would consider to be inhibitive of the value and the objectives of pay-for-performance, taking into consideration the merits of rewarding each employee, at least in part, in line with his/her own performance level.

b. This scheme was developed for use in the financial year 1986/87 (ended 31st of March, 1987) under conditions of increasing demand. Little change was made for the scheme since then. Many company officials regard the scheme as a successful one and hence object to making changes in the system on the ground that there is no need to mess around with a reasonably working system.

c. According to the company documents, the management would, every month, make an assessment of the "attitude to work" and the "total cooperation of each individual to the success of the company" which would - if necessary - be reflected in the pay granted to the employee. In fact many managers have observed that the practice suggested by the statement above was not really applied the way it should be as everybody got his total pay more or less as suggested by the appropriate

equation of the scheme, with some amendments. It might be reasonable to consider putting this statement into effect as much as possible as there are many things that should be taken into consideration in arranging for employees to be granted incentives that cannot be measured by the rules of the scheme. This could include what the organization calls "attitude to work" and "cooperation to the success of the company". It seems that it is appropriate for a large company like Chloride Egypt to consider a formal and comprehensive performance appraisal system and to consider also:

1. Complementing the criteria for granting incentives for those employees who are paid incentives directly according to their output with useful performance appraisal results criteria.
2. Changing the incentive pay for those who are currently paid according to the output of others to base part of their bonus pay according to their performance appraisal results.

VI.3 INTRODUCTION TO THE PAY-FOR-PERFORMANCE SCHEME OF THE SALES DEPARTMENT AND THE GENERAL AND MANAGEMENT DEPARTMENT

In this section, the bonus scheme (pay-for-performance scheme) in each of the Sales Department and the General and Management Department are briefly introduced. A detailed study of the incentive scheme in those departments, however, is beyond the scope of this case study, which concentrates only on the pay-for-performance of manufacturing workers of the Production (Works and Technical) Department.

VI.3.1 THE MARKETING DEPARTMENT INCENTIVE SCHEME:-

This scheme is not the main target of this case study. However, only a brief overview of it is presented. The Marketing and Sales department has a policy of dividing its activities throughout the country into four areas, namely Greater Cairo, Alexandria and nearby provinces, Lower Egypt and Upper Egypt. Furthermore, the company embarks on a Market Research and Analysis program on an annual basis to adjust - if necessary - the distribution and the selling structure. An annual sales target is set up and is further translated into a monthly sales target, taking into consideration so many factors. This is translated into a target to be attained by each salesman based on a set of criteria. The incentive of a salesman is a function of the average of the basic salaries of the department, adjusted according to some considerations. To earn a bonus, a salesman must achieve at least 80% of his targeted sales. The Sales Supervisor's Bonus is weighed by a factor of 1.1. The Bonus is always limited to 100% of the basic salary of each individual.

* Calculation of A salesman's monthly incentive :-

The monthly incentive of each salesman is calculated by multiplying 425, which is the Bonus Base, by five factors. The First factor, Factor I, adjusts the incentive of the salesman to the predetermined target set for him by the department. The second factor, Factor II, adjusts the incentive so as to make sure that the salesman sells a high volume and does not concentrate on selling the more expensive items which are sold in small quantities. The third factor, Factor III, adjusts the incentive by making sure that the salesman is concerned about collecting the money for his sales. The fourth factor, Factor IV, however, ensures fair pay by adjusting the incentive according to whether there are many/few salesmen in the territory. The fifth factor, Factor V, provides another important adjustment for fair pay by adjusting incentives so as to have salesmen paid proportionate to whether there are many/few retailers in the territory.

The Monthly incentive of a salesman, therefore, is calculated as follows :-

$$\text{Bonus} = 425 \times \text{Factor I} \times \text{Factor II} \times \text{Factor III} \times \text{Factor IV} \\ \times \text{Factor V}$$

* Overall Assessment of the Incentive Scheme of the Marketing Department :-

It seems that the incentive scheme of the marketing department works very well. The incentive of each salesman is directly related to his own performance. As shown above, various adjustments have been made to the incentive earned by any salesman to ensure that the salesman will pursue the targets of the marketing department on one hand and to ensure equal opportunity among salesmen working in different areas or under different conditions on the other hand. However, managers in this department are paid an amount that is a function of the average earnings of salesmen. It seems

that because of the very nature of interdependence between managers and salesmen in the department, making the manager's incentive a function of salesmen's incentives has worked reasonably well. However, it might be reasonable to consider adjusting this amount for the results of a performance appraisal system that would be developed. This might be useful for the marketing and sales department just like it is for the whole company. Furthermore, the incentives of the personnel in the marketing and sales department are vulnerable to bottlenecks in the production department. A salesman could forgo an incentive because of being unable to meet orders in time because of delays in production. Although this rarely happened, according to company officials, it might be reasonable to consider an adjustment to the system so that sources of bottlenecks should alone be liable for forgoing orders.

VI.3.2 THE GENERAL AND MANAGEMENT INCENTIVE SCHEME

According to company documents, the objective of the scheme is to allow the company to maximize its return on investment in personnel and equipment in the Finance and General Administration Department, to give all personnel in such department an opportunity to have a share of the benefits derived by the company from the increased performances in all departments as well as to produce timely and highly reliable information. It seems that there is an inherent problem in the second objective. Rather than giving personnel in the Finance and General Administration Department the opportunity to share in the benefits derived by the company from the increased performances in all departments, the company may consider trying to adjust the incentives of those personnel to their own performance. This cannot take place unless the company develops a performance appraisal system. Also the incentive scheme can contribute nothing towards achieving the third objective since contributing towards the production of timely and highly reliable information is not the basis of incentive pay.

* Calculation of the incentive :

The incentive is always limited to 100% of the employee's basic salary. It is obtained by multiplying four factors :-

Bonus = Factor I x Factor II x Factor III x Factor IV x Factor V

Factor I = the production bonus divided by 425

Factor II = the sales bonus divided by 425

Factor III = 5/3

Factor IV = weighing factor, that is larger the larger the position of the employee in the hierarchy, ranging from 2.75 for Directors to 1.6 for Grade 1 employees down to 0.7 for Grade 5.

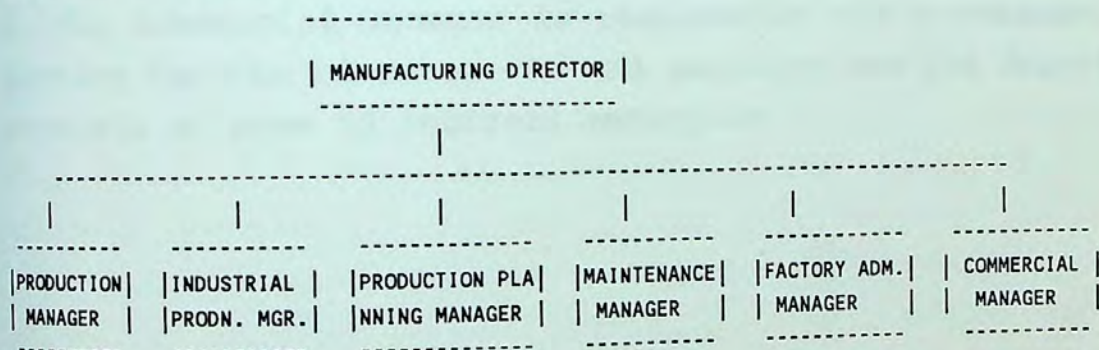
* Instead of basing the general bonus scheme on the earnings of other departments, it could be appropriate to :-

1. Consider profit-sharing or similar scheme, especially for top executives.
2. Develop a performance appraisal system to complement the above.

