



**UNIVERSITY OF
KWAZULU-NATAL**
Graduate School of Business

**FACTORS DRIVING PAY CHANGES AND THEIR IMPACT ON
CORPORATE PERFORMANCE: NAMIBIAN PORTS
AUTHORITY CASE STUDY**

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Master of Business Administration**

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Faculty of Management Studies**

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28 February 2011

DECLARATION

I, Andreas Kanime, declare that

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ABSTRACT

Remuneration levels in Namibia's State Owned Enterprises (SOEs) have trended upwards over the last couple of years. It is believed that these increases happened at a faster rate and without being necessarily accompanied by commensurate growth in corporate performance. As a result, remuneration levels in SOEs have predominantly been attributed to fat-cat self-enrichment schemes.

The objective of this study was to establish the topmost remuneration drivers in Namport and the extent to which a relationship existed between these drivers and corporate performance over a period of three years. A case-study approach was adopted, focusing on the Namibian Ports Authority. A triangulated quantitative approach was applied, split into a primary study and a secondary study, in order to find answers to the research questions. A survey questionnaire constituted the basis for the primary study and was designed based on remuneration drivers and components discerned from the literature. The secondary study was informed by a rigorous financial analysis of Namport's financial statements and payroll data.

The outcome of the primary study confirmed that a relationship existed between Namport's remuneration drivers and corporate performance. The study further found that performance-related pay drivers had a significant positive impact on corporate performance relative to other pay drivers. These outcomes were corroborated by findings from the secondary study.

The study findings support the literature conclusions that a positive correlation exists between company performance and remuneration policy especially where performance-related pay has been adopted as a significant component of remuneration policy.

In addition, the findings disproved the current discernment that remuneration drivers within Namibia's SOEs are driven by self-enrichment schemes and are not aligned to corporate performance, at least within the context of Namport.

The study provides practical discernments with respect to the factors and the remuneration components that ordinarily have the uppermost positive impact on corporate performance. Against the background that SOEs have different mandates and operate under varying operating and economic conditions, the study concludes that a one-size-fits-all remuneration framework is not appropriate for SOEs and point to the need to have customised remuneration policies for each SOE, crafted within the broader remuneration framework set by the State Owned Enterprises Governance Council (SOEGC), which integrate performance-related and non-performance related pay drivers which are informed by each SOEs own unique mandate and circumstances.

Namibia has about 52 SOEs which have been categorised into economic and productive enterprises, regulatory enterprises and service rendering enterprises, depended on their reason mandate and the marker under which they operate. Although the findings offer instructive insights and are useful to other SOEs, generalisation to other SOEs is limited. It is thus recommended that future studies should look at a heterogeneous sample comprising a number of SOEs from different categories and sectors or on the basis of classification.

Additionally, as the study was limited to exploring the impact of pay drivers on corporate performance and did not venture to look into impacts of remuneration strategy on variables such as staff attraction, retention and motivation at an individual level or other non-remuneration variables, it would be useful to carry out a study focusing on understanding other drivers which could positively impact on organisational performance.

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CHAPTER 1: INTRODUCTION

1.1 Introduction

Namibia's State Owned Enterprises (SOEs) are perceived to be characterized by persistent poor corporate performances and soaring remuneration levels, ostensibly justified by the need to pay remuneration levels that are competitive enough to attract, motivate and retain talent. Concerns have specifically been raised over these excessive remuneration levels, which are believed to have reached unprecedented levels, despite the fact that some of these SOEs have had to continuously receive financial bail-outs from the government in the form of subsidies and guarantees.

This study seeks to establish factors that drove these pay increases, determine remuneration components that were increased and the extent thereof as well as determine which remuneration components greatly contributed to a high positive impact on corporate performance (i.e. determine relationship between remuneration and corporate performance). The secondary research questions include the need to determine actual remuneration increases granted during the last three years as well as actual corporate performance over the same period.

The purpose of this chapter is to outline background to the research problem and to introduce the research objectives and questions. The chapter concludes with the rationale for the study as well as the limitations encountered.

1.2 Background to the Study

Remuneration levels in Namibia's SOEs have trended upwards over the last couple of years. It is believed that these increases happened at a faster rate and without being necessarily accompanied by commensurate growth in corporate performance (Staff Reporter, 2009). It is contended that organisational performance in many of these enterprises has been on a descending trend. Consequently, increases in remuneration have primarily been attributed to self-enrichment schemes even in cases where increases were perhaps justified (Maletsky, 2005).

The trend has generally caused a stir amongst the shareholder, general public and other stakeholders. The concerns about the scale and extent of remuneration levels in SOEs are exasperated by the following:

- SOEs earning tremendous remuneration include those that are providing negative returns to the shareholders as well as receiving government support in the form of taxpayer funded bailouts
- Remuneration structures in SOEs are generally perceived to be rewarding failure and encouraging complacency due to the conspicuous link between remuneration and performance
- the remuneration levels are seen to be beyond what is warranted given the poor corporate performances
- the remuneration levels are perceived to have become increasingly out of line with average wages, widening the gap between executives and other employees (Amupadhi, 2008).

In light of the above, the shareholder (i.e. Namibian government) has specifically been under pressure to respond and address the professed excessive pay in SOEs which it is believed have not been accompanied by commensurate corporate performances. In an effort to address the situation, the shareholder legislated for the establishment of a centralised State Owned Enterprises Governance Council (SOEGC) to regulate executive remuneration in SOEs in order to ensure that remuneration packages are contained and that remuneration practices do not reward failure nor are they misaligned to public expectations (State-owned Enterprises Governance Act No 2 of 2006).

As a result, the SOEGC issued a directive requiring remuneration and conditions of service of senior staff in SOEs to be pegged and equated to what is applied in the public / civil service (Katjjuanjo, 2007). This is despite the current perception that any attempt to standardize levels of pay would be difficult to enforce across SOEs. The directive is, in the words of SOEGC, meant to ensure a consistent, transparent and oversight governance framework to remuneration practices across all SOEs (Katjjuanjo, 2007).

On the other hand, there are those that maintain that current levels of remuneration in SOEs are justified and that the directive from the state is ill placed and has the potential to further dampen performance in SOEs especially those that have been performing. It is contended that for SOEs to be competitive (i.e. self-funding, generating profits from own revenue operations, raising own loans for capital expenditure and paying dividends to the State) and able to achieve their mandates, their remuneration levels need to be competitive to be able to attract and retain talent with the required expertise and experience, to be able to generate required performance (Muadinohamba, 2008).

Consequently, State Owned Enterprises have been placed in an uncertain position as to what remuneration decisions they should be making in the remuneration space. The need for organisations' ability to understand the factors that will help them overcome this diffidence is therefore critical in order for them to come up with remuneration policies that enable them to get value from their ever mounting wage bills.

There has been no scientific study conducted in Namibian SOEs to comprehensively investigate pay drivers and the empirical relationship between organisational performance and remuneration levels. The actual levels and drivers of pay in Namibia's SOEs as well as their impact on corporate performance have not yet been quantified. This makes it difficult to determine the extent to which pay levels in SOEs have actually been justified.

In light of the above, there is not enough Namibian empirical evidence to assist with decision making in terms of how this paradox of soaring remuneration levels coupled to poor corporate performance can be overcome. Therefore, the lack of empirical data on pay drivers and the extent of their impact on corporate performance warrant a closer examination in order to close some of the knowledge gaps in this regard. It is against this background that this study was initiated.

1.3 Focus of the Study

Given the sensitivity of the topic as well as the difficulty to obtain necessary information, this study shall only focus on examining pay practices for a single SOE, the Namibian Ports Authority.

The Namibian Ports Authority (Namport) is a commercialised State Owned Enterprise established by the Namibian Ports Authority Act, 1994 (Act No 2 of 1994). The Authority is governed in terms of the above Act as well as the State-owned Enterprises Governance Act, 2006 (Act No 2 of 2006), which makes provision for efficient governance and monitoring of the performance of state-owned enterprises in Namibia.

The Authority is 100% owned by the Government of the Republic of Namibia. The Authority manages and controls the ports, lighthouses and other navigational aids in Namibia and its territorial waters and provides facilities and services normally related to the functioning of a port. The Authority operates in the same manner as any privately owned company and has so far not received any bailouts from its shareholder (Namport Annual Report, 2009).

The company is well regarded in Namibia as it is one of the top performing SOEs in Namibia. Since commercialisation in 1994 Namport has significantly been profitable and has spent large amounts of money on upgrading its infrastructure in order to ensure a reliable and modern port infrastructure.

The Authority has a staff compliment of more than 500 employees and is managed by a Board of Directors appointed by its sole shareholder, the State. The Board has overall responsibility and accountability for the affairs and performance of the Authority. The board gives strategic direction and monitors executive management closely in implementing board strategies and plans (Namport Annual Report, 2009).

The Board has established a Remuneration Committee which is responsible for making recommendations to the board regarding the determination of the remuneration of directors, executive and senior management. The remuneration committee comprises three non-executive directors and the chairperson of the committee is an independent non-executive director (Namport Annual Report, 2009).

1.4 Research Objectives and Research Questions

The primary objective of the study is to empirically establish and determine pay increase drivers in Namport and to establish the extent to which current remuneration structure and levels have contributed to increased corporate performance and returns for the shareholders. The finding would help confirm or refute the current opposition and concerns round the perceived excessive compensation levels amongst SOEs.

The fundamental questions requiring answers are as follows:

- What factors drove pay increases and to what extent did they drive such increases in Namport over the last 3 years?
- Which components of the remuneration package were increased and to what extent were they increased?
- What impact did the pay increases have on Namport's corporate performance and what is the extent of such impact on Namport's corporate performance?

In addition the following secondary questions shall be answered through a secondary study:

- Did Namport remuneration levels increase and to what extent did they actually increase in over the past 3 years?
- Was the increase in Namport's remuneration levels accompanied by commensurate increase in corporate performance? In other words, to what extent has there been a relationship between extent of change in pay and corporate performance.

Four main constructs have been identified and are depicted in Figure 1.1

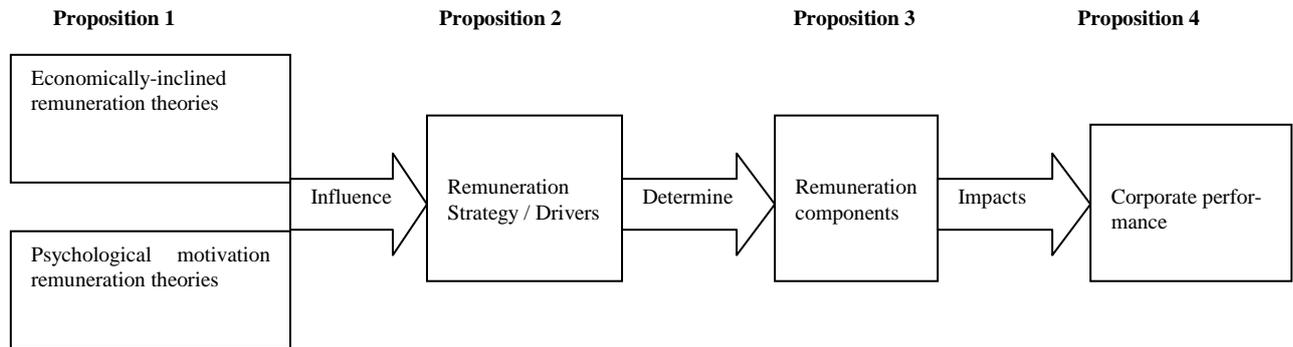


Figure 1.1 Research proposition

1.5 Motivation for the Study

Research on the topic has generally confirmed that organisations that have implemented performance-based remuneration are best placed to attract and retain best talent as well as generates higher productivity or performance (Martocchio, 1998; Greenhill, 1988; Rynes and Gerhart, 2000). However, Namibia’s State Owned Enterprises are arguably able to attract and retain best talent due to high levels of remuneration paid, but are not necessarily able to generate high levels of productivity and performance due to the conspicuous link between remuneration and performance.

Whilst there is empirical confirmation from the literature that the performance-related pay approach is critical to organisational success and maximised investment returns, the approach does not seem to have been fully implemented in Namibia’s SOEs. Therefore the public’s current perception of “self-enrichment” scheme in SOEs may be justified given that there appears to be a lack of alignment between organisational performance and remuneration levels in SOEs.

It was envisaged that the study will contribute to the current debate in the country on the merits and de-merits of pay levels in Namibia’s SOEs and will help shape and inform decisions on remuneration levels for SOEs. In particular the following contributions were envisaged:

- provide a deeper understanding of the relationship between pay drivers, remuneration components and organisational performance within an SOE environment, enabling an enhanced insight on the impact of various remuneration components on organisational performance
- provide empirical results and insights indicating which pay drivers and remuneration components have the greatest impact on company performance. This will positively inform the formulation of remuneration policy and will assist the following stakeholders:
 - **Shareholder:** will aid the shareholder (i.e. SOEGC) to revisit its recently issued generic remuneration framework for SOEs in order to implement a rather broad remuneration framework that best ensures alignment between pay and enterprise performance, upon which SOEs can build their own remuneration policies. framework
 - **SOEs Board of Directors:** will empower Boards with necessary empirical information to enable them to formulate remuneration strategies and policies that are strategically positioned to enable the SOEs to respond to the challenges of attracting, retaining and motivating required talent without being accused of overpaying staff or compromising the principles of corporate governance and organisational performance.
 - **SOEs Management:** The sole objective for paying competitive remuneration levels to employees in any organisation is to create value for both the company and its shareholders. Thus finding an acceptable and consistent criteria for adjusting remuneration levels is not only a matter of concern to Management, but increasingly also important to shareholders and all other stakeholders. Attracting and retaining high-performing employees is critical but will be useless if not directly linked to creation of shareholder value. SOEs will be well-placed to come up with defensible and transparent remuneration policies and structures that have public confidence and blessing given the sought-after alignment between pay and organisational performance.

- **General Public:** The study is of particular importance to the general public and other stakeholders. It is expected to help the general public understand circumstances under which specific compensation levels (i.e. enterprise performance and success) would be acceptable and stop perceiving remuneration levels as outrageous where these are justified. The general public will thus be empowered to appreciate organisational conditions under which specific remuneration levels are justified and not perceived to be outrageous.

1.6 Limitations of the Study

This study focused specifically on Namport. The study was constrained by the non-availability of related studies conducted in Namport and other Namibian SOEs.

The study was also constrained by the limited availability of information due to the confidential nature of remuneration information and the possible reluctance of the respondents to share information. This contributed to major delays in completing the study due to comprehensive and continuous follow-ups which had to be made with participants to get the information.

Although the study focuses on one SOE out of a total of fifty two (52) SOEs in Namibia, it is believed that the recommendations emanating out of this study would generally be applicable and useful for the rest of the SOEs.

1.7 Chapter Layout

The study is structured as follows

Chapter One introduces the study, while **Chapter Two** contains the literature review.

Chapter Three defines the quantitative research design and methodology followed in collecting the empirical data to address the research questions.

Chapter Four describes the results of the empirical study and provides a statistical analysis of the quantitative data collected in relation to the variables. Preliminary findings are also noted.

Chapter Five provides an interpretation of the results of the quantitative research. The results are contextualised in terms of the primary and secondary research questions.

Chapter Six is a summary of the study, with concluding remarks on the research findings and the research limitations. It also contains suggestions regarding future fields of study which could be embarked on as a result of this research.

1.8 Chapter Summary

This chapter provided an outline of the research problem as well as a high level summary of the rationale for the study. The study is warranted by a lack of empirical evidence on pay drivers, remuneration components and their relative impact on corporate performance. It is envisaged that the findings of the study would provide useful insights that are compelling enough to change the current widespread perception that SOEs personnel are being paid “excessive remuneration levels” as well as to influence a review of the recently adopted remuneration framework in Namibia’s SOEs, which has been found to be ill-placed and inappropriate.

The next chapter provides a review of the literature in order to establish what is currently known with respect to the research objectives.

CHAPTER 2: THEORETICAL AND CONCEPTUAL FRAMEWORK

2.1 Introduction

Remuneration is about how employees in organisations are paid. Although there are different pay practices for employees stretching across industries and enterprises, remuneration structures typically fall into two forms: fixed / guaranteed remuneration and variable remuneration. A broadly defined remuneration package of an employee would therefore be usually constituted by a combination of the following remuneration elements: a basic salary, employment fringe benefits (i.e. medical aid benefits, retirement benefit, life insurance etc.), a meaningful and challenging short-term performance based incentive scheme and also a longer term incentive (Armstrong and Murlis, 2007).

Armstrong and Murlis (2007) further contends that remuneration structures can be designed in an unlimited number of ways and a single employer typically will use a combination of several ways to design remuneration packages appropriate to their organizations and industry.

Economic and sensational issues surrounding remuneration levels especially for executive staff have received considerable global attention in both academic literature and the media over many years. However, there is no consensus about what is just and reasonable remuneration and what the key drivers of remuneration are, relative to their respective impact on corporate performance (Cyert, Kang and Kumar, 2002). In Namibia like in many other countries, some people condone the practice of Executives receiving millions of Namibian dollars for their work and others strike down such practice, saying it is not justifiable that one person receive millions of dollars as a salary.

This chapter presents a conceptual framework to compensation and will seek to: (1) succinctly examine remuneration strategy and policy framework, (2) outline the constituent elements of remuneration, (3) delineate the key compensation drivers (4) explore the relationship between compensation drivers and corporate performance and (5) illustrate a theoretical framework for the corporate performance indicators.

2.2 Theoretical Framework for Remuneration Management

In order to undertake systematic consideration of remuneration drivers, an understanding of a range of theories that underpin and inform remuneration practices is a prerequisite. Perkins and White (2008: 60) opine that analytical models and prescriptions addressing the propensity of individuals and groups to make their labour available and to accept direction and commitment to managerial aspirations are available in abundance.

As has been affirmed in the literature, several schools of thought exist on the complex subject of drivers for remuneration levels within an employment context. Perkins and White (2008: 60) classify the theoretical models into economic-inclined remuneration theories and the psychological motivation remuneration theories.

Economic-inclined remuneration theories assume that employment relationships, expectations among parties and the regulation of remuneration systems should primarily be modelled along the factors associated with economic exchange, whilst the psychological motivation remuneration theories place greater emphasis on behavioural and biological factors, articulating roles for active managerial initiatives and alternating between efforts intended to modify employee behaviours or to create the environmental conditions in which employees may direct their own efforts to act in ways that may satisfy managerial goal-directed aspirations (Perkins and White, 2008).

These, being the theoretical foundations that inform and influence remuneration policies and practices, are expounded upon in the next section.

2.2.1 Economic-inclined Remuneration Theories

The principle of economic-inclined remuneration theories is that there is competition for labour in the same way that goods and services are traded within a capitalist society. In this regard, employers seek to purchase labour at the best price and employees seek to sell their labour within this market at the best price (Perkins and White, 2008). Next we consider the main economic theories concerning remuneration.

2.2.1.1 Classical Labour Market Theory

The assumption of this theory is that pay will be fixed in the labour market where the demand for employees equates exactly to the supply, known as market clearing (Perkins and White (2008: 34). So when the supply of labour meets employers' demands, employers will have to offer work at that price and employees will have to accept work at that price. This theory suggest that there is little point in employers attempting to differentiate themselves from their competitors by paying different salaries as in the final analysis everyone has to pay the same as everyone else.

The theory is however criticised for being too simplistic and its glaring ignorance of the realities on the ground such as the effects of market distortions resulting from potential political interventions or trade union actions (Perkins and White, 2008: 34).

2.2.1.2 Institutional Labour Market Theory

This is an alternative economic theory to the classical economic theory and redefines the market clearing model in order to explain differentials between wage levels, contingent on institutional factors (Perkins and White, 2008: 38). Whilst the institutional labour market theory is predominantly based on the suppositions of the classical labour market theory, the differentiation is brought in whereby scope is introduced to cater and compensate for market imperfections. Factors as arising from the environmental and organisational context are introduced that may be associated with differential employee remuneration levels across the labour market.