VI.4 THE PRODUCTION DEPARTMENT INCENTIVE SCHEME

In this section and in the sections to follow, the incentive (bonus) scheme of direct and indirect workers of the production department is introduced, discussed and analyzed. First, the nature of work in the department is introduced and the incentive scheme is discussed according to feedback from managers, documents, etc. This will provide a preliminary framework for the later chapter, which will be exploratory, concentrating on gathering information from the workers themselves and comparing their answers to various questions of a structured interview. A pool of information is thus made available for drawing conclusions about the system.

VI.4.1 THE ORGANIZATIONAL CHART



The most senior position in the Chart above is that of the Manufacturing Director [The Factory Director], followed by the Production Manager.

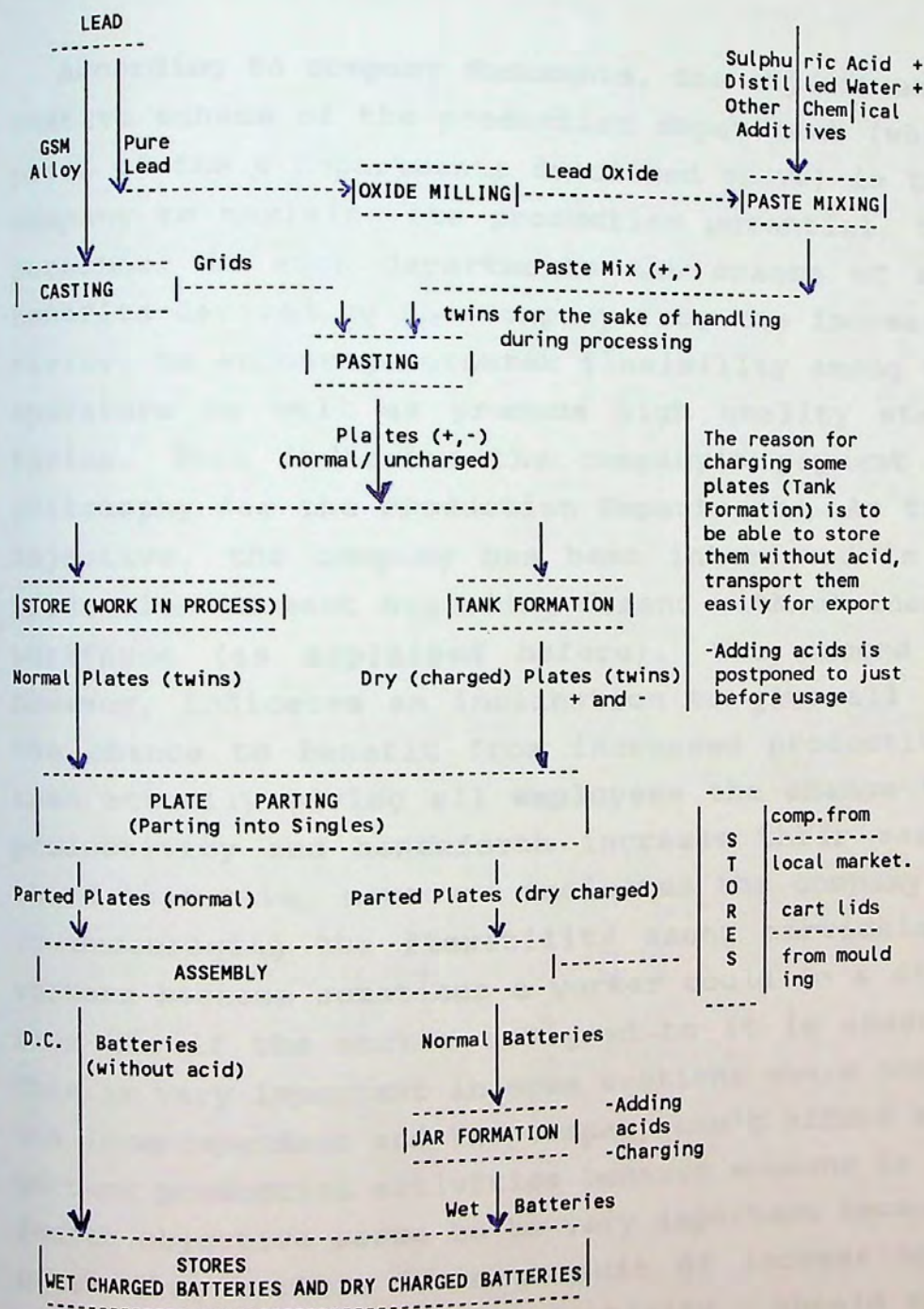
a. The production manager is running the production of automotive batteries, which is bulk of the activities taken care of by managers in this department (accounting for more than 90% of the company's annual sales). Under his auspices, a department is run by 3 supervisors, under them there are some 15 foremen who supervise the work of about 180 direct production workers who work in the various sections of producing an automotive battery.

- b. The industrial production manager, is running the department which produces industrial batteries (account for less than 10% of the company's annual sales) and which consists of about 10 direct workers, a foreman and a supervisor.
- c. The production planning manager is responsible for the department which plans production, materials usage and stores. It consists of about 15 indirect employees.
- d. The maintenance manager is running the maintenance department, which consists of some 60 indirect employees.
- e. The factory administrative manager is running the department which is responsible for employee welfare functions like transportation, health and safety, security, catering and various amenities and consists of some 40 indirect employees.
- f. The Commercial Manager is responsible for purchases, including imports of materials and supplies and his department consists of some 10 indirect employees.

VI.4.2 DESCRIPTION OF THE FLOW OF WORK IN THE PRODUCTION (WORKS AND TECHNICAL) DEPARTMENT :- (see diagram in the next page)

The production process sequence could be described as follows :- the process starts with lead, either in the form of pure lead or as a GSM alloy (including copper and zinc in addition to lead). The first process is Plate Making, whereby pure lead is oxidized into lead oxide (oxide milling) and sulfuric acid, distilled water and other chemical additives are added to lead oxide (paste mixing) in order to obtain a past mix twins (+ve or -ve depending on the amount of additives according to need). On the other hand the GSM alloy passes through casting thus obtaining grids. The second major process is Pasting, whereby Grids and the Paste Mix are inputted and the resultants are plates. Plates may then be charged (Tank Formation) in order to be able to store them without acid and to transport them easily, obtaining twins of dry charged plates (+ve and -ve) [N.B. acid is added just before usage]. Alternatively, plates could be stored as work-in-process until they are needed and then taken as normal plates later. Plates are later parted into single parted plates (normal or dry charged) in the process of Plate Parting. In Jar Formation, normal batteries become wet by acidifying and charging. Therefore, at the end we get dry charged batteries (without acid) and wet batteries. The former can be stored for 1-2 years and then filled with acid when needed for use while the latter have to be recharged within three months (this can take place only twice).

A diagram explaining the production process has been drawn as follows :-174



174. This diagram has been drawn by the researcher after more than one sequenced tour of the factory production department. It describes the sequence of the production process of automotive batteries.