2.2.1.3 Human Capital Theory

The human capital theory is another economic theory relevant to remuneration based on the assumption that individuals accumulate human capital by investing time and money in education, training, experience and other qualities that increase theory productive capacity and thus worth to an employer. While all employees bring some skill and experience to their job, additional qualifications and experience give rise to differentiation in the level of reward necessary to secure and retain certain people (Perkins and White, 2008: 40).

The human capital theory hinges therefore on the need for organisations to cost-effectively secure, develop, motivate and hang on to those special skills that are mission critical if an institution is to achieve its organisational objectives.

2.2.1.4 Exchange Theory

The exchange theory is premised on the notion that, under capitalist relations of production, employers and employees enter into an agreement whereby they employer contracts to pay wages or other extrinsic rewards to the employee in return for willingness on the part of employees to give up their right to leisure and accept the direction of the employer over their labour services. The labour then has to convert rented labour power into that which created economic value. Issues round the relative value of different skills and the transaction costs in harnessing them partly explain the segmentation of the workforce into core and peripheral skills (Perkins and White, 2008: 40). As a matter of principle employers will generally invest more in the core skills than the peripheral skills that can be dispensed with when times are tough.

2.2.1.5 Efficiency Wage Theory

The efficiency wage theory is based on the premise that if employers assume that employees will use their human capital to secure alternative work at enhanced pay rates, but their loss to the employer would incur transaction costs greater than paying above market rates, paying higher reward levels is a rational employer response to sustain an on-going relationship. Efficiency wages are thus an investment into specific skills and knowledge to maximise loyalty and minimise opportunistic employee behaviour (Perkins and White, 2008: 41).

The theory is also based on the premise that if the job is more complex higher levels of reward are offered to employees in the expectation that employees will see it as an incentive to perform better than the external market norm. In other words, if employees feel better paid, they will not only be inclined to work harder but also their performance will be conditioned by a fear of losing employment with above-market pay rate. Similarly, organisa-

tions whose operating strategies require highly skilled employees may find it more efficient to use above-market pay rates to signal their wish to attract above-average quality employees.

2.2.1.6 Principal-Agent Theory

The agency theory emerged from the seminal papers of Alchian, Demsetz, Jensen and Meckling (1976), seeking to find solutions to the universal challenging agency relationship, whereby the shareholder (principal) delegates his business to the manager (the agent) to manage it on his behalf. The theory advocates that all directed behaviours are designed to achieve outcomes and that generally speaking people who have agreed to make their time available will not be induced to try harder unless one indicates what is in it for them. This in essence means that behaviours need to be directed toward organisational goals through the offering of incentive rewards on a meaningful scale (Hall and Murphy, 2002).

The fundamental problem, in terms of this theory, is the separation between ownership and control, which vests the manager (the agent) with significant discretion to influence shareholder (the principal) value. However, if the manager's interests are not fully aligned with shareholder interest, the manager will make decisions that benefit him at the expense of the owners. At the heart of the principal-agent problem is the reality that managers might naturally be inclined to exert less effort or perhaps focus on business strategies that fit their risk preferences, rather than on those that would maximize shareholder value over the long-run.

According to Perkins and White (2008), Agency theorists reason that alignment of interests between employed agents and shareholders will require employees to share the risks associated with the organisation. This can be achieved by implementation of the following, amongst others:

- Deferred payments - making a significant amount of employees' potential total earnings dependent on their own contributions to the organisation's financial success. Outcome-based differed remuneration such as profit sharing, gain-sharing and long-term share-ownership-based incentive plans may be used in this regard

- Pay-at-Risk – whereby pay rates may be set below market-guaranteed levels and employees are offered the opportunity to earn above average total remuneration, contingent on higher performance.
- Pay Progression – associated with notions of incremental pay progression as employees ascend internal job ladders, reasoning that the expectation of a full return on their human capital investment only over a lengthy employment career will encourage people to stay beyond the below market paid phase in early period of employment.
- Seniority-based increases - an investment in seniority-building increases the individual's economic worth to the employer while acting to mitigate divergence in the interests of employees and other stakeholders over the longer term (Perkins and White, 2008).

The principle behind the theory is that a proportion of employees' remuneration should be linked to corporate and individual performance in order to bring into line their interests with those of shareholders and to give them incentives to perform at the highest levels. In this regard, there is general consensus in the literature that to guarantee the longevity and success of a company, it is important to ensure that a suitable compensation structure is in place that seeks to ensure that the goals of employees are aligned to those of the organisation. Shleifer and Vishny, 1997 and many others are of the same mind that variable remuneration is one of the most proficient ways of aligning employees and shareholders' interests by tying employees' remuneration to company performance.

The drawback, however is that measures introduced to address the principal-agent problems have contributed to excessive remuneration levels.

2.2.1.7 Internal Labour Markets

The internal labour market (ILM) approach is based on the premise that a structured internal labour market must be created and maintained to shield the organisation's employees from the whims of external market forces impacting on an organisation's ability to retain its employees. Certain positions are thus reserved for internal recruitment only or automat-

ic promotion on internal employees into such positions. This preservation of skills within the business serves as a basis for sustainable competitive advantage and has an incentive and retention effect on employees (Gerhardt and Rynes, 2003).

In terms of this theory pay progression is offered over the course of a career to motivate employees to remain within an organisation. Wage rates are attached to jobs and employees are rewarded by clear long-term and guaranteed career trajectories rather than purely financial incentives. Labour pricing and allocation are governed by corporately determined rules and procedures whereby jobs are arranged hierarchically and reward rates are attached to jobs rather than to individuals (Gerhardt and Rynes, 2003).

The downside of this theory is of course sacrificing access to a wider talent pool.

2.2.1.8 Wage-gap Theory

The wage-gap theory also known as the union mark-up theory arose out of the industrial relations writers seeking explanations for the differences in wage levels between unionised and non-unionised workplaces (Gerhardt and Rynes, 2003). The key driver behind this theory is the capacity of employees with scarce skills in a labour market characterised by shortage of skills to use the opportunity to bargain for higher remuneration levels as well as the capacity of organised labour to halt production through the use of measures such as strike to demand higher remuneration levels in the face of rising inflation and cost of living.

Additionally, Perkins and White, 2008 attributes the wage-gap theory to agreement by employers to increase remuneration levels in the face of a strike or to share part of the profits with the workforce in return for agreement by employee representatives for continuity of operations, the outcome of which is a trade union mark-up over competitive market rates.

2.2.1.9 Synopsis: Economic-inclined Remuneration Theories

Evident from the afore-discussed economic theories is the fact that the basic questions of how much an employer should pay and what employees may realistically expect to be paid

for their skills and competencies may be addressed in a variety of ways. The exclusive market regulating approaches can clearly not be the sole determinant of remuneration levels given their imperfections and given the need for employers to leverage on their ballooning wage bills as well as the need for employee to leverage on their skills which in some instances may be scarce. It is thus clear from the range of approaches discussed that there can be no generally accepted “one-size-fits-all solution to remuneration challenges.

2.2.2 Psychological Motivation Remuneration Theories

According to Perkins and White, 2008: 49, it may appear self-evident that to be effective, remuneration systems need to be based on a sound understanding of how people at work are motivated. This is particularly based on the premise that there is a need to understand how remuneration systems affect employee behaviour and the role of remuneration as a managerial lever for employee performance.

Thus, in the next section we consider theories associated in particular with psychological motivation to perform in work situations.

2.2.2.1 Frederick Taylor’s Theory of Scientific Management

Fredrick Taylor regarded employees as rational and economic in their approach but essentially lazy and requiring to be encouraged and inspired by management through the remuneration system. The core of the theory is that employees are motivated primarily by money. It was thus deemed important to ensure that jobs are structured in such a way that they were capable of maximising earnings. This implies that reward is to be tied to task/output attainment, provided this is exactly in accordance with managerial specifications (Perkins and White, 2008). This approach emphasised the role of the outcome-based incentives as a motivational financial reward which combined with a paternalistic management style is believed would sustain labour productivity levels and discourage workforce unionisation.

This theory has however been widely criticised for its tendency to equate people with machines, its assumption that there was only one universal best method and that the individual’s inventive to earn money is the primary motivating factor at work (Rose, 1978: 62).

Nonetheless the impact of this theory on remuneration practices has been remarkably durable and evidence exists to suggest that individuals believe others are motivated by money even as they know that they themselves are less so (Pfeffer, 2001).

2.2.2.2 Elton Mayo's Hawthorne Study

This theory is based on the research results of Elton Mayo, legendarily known as the "Hawthorne Experiments." He carried out behavioural trials at the Hawthorne Works of the American Western Electric Company in Chicago. He carried out experiments, introduced rest periods amid work performance and also introduced snacks during the breaks. Based on the research results Elton Mayo concluded that employee motivation was an intricate matter. He concluded that it was not only about remuneration, employment conditions and morale but also included psycho-social dynamics (Marchington and Wilkinson, 2008).

This study has been critiqued from many angles. However, the fundamental learning points emanating from the study are that: human beings are motivated by more than just remuneration; the need for acknowledgement and appreciation as well as the need to belong are imperative drivers and employees' approach with respect to work are meaningfully influenced by the team. Marchington and Wilkinson (2008) advocate that the implications for this approach for remuneration strategy are not that payments are irrelevant, but that rewards must be seen in a broader context, one in which employee objectives, other than the simple maximisation of earnings are important. New remuneration schemes may thus be warranted in order to increase productivity.

2.2.2.3 Abraham Maslow's Need Hierarchy Theory

Maslow categorised people's needs into a hierarchy, consisting of physiological needs, safety and security needs, social needs, esteem needs and self-actualisation needs, which intensifies from the bottommost to the uppermost in the above-stated order. He drew conclusions that as soon as a particular group of needs is gratified, it no longer serves as a motivator, and the next need within the hierarchy comes to the fore. According to Maslow, (cited in Bratton and Gold, 2007), these are the needs that motivate employees at work de-

pendent on each individual employee's positioning within the hierarchy. The supposition of the theory is that physiological needs required to sustain human life must be fulfilled before the next need within the hierarchy (i.e. safety and security) becomes a motivator. This iteration process is followed until the uppermost need (i.e. self-actualisation need) is fulfilled.

Marchington and Wilkinson (2008) opine that one implication of this theory is that for employees on low wages and consequently operating at the lower end of the hierarchy, money may loom more important than for those earning considerably more. The latter have satisfied their basic needs, and may move on to higher level needs.

Whilst this theory is extensively acknowledged and utilised by many Managers, there is little research evidence supporting the notion of a universal hierarchy of needs. It is also apparent that employees may at the same time demand not only money but also more satisfying work and are thus operating at more than one level of hierarchy at one time. The theory is further contradicted by widespread controversies round executive remuneration (Marchington and Wilkinson, 2008).

2.2.2.4 Douglas McGregor's Theory X and Theory Y

The McGregor theory advocates that there are at least two techniques that can be used to lead and manage employees, namely Theory X which is negatively inclined and Theory Y which is positively inclined. McGregor researched and studied how supervisors interacted and managed employees. He drew the conclusion that Managers' style of supervising and managing staff was greatly depended on the assumptions and beliefs they held about the nature of people (McGregor, 1960).

The supposition of theory X is that employees are by nature slothful, indifferent in their work and required to be strictly managed and induced with rewards in order to get them to put in extra effort and go the extra mile. Contrastingly, the assumption of theory Y is that employees are by nature enthused and inspired by the need for self-esteem and the wish to excel in their job. Hence, management's role is to facilitate this positively inclined approach to work (Marchington and Wilkinson, 2008).

It is evident from the above suppositions that McGregor's theory is built upon Maslow's theory, given that theory X assumes that employees are motivated by physiological, safety and security needs while theory Y assumes that employees are motivated by self-esteem and self-actualisation needs. Although this theory is discredited for generalising workplace dynamics and human conduct, it nonetheless solidifies the notion of money and incentives being key driving or motivating factors amongst employees (Marchington and Wilkinson, 2008).

2.2.2.5 Frederick Herzberg's Two-Factor / Hygiene Theory

In his theory, Frederick concluded that there exist "satisfiers" and "dissatisfiers" for employees at the workplace. His research (1966) found that satisfaction and dissatisfaction were not necessarily related. According to this theory, the fact that an employee may not be satisfied about a specific facet of their work does not necessarily imply that they were dissatisfied. Equally if employees did not feel dissatisfied, this did not imply automatic satisfaction (Wood et al 2005).

The theory associated satisfaction with good emotions and intrinsic factors such as achievement, accountability, appreciation, progression and the job itself. Extrinsic factors, also known as hygiene factors were linked with dissatisfaction or bad emotions and include variables such as HR policy, conditions of service, working environment, management and remuneration. In concluding his research he opines that the reverse of satisfaction is not dissatisfaction and that eliminating dissatisfying elements from the work does not necessarily lead to a situation where the job becomes satisfying. He further advocates that the existence of specific variables in the workplace is standard and the existence of these very variables does not lead to satisfaction. Contrastingly, their non-existence leads to demotivation. Correspondingly, there are certain variables, the absence of which causes no dissatisfaction, but their being there has motivational impact (Wood et al 2005).

The key tenet of this theory is that unless the hygiene factors e.g. pay are satisfied, motivators are of little use. Based on this theory, Marchington and Wilkinson, 2008: 458 argues that remuneration is a substantial "hygiene" factor and that a fitting level must be found

which satisfies employees' anticipations and hopes. Conversely, there may not necessarily be a motivating effect by paying above this level.

2.2.2.6 Victor Vroom's Expectancy Theory of Motivation

Vroom's expectancy theory is one of the commonly accepted explanations of motivation. The theory advocates that the extent to which a person acts in a particular manner is contingent upon the extent to which the probability exists that such an act will be followed by an assumed result and on the appeal of that outcome to the person (Vroom, 1964). The theory assumes that an individual can be enthused to improve performance when there is a conviction that improved performance will lead to recognition and reward.

The key tenet of this theory is that $\text{Motivation} = \text{Expectancy} \times \text{Valence}$. There are three principles that underpin this theory, namely: effort-performance association; performance-reward expectancy and the concept of valence. This implies that if a person realises that jerking up his performance will return a recognition incentive which he or she appreciates, then, in all likelihood such an individual shall increase his performance relative to a situation where the outcome of increased performance is not rewarded. It is evident from the suppositions of this theory that $\text{Valence} \times \text{Expectancy}$ lead to motivation, which lead to action, which in turn lead to improved performance and then satisfaction in the form of rewards (Vroom, 1964).

Additionally, the theory is widely credited for recognising that there is no universal principle for explaining everyone's motivation which means that successful link between performance and pay is difficult to accomplish in practice. This is in contrast to the content theories of motivation, which are based on the assumption that all employees are alike, motivated by money, recognition or whatever, and all situations are alike (Marchington and Wilkinson, 2008).

Flowing from this theory is the fact that Management need to demonstrate to employees that effort will be recognised and rewarded in both financial and non-financial terms. The importance of this theory is that the onus is on management to establish schemes to reward behaviour it wants, given that remuneration should motivate behaviour.

2.2.2.7 The Porter and Lawler Model

Lyman W. Porter and Edward E. Lawler (1968), cited in Perkins and White (2008) refined the expectancy theory to include the motivational influence of active self-reflection on the individual's abilities and other traits, the perceived nature of the role to be performed and the degree of equity attributed to both extrinsic and intrinsic reward likely to result from the endeavour.

This means that while performance is a function of the effort exerted, it is also affected by other factors such as the employee's capacity to do the work as well as by the employee's view of what is expected from him/her. It is hence the deduction of this theory that performance is the variable that brings about both intrinsic and extrinsic rewards.

This is encapsulated in Figure 2.1.

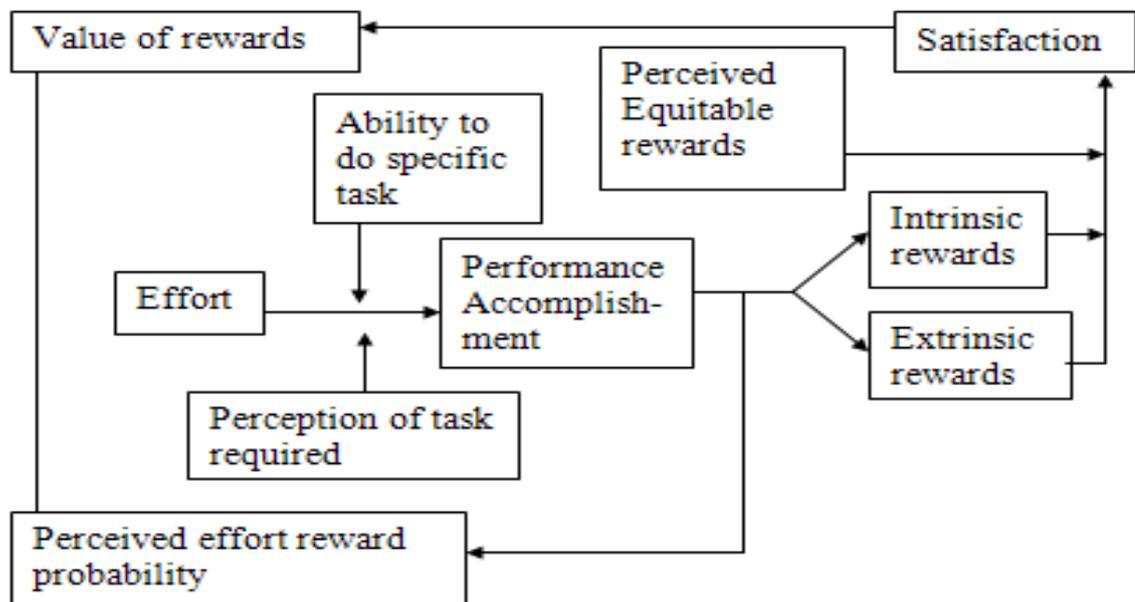


Figure 2.1: Porter & Lawler Model

Adapted from Lyman W. Porter and Edward E. Lawler (1968), cited in Perkins, SJ and White, G (2008). *Employee Reward: Alternatives, Consequences and Contexts*. Chartered Institute of Personnel and Development.

2.2.2.8 Stacey J Adams' Equity Theory

The equity theory (Adams, 1963), suggests that the extent to which employees are motivated is influenced by how they perceive the remuneration structure i.e. whether they perceive the remuneration structure to be fair or not in relation to their efforts and inputs. This means employees weigh up their inputs (effort, performance) against outcomes (rewards) in comparison with other co-workers or peers elsewhere. If they feel that the employer owes them, then employees may seek to restore the balance. Accordingly, if employees feel that they are not fairly recognised and remunerated for their work they may resign or even go slow. However, if employees believe that they are commensurately remunerated for their work, they may increase performance levels. It is thus the deduction of this theory that human beings make personal conclusions to take a view of the nature of the relationship between inputs and outputs to determine whether equilibrium exists in order to appropriately shape their actions within the workplace (Gerhardt, 2008).

2.2.2.9 Clayton Alderfer's Existence, Relatedness and Growth Theory

This theory is premised on Maslow's needs theory. Its supposition is that there are three categories of fundamental needs, namely: existence, relatedness and growth. The existence category is apprehensive of human sustenance while the relatedness category pertains to the person's desire to have a communal relationship with other people in the community. The third category is the inherent need for an individual to grow and develop (Gerhardt, 2008).

Gerhardt (2008) summed up the foremost deductions of this theory such that a human being has several needs all of which require satisfaction. In instances where a primary need has not been contented, then the need to fulfil a secondary need increases.

2.2.2.10 David McClelland's Theory of Needs

According to Perkins and White (2008), McClelland's theory is based on three types of motivating needs, namely: the need for power; the need for affiliation and the need for

achievement. The theory categorises human beings into these groups and concludes that individual motivation is dependent upon which group an individual belong to.

It is presumed that individuals with a great need for power are motivated by their being able to exert influence and control. They can be inspired to excel at what they do if they are empowered and occupy influential positions where they are allowed to exert authority. Individuals with the need to affiliation constitute the second group. These are the individuals who are generally outgoing, extroverted and thrive on being part of a team. They can be inspired to excel at what they do if they are recognised in social settings and maintain relationships with others. The third group is constituted by individuals who are ambitious and motivated by success and the anxiety of not making it. They are inspired to excel at what they do if they perceive that chances of success exist (Perkins and White, 2008).