VI.4.3 OVERVIEW OF THE PRODUCTION DEPARTMENT'S BONUS SCHEME:-

According to company documents, the objectives of the incentive scheme of the production department (which is composed of the 6 departments described above) is to allow the company to maximize its production potential, to give all personnel in such departments the chance of sharing the benefits derived by the company from the increased productivity, to encourage greater flexibility among the factory operators as well as produce high quality standard batteries. This indicates the company's payment by results philosophy for the Production Departments. As to the first objective, the company has been interested in increasing production to meet exploding demand without increasing the workforce (as explained before). The second objective, however, indicates an inclination to give all individuals the chance to benefit from increased productivity rather than actually giving all employees the chance to increase productivity and henceforth increase their earnings. The third objective, moreover indicates the company's interest in encouraging the flexibility among particular types of workers because sometimes a worker could do a different job from his if the worker assigned to it is absent or busy. This is very important in some sections where jobs and tasks are interdependent and the company can't afford stopping important production activities because someone is absent. The fourth objective seems to be very important because it indicates that workers - in pursuit of increasing their pay potential by increasing productivity - should not go after increasing output at the expense of quality.

Rules of the Incentive Scheme of the Production Department:-

* Direct Employees of the Works Department can be categorized into three separate work areas :-

- "Measured Work Areas" : where it is possible physically to measure the units of work generated by workers. A worker or a group of workers must satisfy a minimum number of units of work output per shift (THE BASE), above which they are paid a fixed amount of money for each extra unit (THE BONUS).

- "Related Work Areas" : are areas where performance or output, though not directly measurable, directly influences that of a "Downstream Measured Work Area". THE BONUS is calculated by adding all of the bonuses of the workers active in the Downstream Measured Work Area divided by the active number of workers in that area. Therefore, all workers in one Related Work Area get the same BONUS.

- "Average Work Areas" : they are work areas where performance cannot directly be related to any single other Measured Work Area. THE BONUS for such areas is the average of that of all Measured Work Areas of the factory.

* Indirect Employees of the Works and Technical Departments are split into

- Related Personnel : work is strictly related to one or more Measured Work Areas. THE BONUS in this case is the average of those areas, weighted by a factor.

- Average Personnel : all indirect employees of the Works and Technical Departments of which the work is not related to one or more Measured Work Areas. THE BONUS in this case is the factory average.

Individual Sections of The Production Department :-

A. Grid Casting/Component Casting :

- The job environment of the casting crew is somehow tough and the job requires a high degree of concentration.
- Bonus is paid on an individual performance basis.
- A bonus of L.E. 0.22 is paid for every 100 acceptable quality grids above the base of 4700 per shift.

B. Pasting/Oxide Milling :

- Bonus is paid according to the shift performance of the pasting crew (group incentive) : Paste-Mixer operator - Pasting-Machine operators - Lamella Operator.
- Rule of payment is as follows :

<u>Men/Shift</u>	<u>Standard Base (Good single plates)</u>	<u>Bonus per</u> <u>Extra 1000</u> <u>for an individual</u>
5	3000	0.32
6	3600	0.26
7	4200	0.22

we can note that the more the individuals in the group, the more they are expected to produce during a given period of time, the higher the standard base and the less the bonus of every individual per extra unit of output. Also, the system ensures quality standards by putting a condition of "good plates" in order to earn a bonus.

C. TANK FORMATION

- Incentive is paid based upon the shift performance of the Tank Formation crew (group incentive).
- An incentive of L.E. 1.943 per individual is paid for every 0.1 circuits loaded above the base of 0.7 circuit per man day.
- Rows or parts could be deducted if plates have to be reformed due to poor operator performance.

D. PLATE PARTING

- The job requires very high concentration but is not very highly skilled.
- Bonus is paid based upon the shift performance of the plate parting crew. (group incentive)
- Rule of payment :

Men/Shift	Base Pay	Bonus per 100 good extra plates
2	2400	0.37
3	3600	0.25

E. ASSEMBLY :

- Workers are divided into two groups :
 1. The Burning group comprising :
 - a. Service operators.
 - b. Group Stackers.
 - c. Cast-on-strap operators.
 - d. Hadi-jig burners.

For such group the bonus base is 474 good standard battery units for 10 men/shift and is larger if the number of individuals per shift increases (785 for 16 men/shift). The Bonus, on the other hand, decreases with the increase of the number of individuals per shift (L.E. 2.06 for every extra 100 good battery units for 10/shift and L.E. 1.29 for every extra 100 good battery units for 16/shift.

2. The Finishing group comprising the finishing operators of the two polypropylene lines and the Hard Rubber line. For such group, the rules of the scheme are similar to those the burning group, except that standards (the base) are higher and bonuses are lower. For instance, the base for 10/shift is 596 and the Bonus is L.E. 1.64 for every extra good 100. For 16/shift, however, the base is 954 and the Bonus is L.E. 1.02

F. JAR FORMATION

- Filling/loading area : for such area, the Base is 240/man shift and a Bonus of L.E. 0.41 is paid to each operator for each 10 good additional batteries filled/loaded per man.

- Unloading/finishing area : for such area, the Base is 120 batteries per man shift and a Bonus of L.E. 0.82 is paid to each operator for every 10 good additional batteries unloaded/finished per man.

G. RUBBER MOLDING :-

- Bonus is paid upon the shift performance of the Rubber Molding crew. The hours contributing to the determination of the Rubber Molding crew entitlement comprise those of the mill operators and those of the lid and container presses operators.

- The units of work being measured is the total number of lifts of the two presses per shift.

- Rule of payment :

Men/Shift	Base	Bonus/ 10 additional Lifts/ man
2	48	2.59
3	72	1.73
4	96	1.30
5	120	1.04

H. POLYPROPYLENE MOLDING :-

The injection molding machines have operational sequences that makes it impossible for the workers to produce more units than what the cycle time set on the machine permits. Therefore, it has been decided that workers will be paid based upon the factory average.

I. MANUFACTURE OF INDUSTRIAL CELLS :-

The production of industrial cells (industrial batteries) takes place in the industrial production department. The department consists of some 10 workers, 1 foreman and 1 supervisor and is headed by the industrial production manager. Until very recently (31/3/93), workers were paid according to the factory average (multiplied by a factor representing the number of days worked) as the number of batteries produced is low as an industrial battery is very large in size and cost and the production of industrial batteries is usually based upon orders. On the other hand, it is quite difficult to measure the individual performance of a worker as every worker is involved in various different activities but is still affiliated to the industrial production department in general and not to individual sections of it. However, a new system has been recently developed whereby industrial production is considered a measured work area and industrial production workers will be paid a group incentive that is calculated according to the sales value of finished industrial batteries per month.

J. MAINTENANCE WORKERS :-

There are two categories of maintenance workers :-

1. Those who get the factory average - e.g. those who are involved in utilities such as the mechanical workshop workers (who manufacture some spare parts), workers of the water station (which furnishes the factory with distilled water to furnish the needs of Tank Formation and other sections) and those of spare parts stores.
2. Those who get the average of the production sections to which they are assigned for maintenance work. For example, casting maintenance workers who serve the three direct production sections of pasting, casting and oxide milling get the average of those three sections. Assembly maintenance workers, on the other hand, get the average of five sections which they serve, namely plate parting, cast-on-strap, finishing and molding (hard rubber and polypropylene).