It can be concluded from the supposition of this theory that individuals are complex human beings whose motivational drivers are a function of many variables.

2.2.2.11 Reinforcement Theory

The reinforcement theory was propagated by Skinner (1953) cited in Perkins and White (2008) and advocates that employee motivation is a function of how their working environment is structured (Skinner, 1953). It is presumed that individuals are motivated by what is happening in their working environment and not so much by emotions and/or cognitive behaviours. According to Skinner (1953) employees seek positive reinforcement for the performance and hence the work setting should be designed in a way that will secure reinforcement for employees' performance. It thus flows from these assumptions that Managers should constantly positively shape the working environment in order to maintain high levels of motivation amongst staff.

Although the reinforcement theory may be viewed as less a motivational theory and more concerned with subjects' responses to social encounters, the assumption of this theory is that people seek positive reinforcement for their actions. Under this theory, differentiating between employees' individual performance outcomes will reinforce the learned connection between actions and reward (Perkins and White, 2008: 52).

2.2.2.12 Goal Setting Theory of Edwin Locke

The goal setting theory advocates that employees are motivated to perform and are likely to swiftly attain their targets if performance objectives and targets have been duly and clearly communicated to them. It is presumed that that when the performance objectives and targets are known and stretched, employees are enthused to improve performance and put in all-out exertion and determination (Perkins and White, 2008).

Goals pursued by employees may play an important role in motivating superior performance in that, while following them, employees examine the consequences of their behaviour. If their estimation is that current behaviour will not support goal attainment, people are likely to either modify their behaviour or choose more achievable goals (Perkins and White, 2008). Managers should thus engage with employees in the goal-setting process to facilitate the best way to enlist employee cooperation in ways likely to serve organisational aims.

2.2.2.13 Synopsis: Psychological Motivation Remuneration Theories

It is obvious from the discussion above that understanding the complex subject of motivation requires one to have an understanding of a range of theories given the wide variations in factors that drive motivation as well as internal and external contingencies.

We can deduce from the afore-mentioned discussion that seniority-based pay systems are founded upon the premise that employees have hierarchies of needs. The wide adoption of total package pay approach system confirms the contention by motivational theorists that motivation is a highly personal concept requiring adoption of flexible remuneration policies. Equity and comparability are variables factors that while they may not actively motivate they may have a demotivation effect on employees. It is further evident that what may motivate one employee may not have the same effect on another.

According to Brown (2001), “the satisfactory management of employment requires the satisfactory management of remuneration as a necessary, if not a sufficient, precondition”. It

therefore goes without saying that while remuneration may not be a sole motivator, it is a critical if not indispensable motivating factor, of which the absence thereof or dissatisfaction with the absence thereof could have catastrophic consequences for the organisation's performance.

Having introduced the motivational theories upon which the remuneration policy is usually premised, the next section is devoted to discussing the specific remuneration strategies that are normally employed in organisations.

2.3 Remuneration Strategy and Policy Framework

Effective compensation design is an imperative consideration when running a company. A good compensation plan can provide incentives for employees to work harder in order to achieve growth for a company whilst a poorly planned structure may entice corruption and flaws such as the agency theory, in which management seeks to act only in their own best interest (Lawler, 2000).

The nature and quantum of remuneration originates from an organisation's remuneration strategy framework, usually formulated by the Board of Directors, which encompasses strategic direction on the organisation's approach to remuneration by providing strategic pointers to policy, best practice principles and a framework with respect to the level and form of remuneration that must be paid in order to attract, motivate and retain the right people. It usually seeks to align and ensure that remuneration policies and practices mirror and provide leverage to the organisation's business vision, mission and values that underpin the business strategies (Mahoney, 1989).

The remuneration strategy establishes overall policy rules on issues such as:

- Determination of the organisation's labour market from which the organisation is able to draw its human capital or to which it loses its human capital
- Competitive status of pay rates i.e. market quartiles at which pay rates are pitched
- Proportions of fixed pay and variable pay for different employee levels
- Package composition and fringe benefit policy
- Employment equity policy

- Position with regard to minimum rates, differentials, premiums etc.
- Performance-based pay, amongst others (Mahoney, 1989).

The main conventional principles that underpin a typical organisation's strategy for a remuneration structure are the pay-for-the-job strategy; pay-for-the-market strategy; pay-for-the-person strategy and the pay-for-performance strategy (Mahoney, 1989). These are discussed next.

2.3.1 Pay-For-The-Job Strategy (Job Evaluation)

The pay-for-the job strategy is premised on the scientific management theory as it offered a rational management technique for distinguishing between the values of different jobs in handling the distribution of pay within the organisation. It is regarded as the building block for effective remuneration and involves the adoption of a grading system which seeks to establish the relative worth of one position in relation to another, without regard for the incumbent. It is thus about the effective management of an organisation's internal hierarchy of positions (Marchington and Wilkinson, 2008: 462).

The grading system is used to benchmark remuneration against the market median. However, the external remuneration comparison process depends significantly on the consistent application of the rules of the implemented job evaluation system. The distortion of the internal hierarchy also called internal relativity through pro-active manipulation can lead to serious misinterpretation when comparing the organisation's remuneration levels with the external market. Grade creep is especially one of the most serious problems disturbing internal relativity which must be guarded against (Bratton and Gold, 2007).

The drawback of this strategy is that it is static in that the level of pay does not adjust to the particular talents and capabilities of the incumbent save for the cost of living increases only until some promotions calls for a re-grading upward occurs. If the incumbent grow, this will usually only be recognised when some promotion is negotiated (Bratton and Gold, 2007). Additionally, Perkins and White, 2008 states that the job evaluation approach has been criticised for being highly bureaucratic, inflexible and reinforcing the concept of a

rigid hierarchy that is not in accord with the ways in which de-layered and process based organisations function.

Notwithstanding these criticisms, this strategy continue to be popular among HR Practitioners as it ensures internal equity and represents the basis of remuneration management and is being updated and adapted to cope with more flexible pay structures. Additionally, grading structures usually provide the organisational framework for managing the employment relationship such as recruitment entry points and career development pathways. Grading structures therefore have much wider roles than simply providing the basis for paying staff and deciding the range of benefits on offer (Perkins and White, 2008).

2.3.2 Pay-For-The-Market Strategy

The skills market, like any other economic market, is governed by demand and supply principles, i.e. high demand for certain skills coupled with low supply of those skills results in higher salary levels. Low demand coupled with high supply, results in low salary levels. For any Company to play its rightful role in its market / industry, it needs to attract, motivate and retain talent to ensure its long-term success and competitiveness (Bratton and Gold, 2007).

The main principle behind the pay-for-market strategy is thus based on the tenet that levels of remuneration relative to the market should be sufficient to attract and retain the employees needed by an organization if the company is to attain its strategic objectives (Milkovitch and Newman, 2004). The remuneration policy, which is usually the responsibility of the Remuneration Committees, shall dictate where to position the organisation's remuneration levels relative to other organisations. This has for a long time constituted the tenets of many remuneration strategies in many companies (Milkovitch and Newman, 2004).

The use of multiple market salary surveys and surveys outcome is critical to the impartial and rational determination of remuneration. There are many consulting companies that conduct salary surveys and provide information about the nature, form and levels for compensation. Pay levels applying to different job profiles and job grades are directly com-

pared with the market based on the statistics of reputable remuneration surveys (Perkins and White, 2008).

However, whilst survey information is important it cannot just be used without context and appropriate judgment. There is a need to establish if it is appropriate with the organisation's real situation and performance, such as net income, total revenue, and return per share on shares and so on. There is also a need to ensure that market benchmarks are done regularly and on a reliable and consistent basis and to ensure that one compare apples with apples.

Organisations often prefer to compare with their main competitors within the external environment e.g. the ICT sector, but in reality at certain job levels e.g. Executive level organisations may lose skills to the national and in some cases to the international market. An exclusive market comparison will therefore be good information but will not be as representative as the national market (Perkins and White, 2008).

In comparing with the external market, the pay-for-market strategy seeks in essence to provide answers to the following questions which constitute a critical component of the market alignment strategy:

- Who does one compare the organisation's remuneration to?
- How does one compare the remuneration per position or per grade?
- When comparing, does one compare with the market median, lower or upper quartiles?
- What is the organisation's financial ability to afford market trends?
- What is the organisation's major shortcomings in remuneration policy compared with the external market
- What type of skills does an organisation hire?

The above criteria represent some of the most dynamic variables that an organisation needs to consider to determine the actual position of the organisation within the national market and to ensure equity, which is associated with the notion of fair treatment of employees in comparison to others in a similar situation (Robbins et al 2006:424).

According to (Milkovitch and Newman, 2008: 76), equity is bed-rocked on equity theory which assume that employees judge the fairness of their current situation by comparing their jobs and remuneration earnings with people in occupations similar to their own; comparing entitlements and requirements to others at the same firm; and comparing their circumstances against external pay scales. Where employees perceive equity to be absent, they will seek to return the equity imbalance to equilibrium by reducing their effort or by seeking more equitable employment elsewhere.

2.3.3 The Pay-For-The-Person Strategy

The “pay-for-the-person” strategy is the pay system in which pay increases are linked to the number or depth of skill an employee acquires and applies and it is a means of developing broader and deeper skills among the workforce. Such increases are additional to, and not in lieu of general pay increases employees may receive (Lawler, 2000).

It is thus a systematic conversion of pay policy from one which is tied closely to responsibility based grades to one which is only broadly related to competencies and which allows far more flexibility in the determination and negotiation of pay levels. It is sometimes referred to as “competency-based pay” policy in terms of which proven competency is recognised systematically and rewarded by merit pay increments. The pay increases are usually tied to three types of skills: horizontal skills, vertical skills and depth skills. Policies of this kind foster career development and also assist employers in relation to succession planning (Marchington and Wilkinson, 2008: 462).