VI.5 PRELIMINARY SUBJECTIVE ASSESSMENT OF THE INCENTIVE SCHEME OF THE PRODUCTION DEPARTMENT

The assessment provided in this section is based upon interviews with top-level and middle-level managerial employees (about 14, including the manufacturing director, the production manager, the maintenance manager, the industrial production manager and few supervisors). The sample interviewed constitutes about 70% of the population of relevant managerial employees. It provides - together with investigations conducted on some documents - a basis for the analysis of the scheme presented in this section and has been useful in designing interviews with workers and pretesting of workers' interview questions. On the other hand, structured interviews with workers - whose motivation for improved performance is the main concern of this case study, involves a stratified random sample covering about 10-12% of the population and its results will be illustrated separately in the next chapter. Therefore, the analysis of this section is only a preliminary one that will be reconsidered later with the analysis of data obtained as a result of interviewing the intended target of the case study (the blue-collar workers themselves).

There is a general belief among managerial employees in the production department that the incentive scheme has led, in general, to improving productivity. In other words, the company was able to achieve the targets of increased production from the incentive scheme with no extra labor. However, there has been almost a consensus among the company managers that the scheme is - nevertheless - not airtight. There is a room for improvement in the scheme itself, its implementation and other corporate factors affecting its success. In fact there is no perfect pay-for-performance system, but rather an effective or an ineffective one. The system in

Chloride is no exception. However, it is clear to everybody (managers and the employees themselves) that there is a large difference between the situation before adopting the system and the situation at the moment.

a. General Impact of the Scheme on Productivity and Performance:- There is a considerable and an easily noticeable improvement of the productivity and performance of employees upon the implementation of this system. According to company officials, before implementing this system, it was more likely that workers would find excuses for not working (machine stoppages - raw materials shortages - etc.). Now, workers arrive early to the workplace, utilize the time efficiently and try hard to avoid stoppages and to deal with such stoppages themselves as much as they can or coordinate with maintenance workers and putting pressures on them to repair quickly. During meal time, workers of a section frequently try to divide themselves into two groups, taking their meals at two different times to ensure a minimum number of employees running the machines so that work in the section does not stop at all at any time and hence affect their bonuses.

b. The Period Between Performance and Reward :-

For direct employees, the incentive is calculated on a daily basis and payment takes place on a weekly basis up to the foreman level. For indirect employees, however, payment may be less frequently calculated and disbursed, especially for managerial employees whose incentive might be paid on a monthly or quarterly basis as indicated in Section III.4.2. The prompt calculation and payment of the incentive scheme is very useful for producing the desired reinforcement effect that a pay-for-performance system is designed to achieve.

c. Budgetary Considerations and bonus pay relative to total pay:-

A very important issue in any pay-for-performance scheme is the size of the budget available for the scheme and whether it constrains the amount of money that could be paid according to performance (section III.4.8). In Chloride Egypt, however, this is not a problem as the budget is more or less open and employees may earn very high bonuses according to their performance as measured by the appropriate equation. However, there is a different though a related constraining factor - which is the demand for products and its consequent effect on production levels. Also, if one section produces too many units relative to other sections, it might be required to slow-down for a while to avoid high levels of work-in-process.

The bonus pay of an individual worker, on the average is quite substantial relative to the total pay (some 40% on the average). This is considered by company officials to be quite high relative to other companies or to similar companies abroad. As indicated in the survey of literature, such aspect is very important and vital to the success of any pay-for-performance system (Section III.4.3)

d. The Problem of Scrap :-

One of the problems of the scheme is the likelihood of workers producing a lot of scrap while striving for producing more output to keep the bonus level high. Though there is a system of quality control whereby the quality control employee in every section may reject some of the production, scrap is a waste of time and money. In fact, a difference of opinion could take place between the production foreman and the quality control employee on whether to consider an item of production good or scrap. In this case, the production supervisor is consulted and if the disagreement is not

resolved still, the quality control engineer may be consulted to decide. However, disagreement is now rare as the accumulation of experience has more or less standardized the acceptable quality levels so that workers' expectations about acceptable quality levels are more or less in line with quality control staff requirements. Though the system ensures a minimum acceptable quality standard, one problem remains unresolved, which is the small impact of large scrap produced by workers on their bonus. In other words, there is some leniency with workers when their scrap level is high. In some cases their bonus is reduced but reductions are not sufficient to affect their behaviors so as to reduce scrap. Therefore, despite the quality requirements of the scheme, there is still some scrap with considerably high costs.

e. Equitability of the Scheme between sections :-

Though the scheme attempts to provide all employees with a chance to increase their earnings according to productivity, some sections get a relatively high bonus compared to others. Some sections where the bonus is individual, such as casting, get very high bonuses relative to other sections. This is because the standard, zero bonus, production level of the scheme in the casting section is originally high and also because the subsequent mechanization and replacement of old machinery by better quality ones has made it easier to reach the targets required by the scheme (especially for grid casting) and hence improved the chances of casting workers to improve their bonuses. On the other hand, some sections which get group bonuses, such as assembly earn very low bonuses compared to other sections. This is largely because the bonus equations of those sections are inherently low in bonuses paid. Another reason is that standards set and bonus rules were originally predetermined based upon historical output. Some sections (such as assembly) used to give their best during such period when

standards were set (thus resulting in establishing high standards), whereas others did not perform as much. On the other hand, when the incentive is a group one that is divided between some 16 workers operating on about three machines, the effect of any machine stoppage on operation becomes considerably high.

f. Maintenance personnel - it seems that it is reasonable to consider paying more attention to preventive maintenance instead of the current system of contingency repairs.

g. Indirect employees get incentives as a function of the direct output of others. Because many of those have mainly supervisory duties, their basic salaries are also relatively high.

h. In general, employees incentive earnings are fluctuating over the months of the year. This is due to fluctuations in production which is caused by :

1. Fluctuation in the arrival and processing of orders.
2. Limited storage capacity imposing a ceiling on production.
3. Problems with the arrival of necessary imports in time.

CHAPTER SEVEN

ANALYSIS OF WORKERS' RESPONSES TO INTERVIEW QUESTIONS AND CONCLUSION

VII.1 ANALYSIS OF EMPLOYEE RESPONSES TO STRUCTURED INTERVIEW QUESTIONS¹⁷⁵

Question No. 1 :- How old are you ?

- a) less than 30 b) 30-39 c) 40-49 d) 50 or more

more

Answers :- a) 2/24 b) 7/24 c) 12/24 d) 3/24

Analysis :- the answers to this question indicate that the majority of workers (about 50%) are in the age group 40-49 and that the vast majority (about 80%) are between 30-49. Very few are less than 30 or more than 50 years old.

Question No. 2 :- For how long have you been working in this company?

- a) more than 15 b) 10-15 c) 5-9 d) less than 5

5

Answers :- a) 14/24 b) 6/24 c) 1/24 d) 3/24

Analysis :- The answers indicate that most employees have an experience in the company that exceeds 15 years (about 60% of them). However, workers, in their responses, added their years of experience in the public sector General Batteries Company (GENBAT) which preceded their transfer to Chloride Egypt when the latter was established. Knowing that Chloride Egypt was established less than 15 years ago, we may conclude that most workers used to work with GENBAT before they transferred Chloride Egypt.