Whilst the remuneration range applicable to a specific job or grade is normally determined through the pay-for-the-job-strategy in conjunction with the market alignment strategy, the package that is offered to the employee is estimated to be worth or directly related to what the individual is expected to be able to contribute to the company’s profitability (Lawler, 2000).

Nankervis 2005: 411, argues however that determining a person’s perceived worth is difficult given its basis on skills, abilities and characteristics that are frequently unique to each individual. Consequently, few organisations have in practice adopted the pay-for-the per-

son- strategy based on perceived worth, save for those employees occupying positions requiring skills that are deemed to be scarce in the market.

2.3.4 **Pay-For-Performance Strategy**

In his doctoral thesis, Bussin (2003) states “what gets rewarded gets done, whilst remuneration is one of the powerful motivators of behaviour”. In support of the above, Locke et al (1980, 379-381) assert that “money is the crucial incentive because it is related to all of man’s needs”.

Performance-related remuneration schemes include numerous approaches of linking remuneration to some degree of performance at individual, group or organisational level. The basic tenet of a pay-for-performance scheme is the notion that if an employee can influence the performance outcome based on his inputs, then the possibility of receiving an adjustment in remuneration based on his performance will bring about enhanced performance (Bussin, 2003).

In modern-day business, a successful remuneration strategy seeks to not only counter the inadequacy of talent attraction or unnecessary talent separation but that it should also drive corporate performance by acknowledging and recognising the importance of individual and team contributions towards achievement of the Company’s targets. Hence the proliferation of performance-based remuneration and motivational rewards which have become overriding factors that are central to any organisation’s remuneration strategy (Perkins and White, 2008: 161-164).

The pay-for-performance strategy is informed by the value-added theory which advocates that whilst every employee should contractually get fixed remuneration for making his/her time available, such an employee should have an opportunity to additionally earn variable pay depended on what is available to share out and what that represents as a percentage of fixed pay. The stakeholder to the business (i.e. shareholder group and the employee group) should share the value that they added through their economic activities on a certain basis that they have agreed upon contractually. This contractual division of value added should

normally equate to a point where the shareholders get a fair return on what they have invested (Perkins and White, 2008: 161-164).

Relation between pay and performance is thus a very important principle in managing and determining compensation. No matter what kind of incentive plan, long-term or short term, the most important thing that should be addressed is the relation between pay and performance. The company should figure out what kind of compensation method should be adopted, reasons for its adoption, how to evaluate performance with this plan and the rules for the evaluation. The measurement for the relation between pay and performance should closely tie with an organisation's real situation and goal (Perkins and White, 2008: 161-164).

The strategy typically calls for a pact agreement between the stakeholders i.e. the shareholder group and the employee group. The real advantage of the value-added approach is that once the underlying pact is in place on a sound basis one will have the slope of the incentives. All one would need to calculate is the point at which it should kick in and whether it should be capped or not (Lawler, 2000).

However, the success of this strategy is directly tied to an effective performance management system as it requires systematic performance measurement. The need for this shift has been strongly influenced by the publication by Kaplan and Norton (2001). The essence of it is that organisations should focus on how to measure performance in all of its multi-faceted manifestations and whether financially expressed or not.

The remuneration strategy or policy framework usually sets out the framework within which remuneration structures can be designed. As there are several ways through which remuneration can be structured, the next section shall discuss the various remuneration structuring options derived from both the literature and practice.

2.4 Constituent Elements of Remuneration

Different pay practices exist in the market, stretching across industries and enterprises. Remuneration structures can be designed in an unlimited number of ways and a single employer typically will use a combination of several ways to design remuneration packages appropriate to their organisations and industry. However, a broadly defined remuneration package of an employee is usually constituted by a combination of fixed and variable pay (Bratton and Gold, 2007).

2.4.1 Fixed / Guaranteed Remuneration

Fixed remuneration refers to the guaranteed basic salary, allowances (i.e. housing, travel etc.) and fringe benefits such as retirement funding, medical aid, amongst others, which are paid to an employee in an employment relationship. This constitutes the full and guaranteed total remuneration cost to the organisation in an employer-employee relationship. This excludes any form of variable pay (P-E Corporate Services, 2009). These are expounded on next.

2.4.1.1 Basic Salary

Bratton and Gold (2007) define a basic salary as the irreducible minimum rate of pay for the job. It is calculated on time worked rather than on results achieved and tends to reflect the value of the job itself as measured by some form of job evaluation. It is hailed for demonstrating a commitment on the part of the organisation thereby creating a greater likelihood of employee commitment to the organisation.

The company's decision as to the level of basic salary is usually determined through a broad survey to benchmark positions across the general industry inclusive of several factors such as the size of the company and market pay level of positions (P-E Corporate Services, 2009).

Murphy, 1999 assert that although a basic salary constitute a very small share of the total system, employees pay more attention to the process of determination of the basic salary.

The reasons include 3 aspects: (1) base salaries are very important to the employment contracts for employees, which could assure minimum benefits the employee can get in the following years. (2) Other components, such as bonus and dividend, are related to base salaries closely. For example, bonuses are usually dispatched according to the percentage of the base salaries. (3) Many employees believe base salaries are manifesting of their value and ability. Since the determination for base salaries is done through a broad survey and comparison across the general industry, the base salaries reflect the level of benchmark position.

2.4.1.2 Fringe Benefits

Fringe benefits refer to that part of the remuneration package provided to employees in addition to the guaranteed basic remuneration or performance-based pay. A typical employee's compensation package includes such guaranteed employment benefits as retirement benefits, medical aid benefits, life & disability insurance, housing benefits, a car allowance or free use of company resources such as a car, computer, cell phone etc. Other types of compensation referred to as perquisites or perks includes: "relocation payments, flexible start dates, sign-on bonuses, use of company-owned vacation property, health-club membership, tuition reimbursement, country club memberships, financial planning, clothing allowances and loan forgiveness" etc. (Bratton and Gold, 2007)

Adequate employment benefits are used to not only enhance the take-home pay but also to provide enhanced financial security to employees. They enable employees to dedicate their time to their employers in that they need to know that their private lives are in order before they will be able to concentrate fully on what they are being expected to accomplish. Thus, guaranteed employment benefits represent employees insurance covering what could go wrong with their careers. This includes both a reversal in fortune (for example, a retrenchment) and also the catastrophe range of uncontrollable events (dreaded disease, incapacity and death) (Bratton and Gold, 2007).

2.4.1.3 Total Package Approach

Over the last two decades change has impacted guaranteed pay with respect to its structure and the manner in which it is offered and controlled. The shift has been to move away from a basic salary plus add-on benefits towards adopting what is known as the total package approach. The move has been predominantly driven by the need to offer individual employees the flexibility to choose from a menu of total compensation items and to structure their packages as they deem fit. This form of compensation sets the focus on customising individual compensation and affords employees the opportunity to select from a set of returns those that are of most value to them, taking their own lifestyle circumstances and motivational drivers into consideration (Milkovitch and Newman, 2008).

The total package approach has become popular to the extent that unless one adopts this approach, one is extremely limited in what one can offer to the employee and one will lose competitive edge to the organisations that have more flexibility (Rich, 1996).

Flowing from this strategic flexibility approach to compensation is the fact that this individualised approach to total pay packages maximise employees' take home pay, improve their motivational levels and stimulate performance. Failure to have a total package system operational especially at Executive level clearly constitutes a measurable level of leaking in the cost efficiency of your business (Lawler, 2000).

The total package approach is thus believed to have immense benefits not only for the employee but for the employer as it could save the employer huge costs. It therefore goes without saying that remuneration should be addressed on a package basis as there is only one way to appropriately assess remuneration, and that is to look at the aggregate value on a total cost to company basis of all forms of remuneration and benefits.

2.4.1.4 Fixed Pay Analysis

Fixed pay is generally time-related, meaning the more time is made available by the employee to the employer, the greater the level of pay. Conventionally many organisations relied on fixed pay strategies to attract, retain and motivate managers. Motivation was in

these cases achieved through building long-term relationships with managers, characterised by trust from employer side and dedication from the employee side. It worked very well and still does on many situations. However, its effect on both individual and corporate performance is to a greater extent limited and is thus not suitably aligned to the trend of rewarding for performance (P-E Corporate Services, 2009).

The structure of fixed pay and related benefits is greatly premised on Frederick Herzberg's motivation-hygiene theory, which advocates (in Wood et al 2005: 151) that fixed pay is not necessarily considered by employees to be rewards, but regarded as entitlements.

Resultantly, the presence of satisfactory fixed pay will not trigger performance or job satisfaction, but its absence will create job dissatisfaction (Wood et al 2005: 149). Dissatisfied employees reduce moral, are disruptive (Porter et al 2002: 343-345) and make smaller contributions to productivity than their satisfied counterparts. Thus, while money is not a motivational factor for many 'placed' employees, it is still used as a successful attraction method for potential employees (Wood et al 2005: 151).

Fixed pay is thus a factor largely determining decisions by employees as to whether to remain in employment but not influencing job related behaviour or motivation driving employees to try harder.

It therefore follows that whilst fixed pay still constitute a critical component in remuneration decisions, its quantum in relation to the total compensation package need to be carefully looked at given its limited impact on both individual and corporate performance. This calls for a rather delicate balancing act as to what proportion it should account for in relation to variable pay, given that it plays an important role in terms of enabling employees to meet their basic and hygiene needs as enunciated in such motivational theories as Maslow (1943), McGregor (1960) and Herzberg (1966) motivational theories, amongst others..

In Namibia, the focus of remuneration strategies has always been to reward employees based on long service, which has thus been the entrenched driving factor for a very long time as opposed to performance. Employees are accustomed to service increments or notch increases based on years of service. The culture created by this legacy is one where em-

employees with the same service in the same position earn the same, whether the employee slaves himself to death or not. Performance versus doing only what is expected or less has not been part of the equation at all.

However, with globalisation where Namibian companies have to compete with other countries for the provision of goods, the need to review remuneration strategies became more prominent. This is therefore a reality that would require many Namibian companies to not just investigate process efficiencies but also investigate labour cost and motivate people through performance pay.