175. Such interviews for a basis for analysis in the remaining part of this work

Question No. 3 :- How long is your experience (in years) in this field?

a) more than 15 b) 10-15 c) 5-9 d) less than 5

Answers:- a) 17/24 b) 3/24 c) 1/24 d) 3/24

Analysis :- the answers to this question indicate that most workers (more than two-thirds of them) have an experience in the field of more than 15 years. Most of them, in fact, have worked basically for GENBAT before they transferred to Chloride.

Question No 4 :- How much is your L.E. salary after deductions (without incentives or overtime)?

a) more than 600 b) 401-600 c) 300-400 d) less than 300

Answers:a) None b) 16/24 c) 4/24 d) 4/24

Analysis:- about two-third of workers get between L.E. 401 and 600 monthly salary, which is O.K. compared to other places in Egypt.

Question No. 5 :- Under the incentive pay plan, your incentive is

a) individual b) group c) indirect

Answers :-a) 4/24 b) 16/24 c) 4/24

Analysis :- most workers interviewed, as indicated, earn group incentives. It is worth noting here that workers selected for interviewing were drawn from various sections of the production in proportion with the total number of employees in each section, regardless of the type of incentive. In other words, the numbers indicated here are proportionate, in type, to the total number of workers.

Question No. 6 :- Your basic salary (after deductions) compared to your colleagues with similar experience level in the same section

a) high b) average c) low

Answers :- a) None b) 17/24 c) 7/24

Analysis:- more than 70% answered that they believed that they get a fair (an average) basic salary compared to their colleagues with similar experience level in the same section, less than 30%, said they believed that they get less and none of them said that his basic salary is more. This indicates that basic salaries are more or less equitable among employees of the same section as the vast majority said that they are. Even with the 30% who said that they got less than average, it might be reasonable to expect that answer in an interview for many reasons :-

a- natural tendency to overestimate the value of one's worth and to emphasize this idea in order to improve one's pay.

b- mixing between dissatisfaction in work or life with equitability of pay relative to peers in the same section.

The fact that no one answered that he believes that he gets more pay relative to his colleagues in the same section is normal as people are more likely expected not to acknowledge that they are overpaid rather than underpaid if overpayment or underpayment actually exist. Therefore, it seems reasonable to conclude that basic salaries among employees of the same section are more or less equitable.

Question No. 7 :- Your basic salary (after deductions) compared to your colleagues with similar experience level in other sections of the production department of the company is ?

a) high b) average c) low

Answers :- a) 1 out of 24 b) 14 out of 24 c) 9 out of 24

Analysis:- about 58% (14 out of 24) individuals answered that they got an average basic salary compared with their colleagues who have comparable experience level in other sections in the company's production department, only 37% (9 in 24) answered that they got less than average. This is also an indication that basic salary levels are equitable across various sections on the basis of experience level. Even with the 37% who said that they got less than average, it might be reasonable to expect that answer in an interview for many reasons :-

- a- natural tendency to overestimate the value of one's worth and to emphasize this idea in order to improve one's pay.
- b- mixing between dissatisfaction in work or life with equitability of pay relative to peers in the same section.
- c. mixing between perceived inequitability of incentive scheme and perceived inequitability of basic salary.

The fact that only 1 in 24 (less than 5%) of the sample mentioned that he is overpaid relative to his colleagues in other sections is normal as people are more likely expected not to acknowledge that they are overpaid rather than underpaid if overpayment or underpayment actually exist. Therefore, it seems reasonable to conclude that basic salaries among employees across various sections are more or less equitable. This conclusion is also compatible with the one reached from analyzing answers to question No. 6.

Question No. 8 :- Your basic salary compared to employees doing similar work or with similar experience level in other companies is ?

a) high b) average c) low

Answers :- a) 11 out of 24 b) 8 out of 24 c) 5 out of 24

Analysis:- a little less than 50% of workers interviewed believed that their basic salaries compared with those of employees in other companies who do similar work or who have similar experience level is high or more than average whereas a third of them believed that they got average basic salaries. This means that the vast majority of workers (more than 75%) believe that they get either average or more than average basic pay relative to other employees with similar qualifications in other companies. This indicates that it might be reasonable to conclude that basic pay level in Chloride is generally high relative to the market. Only a little more than 20% answered that their basic salary is less than average compared to outsiders. In fact it could be very reasonable to assume that workers might be more expected to deflate rather than to inflate their pay relative to that of outsiders. Therefore, basic pay in Chloride is most probably competitive and even high relative to the market.

Question No. 9 :- You find your basic salary compared to living expenses ?

a) sufficient b) barely sufficient c) insufficient

Answers:- a) 4 out of 24 b) 11 out of 24 c) 9 out of 24

Analysis:- only 4 in 24 (about 17%) said that their basic salary is sufficient compared to living expenses. It is very reasonable to expect that only a small percentage will believe, let alone mention, that their basic pay, which is not the only component of total pay, is sufficient, especially with the prevailing economic circumstances. However, a little less than 50% mentioned that their basic pay is barely sufficient. In fact, many employees indicated that they normally budget themselves according to basic salary as they considered performance incentives as too fluctuating to be relied upon in budgeting for spending on life essentials. It is worth noting, however, that 15 in 24 (most employees) mentioned that their basic salary is sufficient or barely sufficient relative to life expenses. About 37% (9 in 24) workers, on the other hand, indicated that their basic salary is insufficient relative to life expenses.

Question no. 10 :- Your total income from work (including incentives) compared to colleagues with similar experience level in the same section of the production department is :-

- a) high b) average c) low

Answers:- a) 2 out of 24 b) 19 out of 24 c) 3 out of 24

Analysis:- only 2 in 24 (less than 10%) of employees interviewed indicated that their total income from work (including performance incentives) is high compared to workers with similar experience in the same section. This is normal as employees are more likely not to acknowledge overpayment than underpayment for similar reasons to those discussed before. However, it is worth noting that the vast majority of those workers (19 in 24) or a little less than 80% indicated that their total income from work (including performance incentives) compares equitably with those of peers in the same section. Few workers also indicated that their total income from work (including performance incentives) is low relative to peers in the same section. It could be concluded, therefore, that workers get more or less equitable total pay compared to their peers in the same section. Also, it seems reasonable also to conclude that workers of the same section have more or less equitable chances of obtaining incentives. (which are the major variable component of total pay).

Question No. 11 :- Your total income from work (including incentives) compared to your colleagues with similar experience level in other sections of the production department is :-

a) high b) average c) low

Answers :- a) 3 out of 24 b) 8 out of 24 c) 13 out of 24

Analysis:- it is interesting to note that 11 out of 24 workers (a little less than half of them) indicated that they got a total pay (including performance incentives) that is average or more than average compared with colleagues with similar experience in other sections. However, more than half of them (13 out of 24) indicated that they got a total pay that is less than that of peers with similar experience in other sections. Comparing those answers to answers of questions no. 6 and 7, whereby it was concluded that basic salaries in Chloride are more or less equitable, it might be reasonable to conclude that the major variable component of total pay (performance incentives) is the portion that causes some perception of underpayment. However, individuals may tend to think or to mention that their section deserves more pay relative to other sections even if this is not an impartial way of thinking. On the other hand, managers acknowledged that there are some inequities between performance incentives paid to different sections as, though incentives are more less equitable between section, few sections still get relatively little (such as Assembly) whereas others get relatively quite high (such as Casting). Therefore, it could be concluded that though the incentive system is generally equitable between sections, few sections get relatively little and few others get relatively high compared to efforts and performance.

Question No. 12 :- Your total income from work (including incentives) compared to employees with similar experience level in other companies is:-

- a) high b) average c) low

Answers :- a) 16 out of 24 b) 4 out of 24 c) 4 out of 24

Analysis :- about two-thirds (16 in 24) workers indicated that their total income from work is higher than that of similar others in other companies. Only 4 in 24 indicated underpayment relative to similar others in other companies. The answers to the question above assures that the payment level in Chloride Egypt is higher than the average market one. Comparing those results with those of answers to question no. 8, it becomes apparent that payment level in Chloride is high relative to the market, especially if incentives are included.

Question no. 13 :- You find your income from work, including productivity incentives compared to living expenses :-

a) more than sufficient b) sufficient c) insufficient

Answers:- a) 14 out of 24 b) 8 out of 24 c) 2 out of 24

Analysis :- the answers to this question are amazing. Most workers (about 60% of them) mentioned that their total income from work is more than sufficient compared to life expenses (i.e. sufficient and amenable to considerable savings as well). Another one-third of workers mentioned that their total income from work is just sufficient. In other words, more than 90% of workers mentioned that their total income from work is sufficient or more than sufficient. Only 2 workers in 24 (less than 10%) said that their total income is insufficient compared to life expenses. We could consider such answers as further confirmation to the conclusion reached before that Chloride pays higher than average especially if we consider the prevalent economic circumstances and general complaints about life expenses. Compared to answers of question no. 8 whereby most workers (though not as vast majority) indicated that basic salaries are sufficient, answers to question no. 13 indicate that incentive pay has a large impact on the total incomes of workers, though they normally adjust themselves on the non-fluctuating and stable basic pay in planning for their life spending.

Question no. 14 :- Do you consider your average incentive high and worth the effort ?

- a) strongly agree b) agree c) disagree

Answers :- a) 20 out of 24 b) 4 out of 24 c) zero

Analysis:- all workers indicated that their average incentive earned is substantially high and worth the effort put into it. In fact more than 80% of workers strongly acknowledged the worth of the average incentive pay that they are able to obtain, while the rest still acknowledged the worth of their average incentive earned though not as strongly. No worker considered the incentive pay as not worth the effort put into it. This suggests high valence if we consider Vroom's Expectancy/Valence Instrumentality theory. In other words, it could be concluded that the average amount of incentive earned is high enough and considered valuable to employees and hence conducive to motivation for improved performance.

Question No .15 :- If you have choice between a moderate increase of your basic salary or a high increase of performance incentives, would you choose an increase in performance incentives :-

- a) strongly agree b) agree c) disagree

Answers:-a) Zero b) Zero c) 24 out of 24

Analysis :- the answers indicate that all workers prefer a moderate increase of their basic pay to an even high increase in performance incentives. Workers want to plan their living based on a more concrete basic pay rather than a fluctuating performance-contingent one.

Question No. 16 :- If your answer to question 15 is c), then specify why:-

a) risky b)unfair incentive distribution c) other
Answers:-a) 23 b) zero c) zero

Analysis :- all those who mentioned that they preferred a moderate increase in basic pay to a high increase of performance incentives (who are almost all workers asked) indicated that their choice was based upon risk avoidance due to fluctuation of performance incentives (based on performance level - possible other factors affecting output such as machine stoppages, fluctuation of demand, group performance, etc.) relative to the more "secure" basic pay. Therefore, it could be concluded that workers prefer less risk in pay and hence prefer an increase in basic pay to an increase in performance incentives and to some extent - and for various reasons - perceive performance incentives to be somehow fluctuating.

Question No. 17 :- Do you think the standard required for a considerable incentive pay easy to reach for you ?

a) very easy b) easy c) difficult d) irrelevant
question

Answers :- a) 1 out of 24 b) 14 out of 24 c) 5 out of 24
d) 5 out of 24

Analysis:- the answers indicate that of those to whom this question is relevant (everybody except indirect workers = 20), 75 % or 15 in 20 answered that the standard zero-bonus output is easy to reach (though almost all of those indicated that it is easy but not too easy) whereas only 25 % (5 in 20) indicated that it is difficult. This indicates that in most cases, the standard zero-bonus is not difficult to reach and hence does not pose an obstacle to earning a reasonable incentive by workers. Compared with answers to question no. 14, whereby the amount of incentive that a worker earns was found to be, on the average, high enough to motivate to effort-making, it can be concluded that the rules of the incentive scheme give a chance to workers to earn reasonably good incentives and hence is amenable to motivating them for improved performance.

Question No. 18 :- Do you think the rules of the incentive scheme give your section a chance to earn incentives that are ----- relative to incentives in other sections ?

- a) High b) average c) low

Answers:- a) 4 out of 24 b) 2 out of 24 c) 18 out of 24

Analysis :- the answers to this question indicate that 75% of workers perceive the system as giving a chance of earning equitable incentives between their section and other sections of the production department. However, 25% perceive the system to be inequitable between their section and other sections, giving their section relatively high incentives or relatively low incentives. In fact, according to company officials, though the system is generally equitable between various sections of the production department, few sections get relatively low incentives whereas few others get relatively high ones. Therefore, the system seems to be more or less equitable between various sections.

Question No. 19 :- Do you understand the incentive system in your company well ?

- a) Yes b) To some extent c) no

Answers :- a) 23 out of 24 b) 1 out of 24 c) zero

Analysis:- all workers interviewed indicated that they understood the system well. This is because the rules of the incentive pay are based upon straightforward equations relating pay to performance. Such rules are applied everyday and have become, therefore, well understood by all workers.

Question No. 20 :- have you had clear explanations of the system from you bosses ?

- a) Yes b) To some extent c) No

Answers:- a) 23 out of 24 b) 1 out of 24 c) Zero

Analysis :- all workers interviewed indicated that they have had clear explanations from their bosses about the system, where necessary. In fact, the company applies a transparent system with regards to the incentive scheme.

Question No. 21 :- Do you find it easy to speak frankly with your bosses about the system :-

- a) Yes b) To some extent c) No

Answers :- a) 24 out of 24 b) Zero c) Zero

Analysis: all workers interviewed indicated that they felt free to ask about the incentive system and to discuss it with their bosses. Such responses present a confirmation that the company's policy towards performance incentive compensation is transparent and that there is sufficient communication between workers and their bosses about the system.

Question No. 22:- Do you think you get fair incentive compared to your effort at work ?

- a) Yes b) more or less c) No

Answers :- a) 7 out of 24 b) 6 out of 24 c) 11 out of 24

Analysis:- The answers to this question indicate that little less than 50% of the workers think they get fair incentives whereas the majority (more than 50%) think they do not get fair incentives relative to their work.

Question No. 23- If the answer to the previous question is c), then specify why ?

- a) incentive is too low in your section
- b) outside factors affecting your performance
- c) both a) and b)
- d) Other reasons

Answers :- a) 3 out of 24 b) 10 out of 24 c) 12 out of 24
d) zero

Analysis :- the answers indicate that there are few complaints about the low level of incentives in some sections and quite considerable about the existence of factors outside the workers' control that could downgrade their performance (machine stoppages - performance of others - etc.)

Question No. 24 :- Do you find the pay package has some element of flexibility to tailor to your needs ?