2.4.2 Performance-Based Pay

Performance-based pay (also known as variable pay or contingency pay) was borne out of the expectancy theory and was coined to overcome the manager-owner conflict as encapsulated in the principal-agency theory (Hall and Murphy, 2002).

It constitutes an essential component of a remuneration package and is defined as the structure in which an employee's additional pay is based on individual, team or company performance, usually contingent upon reaching pre-set targets, which can either be accounting measures, market measures or a combination of the two (P-E Corporate Services, 2009).

The performance-based-pay approach is underpinned by the need for greater wealth sharing in order to stimulate both individual and corporate performance. It thus, rewards performance and reflect the different impacts that individual and team performance have on overall business performance (Lawler, 2000). It ensures that remuneration is aligned to organisational performance and varies in relation to organisational performance. Employees enjoy higher compensation whenever they increase shareholder value and are penalized for any actions that destroy shareholder value.

The common types of performance related pay are the Short-Term Incentives (STI), Long-Term Incentives (LTI) and the Commission Schemes. These are discussed next.

2.4.2.1 Short Term Incentive Schemes

Short term incentive schemes are usually designed to drive an organisation's short to medium term business strategies by rewarding attainment of budgeted or targeted financial and strategic performance. It is usually designed to focus employees on key result areas, align participants' interests with shareholder interests; incentivises and motivates employees to work hard in order to get a higher bonus and inherently drive them to increase company performance and profits (P-E Corporate Services, 2009).

The incentives are company specific, usually paid out within a period of 12 months in order to prevent the short-term performance from employees and are typically paid out in the form of performance bonuses, which have become a common feature in many organisations (P-E Corporate Services, 2009).

Short term incentives are mainly developed to measure off a fair level of reward for the achievement of specified company performance targets, which could be based on strategic objectives, job-related activities, project-related activities, financial targets or a combination of these. The pay-outs are subject to achievement of negotiated performance hurdles, being: direct profit sharing, profit targeting, return targeting, earnings per share growth and total shareholder return (Murphy, 1999).

The schemes may be structured to promote either individual or team effort at workgroup level, business unit level or involving the organisation as a whole. Employees enter into an agreement with the shareholders to share profits on an agreed basis e.g. 10% of profits. From the point of view of managers at the helm of an enterprise, incentives provide them with a challenge and then also with the upside potential of substantial financial rewards (Murphy, 1999).

Short-term incentive schemes vary as each company could design its scheme based on its own requirements. These include, amongst others, profit sharing bonuses which are effectively profit pool-sharing arrangements (i.e. when employees shares in profits in excess of a particular target) and conventional performance bonuses usually expressed as a percent-

age of an employee's base salary or annual package based on individual targets, corporate targets or a combination (Bratton and Gold, 2007).

The major drawback for STIs are said to be their inherent ability to incentivise employees to chase short-range performance against long-range performance and sustainability. Typical counter-productive short-term decisions include decisions to delay important maintenance expenditures, reducing advertising spend and reducing investment into technical research and development (Bratton and Gold, 2007).

This drawback has, however been overcome with the design and implementation of long-term incentive schemes which are designed to especially focus the Executives' performance on long- rather than short-term goals. This in essence calls for a balanced implementation of both short- and long-term incentive schemes (Perkins and White, 2008).

Additionally, Tarrant (2009) argues that the risk of Executives focusing on short-range performance at the expense of long-range performance has also been mitigated with the design and implementation of deferred Bonuses. The deferral of bonuses involves stipulating that a proportion of the short-term performance bonus will be paid out later, usually over three, four or five years, and will be forfeited in the event that corporate performance declines, the company or Executive fail to meet agreed performance targets over successive years or if the Executive's employment is terminated in the meantime. The main objective for instituting 'deferred' bonuses has thus been to give executives a longer term focus, ensure sustained performance by Executives and to ensure retention of Executive staffs. This arrangement has been successful in discouraging inappropriate risk-taking or other actions simply to meet short-term performance hurdles, which would otherwise be considered detrimental to a business's long-term performance.

Another drawback identified by Noe et al, (2006) is that when the economy is going well and the business is on-track, the bonuses are a non-event. However, single negative events and difficult choices frequently penalize the executive. Bonuses are reduced or disappear. Executives are subsequently disappointed, demoralized and less than productive. Therefore, in order to overcome these potential obstacles and to determine effectiveness, utilization of simple measures to determine performance must be avoided and instead the score-

card approach must be used to create a more balanced measure to judging the Executives' effectiveness and protect the viability of the company

Short-term incentive payments have increased significantly over the years, resulting in them coming under increasing scrutiny and especially more so in light of the current global financial crisis (Perkins and White, 2008).

Whilst it is one's considered view that incentive schemes are beneficial in improving performance, creating a commitment to the company and its objectives and creating a climate for facilitating change, this is only possible where clear objectives and performance measures have been identified and communicated. In this regard it is important to ensure that the scheme is continuously adapted as dictated by changing circumstances and strategies, and that the targets are continuously increased in the spirit of fostering the need for continuous improvement. Regular performance measurement and communication are equally important to preserve transparency and the value of the scheme as an incentive mechanism.

2.4.2.2 Long Term Incentives

Long Term Incentive Schemes (LTIs) are usually designed to drive an organisation's long term business strategies and to promote an entrepreneurial flair. Its primary objectives are to align participants' interests with shareholder interests; incentivise and motivate participants; attract and retain scarce human resources and reward superior and sustained long term performance of the organisation (P-E Corporate Services, 2009).

A very important and primary element that differentiates an LTI from an STI is that it is usually designed around the attainment of an organisation's long term strategic objectives (i.e. shareholder wealth maximisation) and is designed to only reward participants when an organisation has achieved long term and sustained performance against long term performance criteria (P-E Corporate Services, 2009).

Long term incentives schemes are borne out of the contention that decisions which maximise profits in the short-term do not necessarily maximise shareholder wealth creation. Their

intent is hence to focus the employees' performance on long- rather than short-term goals and to more closely align the interest of management with the long-term interests of the shareholders (Perkins and White, 2008).

Consequently, long-term incentives payments are typically made for meeting performance objectives achieved over a period longer than 12 months, typically a three to five year period. These awards are paid out in the form of performance shares (in the case of listed companies), performance units or long-term cash incentives. It is thus generally accepted in the literature that a longer-term incentive will more closely align the interest of employees making those decisions with the interests of shareholders (P-E Corporate Services, 2009).

The secondary objective of long-term incentive schemes is the need to retain key people in longer term employment, to build long-term relationships at the management team level in order to see long-term projects through to the end. Thus, the LTI scheme boosts a retention mechanism for Senior Management and Executives as generally these are the levels of management that are able to strategically influence and drive a company's long term performance (Perkins and White, 2008).

The common generic forms of long-term incentives include amongst others a range of share options and share participation schemes; emulated share options; non-recourse loans term contract. Although these schemes were traditionally focussed on senior executives who have the greatest opportunities to influence corporate performance, many have recently been extended to lower levels (P-E Corporate services, 2009).

2.4.2.3 Performance-Based Remuneration Examination

There is consensus in both the literature and general market that variable remuneration is the single significant contributor to individual performance and ultimately organisational performance. This is attested to by Becker et al (1997) who argues that variable remuneration has become an interior constituent of a performance management systems and an "essential element of the infrastructure that supports the value creation process" as it tend to provide strong motives to compel employees to give their best.

Bratton and Gold (2007) suggest that correctly designed performance-based pay systems have numerous advantages. Firstly these signal key task behaviours and provide information about current performance levels. Second, they reduce the need for other types of managerial control over the labour process. Third, the practice helps to change the culture of the organisation and promote an entrepreneurial type of behaviour

Additionally, Becker et al (1997) advocate that variable incentive compensation plans are a critical success factor for organisational performance and “must define desired employee behaviours and reward those behaviours in meaningful ways when goals are achieved” and should “reflect the values of the workforce that the organization wants to attract”.

However, variable remuneration is not the alpha and omega and does have its weaknesses. For this compensation structure to be efficient, all factors outside the manager’s control must be eliminated from the equation and the manager should not be able to manipulate company performance. An author that has rather been very critical of variable remuneration is Alfie Kohn (1993: 54-63), an Author and Lecturer in Education and Management.

Kohn (1993) cited in Perkins and White (2008: 165) questions the soundness of variable remuneration as an instrument to enhance organisational performance. He is specifically critical of the use of basic staff motivational theory models and considers the deductions they are based on to be defective. In support of his contention Kohn (1993) cites a number of studies that use a variety of laboratory methods to confirm a relationship between reward and productivity. Kohn (1993) draws many of his conclusions from the absence of such a relationship and goes on to argue that this absence of evidence in fact constitutes a negative correlation.

Kohn (1993:54-63) examines some of the literature around the link between executive remuneration and corporate performance and overtly questions the authors’ conclusions, based upon re-interpreting the evidence to support his hypothesis.

Based upon a series of both direct and ‘meta’ studies, Kohn (1993) describes a six point framework that examines the downside of an extrinsic incentive program:

- Pay is not a motivator - Kohn places the perceived value of financial remuneration well down the list of employees' priorities
- Rewards punish - Kohn sees punishment and reward as two sides of the same coin. Rewards are controlling and will be perceived in that light over time, especially if an expected reward is not received.
- Rewards break relationship - Incentive programs, and the performance reviews that accompany them, destroy cooperation in a workforce. Employees see co-workers as obstacles to their own success.
- Rewards ignore reasons - Rewards and incentives obscure underlying issues and give management the ability to avoid giving staff what they need to do a good job.
- Rewards discourage risk taking - The single minded effect of an incentive program limits creativity and aggressively reduces an employee's willingness to explore possibilities or alternative solutions.
- Rewards undermine interest - No artificial incentive can ever match the power of intrinsic motivation.

However, Kohn (1993) seems to look at incentive schemes as the exclusive approach for incentivizing employees to attain high performance within an organisation. Kohn (1993) appears to have become too simplistic by selectively picking financial incentives out of the rather multifaceted world of employee motivation. Literature has generally confirmed that motivated staffs are more productive and contribute more to an organisation's overall objectives than demotivated staff. Whilst his arguments might appear to be making sense, his conclusions are based on rather inconclusive studies and further research may be warranted before one can take his conclusions seriously (Perkins and White, 2008).