- a) Yes
- b) To some extent
- b) No

Answers :- a) 7 out of 24 b) 17 out of 24 c) zero

Analysis :- the answers to this question indicate that workers agree that the pay package is flexible enough to tailor to their needs. The existence of over-time and performance-contingent pay, for instance, indicate that the payment package has an element of flexibility.

Question no. 25 :- To what extent do you find your work paced by the work of others ?

a) very much b) to some extent c) no effect

Answers :- a) 13 out of 24 b) 8 out of 24 c) 3 out of 24

Analysis:- the vast majority of workers indicated that their work (and hence their chance of improving their productivity and earning performance incentives) mentioned that their work is affected or paced by the work of others. This is probably due to interdependence of work between sections and within each section, especially in those cases where there is a group incentive scheme.

Question No. 26 :- How do you consider the effect of factors outside your control on your performance ?

a) large b) Small c) Minimal

Answers :- a) 14/24 b) 9/24 c) 1/24

Analysis :- the answers to this question indicates that the majority of workers were largely affected by factors outside of their control (e.g. machine stoppages - maintenance problems - etc.). This puts a constraint on the ability of workers to earn bonuses.

Question No. 27 :- The difference in the incentive pay between high performance and average performance is in your view

a) Very high b) High c) Low d) Very low

Answers :- a) 12/24 b) 10/24 c) 2/24 d) zero

Analysis:- the answers to this question indicate that workers perceive a large difference in outcome between high performance and average performance (high expectancy) [despite answers to questions 25 and 26, which indicate that factors or other individuals may affect the performance of an individual worker].

Question No. 28 :- Do you find your job interesting ?

a) To a large extent b) Fairly interesting c) Dull

Answers :- a) 18/24 b) 4/24 c) 2/24

Analysis :- the answers to the question above indicate that the vast majority of workers are interested in their work.

Question No. 29 :- How do you find the effect of striving for achieving high incentives on work's interest ?

a) increases interest b) reduces interest c) no difference

Answers :- a) zero b) 2/24 c) 22/24

Analysis :- the answers to this question indicates that striving to achieve a large amount of incentive does not automatically reduce intrinsic interest in the job. However, it might be reasonable to take those results cautiously as no workers may had to defend the incentive scheme which gives them a chance to increase their incomes and may hence be reluctant to reveal a reduction in intrinsic interest in the job due to the incentive scheme.

VII.2 CONCLUSION

VII.2.1 GENERAL OBSERVATIONS ABOUT THE SYSTEM

The Pay-for-performance system in Chloride Egypt seems to have worked reasonably well. In other words, it has achieved the objectives of motivating employees for improved performance. Though there are some imperfections, the system is all-in-all successful as it seems to have tackled the various issues related to the pay-for-performance system reasonably well. On the other hand, as indicated earlier, there is no perfect pay-for-performance system. As shown in section VI.5.B, which offers a preliminary assessment of the system based on company documents and on interviews with managerial and supervisory staff, there has been a noticeable improvement in performance upon adopting such system. Workers go to the workplace early and try to do their best in order to produce as much as they can. They also try to avoid obstacles to performance and resolve them, perhaps putting pressure on their peers in order to improve productivity and hence improve their chances of earning incentives. As to the technicalities of the system, certain considerations were taken care of and were important to the successful implementation of the system. First, the period between the performance and the reward is quite short, which is important for producing the reinforcement effect desired. For the blue-collar manufacturing workers themselves, the incentive is calculated on a daily basis and payment is effected on a weekly basis. Second, the bonus of an individual is based upon performance and is open regardless of budgetary concerns. In other words, workers have the flexibility to earn as much as they can if they maximize their efforts. (workers' answers to question no. 24, indicating that they found the pay package flexible enough to tailor to their needs and circumstances - in terms of over-

time, bonus pay and so on). Also, the average bonus rate relative to total pay is high and is about 40%, which company officials consider to be quite high as 10-15% is considered high in Europe. Third, the scheme was - by and large - equitably applied among workers, with objective criteria only taken into consideration and without bias as performance measures were straightforward and amenable to objective assessment according to the appropriate equation of the scheme. Also, the standards and incentives are considered to be more or less equitable between various sections, though exceptions do exist. Fourth, there are quality control standards that ensure that the bonus scheme is not abused. Also, foremen and supervisors may penalize workers who produce excessive scrap. Fifth, the scheme ensures that individual incentives are applied whenever the nature of work is self-contained and individuals' tasks are not interdependent, group incentives are applied whenever task are interdependent, cooperation is crucial and the output of every individual worker cannot be assessed separately and indirect incentives are applied when the workers do not have a measurable direct output. In other words, the rules of the incentive scheme are set in the various sections as individual or group-based or indirect depending upon the nature of work in every section.

VII.2.2 CONCLUSIONS FROM THE ANALYSIS OF EMPLOYEE RESPONSES

Analyzing responses of employees in the target population sample, we can also draw conclusions on various aspects of the performance of the system.

A. System Equitability

The responses confirm the equitability of the system (by and large). This applies to basic pay as well as to the major variable pay component, namely the Bonus, within every section and between various sections of the production department, with pay higher, the higher the experience

level and performance outputs. This can be noticed from answers to questions 1,2,3,4,6,7,10,11 and 18 taken together. Those results confirm the results drawn from the preliminary assessment of the system concerning equity, whereby managers and supervisory employees indicated that the system is by and large equitable. However, there are few exceptions to this rule, like the case with Casting sections, which receive too high bonuses and Assembly sections, which receive quite low bonuses. (answers to question no. 23). As shown in the literature survey, equity is very important for the success of any pay system or pay-for-performance subsystem.

B. Competitiveness of The company's Pay System :-

Chloride Egypt's pay system is competitive relative to the market and the company is considered a good payer. This is true as far as the preliminary assessment has shown and as far the exploratory part (responses of workers themselves) has indicated. This is clear in responses to questions 8, 9, 12 and 13, whereby most workers acknowledged that their basic pay is higher than the average market one and that their total pay is quite high relative to the market and that basic pay is more or less sufficient relative to living expenses (despite nationwide complaints about the insufficiency of wagely and salaried pay compared to the increasing costs of living).

C. Amount of Incentive Earned on the Average Compared to Effort :-

The average incentive that a worker can earn was found to be quite high and worth the effort. This is true from the responses of managerial employees and from trends in the answers of the questions directed to the workers themselves. This is clear in responses to question 14,22 and 27 whereby it was found that the average incentive that a worker can earn is high and worth the effort, that incentives are fair

compared to the effort put and that there is a considerably large difference in bonus pay between high performance and average performance. This suggests a high "valence", considering Vroom's expectancy/ valence/ instrumentality theory which was discussed in section I.V.2 in the survey of literature. However, it is worth noting that workers have still preferred a moderate increase in basic pay to a considerably high increase in the bonus level. This is because of the worker's attitudes towards risks and the fluctuating nature of incentive pay compared to the stable nature of basic pay (Answers of workers to questions 15 and 16).

D. Effect of Stoppages and Outside Factors on Performance and Incentives :-

As to the expectancy and instrumentality components of Vroom's theory, we can note that there is high expectancy of high performance among workers upon exerting high effort and high "instrumentality" of likelihood of rewards upon performing well. This is apparent in workers answers to questions 17 (which indicated moderately easy standard, zero bonus outputs), 25 and 26, though it was indicated that in many cases, workers' performances were affected or paced by machine conditions and stoppages and other uncertainties as well as by the performance of others whose work is related to theirs.

E. Impact of The Company's Communication Policy :-

The company's communication policy, though theoretically confidential as to basic pay (practically individuals new about the basic salary's of other or had perceptions about them), are quite transparent as to the bonus scheme, whose rules are straightforward and declared and it whereby it is easy for each worker to calculate and predict his bonus. Also, workers felt free to ask questions and discuss their incentive pay (answers to questions 19,21 and 22).

F. Money as a Motivator :-

It seems that this case study indicates that money could be a very important motivator. It is the reason why most workers (if not all of them) work. This might also be particularly valid if we take into consideration the circumstances of the Egyptian environment, whereby individuals and household do not, on the average, have a chance of earning money to the extent of affluence and where per-capita incomes are not high, especially among the working classes. In such circumstances, money could be an important motivator

as a system which provides a chance for increasing workers' earnings provides workers with an opportunity to improve their incomes and help satisfy many unsatisfied needs. It is interesting also to note that workers have indicated as well that they are intrinsically interested in their work - answers to question No. 28 and that the introduction of a pay-for-performance system did not reduce such interest (as shown by their answers to question no. 29) and contrary to what some previous research indicated (section I.7). On the other hand, because the system is more or less well-designed and well-administered and the circumstances surrounding its implementation are conducive to the success of the system, the system more or less worked reasonably well. Most theories of motivation downplay the value of pay rewards and highlight other factors (intrinsic motivators in the case of Herzberg, self-actualization in case of Maslow and Alderfer, etc.). However, it might be reasonable to contend that non-monetary rewards are very important and could be installed as complementary to pay-rewards. Nevertheless, we should not overestimate what non-pay rewards can offer by bluntly sticking to literature and research on motivation that is conducted in other societies. On the other hand, money could satisfy higher order needs in addition to lower ones.

G. System Imperfections :-

As indicated earlier, however, there are some imperfections in the system. For instance, there is the problem of too high or too low incentives of few sections and the absence of a comprehensive performance assessment scheme. Such imperfections could be tolerated given the fact that there exists no perfect pay-for-performance scheme, but rather there are ones that are working and others that are not. It seems to be reasonable to conclude, however, that the pay-for-performance system in Chloride Egypt has worked reasonably well. Also, as officials in Chloride indicated, it becomes very difficult to review and change a system which has been working reasonably well and which has been there unchanged for a long time.

VII.2.3 POSSIBILITIES OF GENERALIZATION :-

The results and conclusions reached in this case study are not necessarily possible to generalize. Rather, they present a useful testing of an actual, real-life, pay-for-performance system. The success or failure of a pay-for-performance system depends upon the context and the circumstances of the system, the importance of money to employees relative to other rewards, the amount of money that employees who exert more efforts can earn relative to their total pay as well as the proper design, administration and implementation of the system.

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APPENDIX I STRUCTURED INTERVIEWS WITH MANAGERS

1-The payment system in your company is ----- compared to that of other companies in the same business.

- a)very high b)high c)low d)very low

2-The budget of the pay-for-performance incentive plan is approximately how much as a percentage of total payroll. please specify

3-The pay-for-performance incentive increase in your company is a function of

- a)Performance only
b)performance and other factors (please specify)

4-Are there budgetary pressures that reduce pay-for-performance pay to increase other pay components ?

- a)yes (please specify) b)no

5-Were the job evaluation rates on which salaries were built fair?

- a)yes b)no (please specify)

6-Before introducing the pay-for-performance incentive plan, have you conducted research on your employee motivation

- a)yes (please explain briefly) b)no

7-In employee selection, do you consider the prospects of employee satisfaction on-the-job

- a)yes b)no

8-Have you arranged for sessions to explain to the employees how the incentive system works?

a)yes

b)no

9-Do you allow for open communication about pay in general ?

a)very much b)to a large extent c)to some extent

d)not often

10-Do you think the system is easy to understand by the employees?

a)yes

b)no

11-Do you think the employees understand the system?

a)yes

b)no

if yes,please specify why

12-Do you think the difference between the highest incentive increase and the lowest incentive increase an employee could get of significance to employees ?

a)very much b)to a large extent

c)significant d)not very significant

13-Do you think the standard, zero incentive, rate of output is easy to achieve ?

a)very easy b)easy c)not very easy d)difficult

14-Are workers' performances affected by factors outside their control?

a)yes

b)no

(please specify)

Appendix II STRUCTURED INTERVIEW WITH WORKERS

- 1- How old are you ?
 - a) less than 30
 - b) 30-39
 - c) 40-49
 - d) 50 or more

- 2- For how long have you been working in this company?
 - a) more than 15
 - b) 10-15
 - c) 5-9
 - d) less than 5

- 3- How long is your experience (in years) in this field?
 - a) more than 15
 - b) 10-15
 - c) 5-9
 - d) less than 5

- 4- How much is your L.E. salary (without incentives or overtime)?
 - a) more than 600
 - b) 401-600
 - c) 300-400
 - d) less than 300

- 5- Under the incentive pay plan, your incentive is
 - a) individual
 - b) group
 - c) indirect

- 6- Your basic salary (after deductions) compared to your colleagues with similar experience level in the same department:-
 - a) high
 - b) average
 - c) low

- 7- Your basic salary (after deductions) compared to your colleagues with similar experience level in other departments of the company is :-
 - a) high
 - b) average
 - c) low

- 8- Your basic salary compared to employees doing similar work or with similar experience level in other companies is :-
 - a) high
 - b) average
 - c) low

- 9- You find your basic salary compared to living expenses :-
 - a) sufficient
 - b) barely sufficient
 - c) insufficient

10-Your total income from work (including incentives) compared to colleagues with similar experience level in the same department is :-

- a) high b) average c) low

11-Your total income from work (including incentives) compared to your colleagues with similar experience level in other departments is :-

- a) high b) average c) low

12-Your total income from work (including incentives) compared to employees with similar experience level in other companies is:-

- a) high b) average c) low

12- Do you find your income from work, including productivity incentives compared to living expenses :-

- a) more than sufficient b) sufficient c) insufficient

13-You find your total work income compared to living expenses :-

- a) more than sufficient b) sufficient c) insufficient

14- Do you consider your average incentive high and worth the effort :-

- a) strongly agree b) agree c) disagree

15- If you have choice between a moderate increase of your basic salary or a high increase of incentives, would you choose an increase in incentive :-

- a) strongly agree b) agree c) disagree

- 16- It your answer to question 15 is c), then specify why:-
a) risky b) unfair incentive distribution c) other
- 17- Do you think the standard required for a considerable in
centive pay easy to reach for you ?
a) very easy b) easy c) difficult d) very difficult
e) irrelevant question
- 18-Your understanding of the performance incentive system is _____
a) Very well b) Fair c) weak
- 19- Do you understand the incentive system in your company well?
a) Yes b) To some extent c) no
- 20- Did you get good explanation of the system from you bosses ?
a) Yes b) To some extent c) No
- 21- Do you find it easy to speak frankly with your bosses about
the system :-
a) Yes b) To some extent c) No
- 22- Do you think you get fair incentive compared to your effort
at work ?
a) Yes b) more or less c) No
- 23- If the answer to the previous question is c), then specify
why ?
a) incentive is too low in my department
b) outside factors affecting your performance
c) other reasons

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