It is thus unsound to look at incentive schemes in seclusion from wider motivational factors. Incentive plans are just but one instrument available to Managers when facing the composite challenge of creating and sustaining a high performance culture in the organisation. Of course there are many options and the research in the area is immense (Perkins and White, 2008).

Whilst it is obvious that financial incentives will not be effective for all employees all the time and that employees at any level within an organisation vary in the way they respond to similar aspects of their jobs, it is worth looking at incentive schemes in the context of motivation theory by considering the three key questions raised by Bowditch and Buono, 2005.

According to expectancy theory, motivation comes from a combination of three factors or assumptions:

- Increased effort leads to good performance
- Good performance leads to good outcomes
- The outcomes are worthwhile (rewards, promotion, bonus or whatever)

It follows that financial incentives might be effective if the outcome or reward is seen by the employee to be of value. Unfortunately this is a subjective evaluation and may differ by employee, context or time. That is, just because one employee finds an outcome or reward valuable at one point in time, there is no guarantee that all employees will find the reward valuable all (or any) of the time (Vroom, 1964).

Whilst Kohn (1993) makes the somewhat unsupported statement that such extrinsic motivators as financial incentive schemes are not effective, he also erred in stating that they tend to undermine intrinsic motivation. This would seem to imply that a well-designed and balanced motivational scheme, comprising fitting extrinsic and intrinsic motivational factors, is either impossible to achieve or less effective than a purely intrinsic motivational environment as he seems to suggest (Perkins and White, 2008).

This supposition is not empirically supported and certainly makes for an interesting research area, as this appears to contradict the numerous examples that exist of organisations and individuals that are achieving outstanding results based on the premise of a competitive incentive scheme that reward high performance.

Literature has undoubtedly confirmed that performance-based pay positively influence corporate performance. The pay-for-performance practice is therefore critical strategy for motivating employees to expend greater efforts to drive corporate performance. The use of

remuneration scales can continue to be used cleverly aligned to this strategy. For example, whilst in the past the only reason for the existence of salary scales was to reward loyalty based on years of service, modern business imperatives dictate the only reason is actually to reward performance.

Therefore, in the absence of empirical evidence pointing to the contrary, the success and impact of variable incentives schemes on corporate performance remains unquestionable.

Increases and adjustments made to remuneration components / elements are a function of what is generally known as pay drivers or remuneration factors. These are categorized into internal and external pay drivers, emanating from the organisation's remuneration policy. These are explained next.

2.5 Remuneration Drivers

Remuneration drivers refer to policy decisions adopted by an organisation as to what constitute the essence of its remuneration policy. They are categorised into performance-related and non-performance-related drivers, which in the aggregate enable an organisation to (1) attract, recruit and retain high quality employees; (2) motivate performance through appropriate rewards as well as (3) ensure internal, external and employee equity (Marchington and Wilkinson, 2008: 462).

The relative weight of each of the various drivers within an organisation's remuneration policy will depend on the organisation's own varying business circumstances such as the need to retain specific skills or the need to outclass competition in the remuneration space in support of the business strategy

Pay drivers are thus an integral part of sound remuneration structuring within any organisation and a sound combination for these drivers is critical to provide an organisation with a competitive advantage.

Understanding the extent to which each of the drivers positively contribute to organisational performance will inform the relative weight that needs to be attached to each factor

when making remuneration increase decisions. This section outlines the performance-related and non-performance-related factors that drive remuneration increases.

2.5.1 Performance-related Pay Drivers

Performance-related pay drivers refer to remuneration decisions to adjust remuneration based on individual, team, corporate performance or a combination thereof. These are listed and discussed next.

2.5.1.1 Company Performance

Employees are generally hired to implement strategic objectives and carry out activities that increase shareholder value. Typically, this is done by increasing profits. For employees to perform exceptionally, they should be exceptionally compensated to do so. It is generally accepted in many corporations and in the literature that excessive remuneration packages for employees warrant being paid, as long as a positive relationship exist between compensation levels and organisational performance. The above is supported by Carr and Valinezhad (1994: 85) who contend that employees should be rewarded accordingly for maximizing shareholders return or profit as this is not only contributing to own “well-being, but also to the welfare of society,” at large.

2.5.1.2 Merit Pay (i.e. performance-based fixed pay increment)

Performance-based fixed pay increment refers to an increase in an employee’s remuneration based on the outcome of an annual evaluation of an employee’s performance against pre-agreed performance targets. It is premised on such motivational theories as expectancy theory, goal-setting theory, equity theory and agency theory, amongst others, which advocate that the achievement of target results should lead to automatic payment of an agreed and meaningful reward (Perkins and White, 2008:164). The level of individual employee performance achieved during the particular review period usually determines the progression increase that an employee will get. Due to the emphasis on real value added, employees who do not perform at an adequate level do not progress within the scale or receive reduced salary adjustments.

The system is credited by both Lawler (2000) and Armstrong (2002) for its strong motivational effect on the individual employee and concur that it has the potential to create a highly motivated workforce, reward and retain high performers and help remove poor performers from the organisation given the zero or reduced pay increases which they receive in lieu of their poor performance.

The system has however come under heavy criticism from both the academic literature and industry alike, expounded upon elsewhere in this chapter. The major problems as identified by Perkins and White, 2008: 165-169, revolve around the three major operational issues: the setting of appropriate performance measures; the evaluation of performance as well as the linking of performance appraisal outcomes to pay. Perhaps the biggest risk for this system is costs associated with pay drift which usually result from instances where all managers choose to award high performance ratings given the research evidence to the effect that line managers are often reluctant to award low ratings for fear of antagonising staff. It thus goes without saying that the basis for any performance-based pay is an effective performance management system, (discussed elsewhere in this chapter), required to overcome these challenges.

Furthermore, although the performance-based pay approach has heavily been criticised, there continue to be nonetheless a strong shift among employers to implementation of individual performance-based pay, albeit with variations to ensure more transparency and manageability (Bratton and Gold, 2007).

2.5.1.3 Commission Schemes

Commission schemes are designed to maximise individual and/or team performance in a specific area. These schemes are frequently found in the sales and marketing space and typically reward individuals or teams as a direct percentage of sales volumes, net sales, margin profit achieved or some other sales related variables (Bratton and Gold, 2007).

Commission schemes vary from company to company but in theory commissions are most frequently calculated on sales turnover achieved by individual sales staff or the work team / business unit as a whole compared against a predetermined target.

2.5.1.4 Productivity-Based Pay

Productivity-related remuneration forms an integral component of any organisation's remuneration policy (Armstrong and Murlis, 2007). It usually involves payment of additional remuneration to employees for increasing productivity beyond set targets. According to Bussin (2003), staff realise that productivity implies producing more with less resources coupled to a commensurate formula for determining remuneration payable for meeting certain productivity targets.

2.5.1.5 Share Options

Share options have been identified as another factor that drives employees' remuneration and are an outright grant of shares by a company to an employee without any payment by the employee or for only a nominal payment. The employee can, after a limited period of time, get the real shares without paying money for it or paying very little for it and get the partial property rights of the company, subject to specified contractual provisions. This amounts to concrete income for the employee (Bratton and Gold, 2007).

Share Options have proved to be one of the more popular strategies to not only lure talent, but keeping them also. They have thus been used for years to tie employee's performance to the shareholder's interests and help companies attract and retain and result in long-term oriented employees (P-E Corporate Services, 2009).

These rights are not available immediately, the employee needs to fulfil their side of the bargain, or provide services over a specified period of time called the service period. Thus share options depends on performance appraisal and shares may be awarded based on principles of equal / proportionate opportunity i.e. when they are tied in as percentage of annual salary or based on the principle of open opportunity where each participant can make his

own opportunities through performance. The income thereof can only come from future shares price rise (Bratton and Gold, 2007).

Although the usual rationale given for shares option grants to employees is to align employees' interests with the interests of shareholders, many widely publicized corporate scandals have proven that this is not always the case. Because of the "bad apples" in corporate leadership, there has been a shift in trends with companies moving away from an emphasis on shares options to compensation that connects with the long-term growth of the company (Bratton and Gold, 2007).

Despite the popularity of share options, there are several flaws with equity-based compensation (Gao and Shrieves; 2002). We shall, however, not dwell into those as the Namibian Port Authority, which is the focus of this study is not a listed organisation resulting in the implementation of share options within the Authority not being an option at this stage.

2.5.2 Non-performance-related Drivers

Non-performance-related pay drivers refer to remuneration decisions to adjust remuneration based on factors that have nothing to do with performance. These are usually external to the company and are usual beyond the control of the organisation. This includes such factors as the need to pay a premium for certain scarce skills given their shortage or unavailability from the labour market. These are expounded on next.

2.5.2.1 Market-Based Pay

Market-based pay constitutes a key driver for remuneration and is about linking salary levels to what other organisations pay for similar jobs. Exact application varies from market anchors with no "floors/ceilings" to using market rates to define progression within ranges (Perkins and White, 2008: 189).

Market-based pay systems are informed by the continuous monitoring of the market for changes in remuneration policies and practices. The practice ensures that an organisation is

able to keep track and retains its competitive remuneration position relative to the national market from which it recruit and/or into which it loses its employees.

Remuneration increases come about as a result of the need to align remuneration (i.e. nature and level of pay) with the labour market in terms of best practice, and with the outside environment if it wants to tap into the labour markets. This is reflective of the fact that an organisation does not develop in a vacuum and is subjected to outside influences (Marchington and Wilkinson, 2008: 462).

The advantage of this system is that it can assist with staff retention especially in tight labour markets while the disadvantage is that in a static market no progression may take place which may demotivate staff (Perkins and White, 2008: 189).

In terms of what is a fair value, it is believed that employee remuneration, like most everything nowadays, should follow capitalistic principles. Given the supply and demand of specific skills, the market will deem what is a fair compensation value. While it seems that employee compensation especially for executives is overvalued in today's market, it is contended by classical economists that the market itself will make that determination and compensation value will move in the proper direction. A set limit on compensation cannot be applied to all situations. For instance, classical economists argue that it is hard to put a specific value on effective leadership and what is fair compensation (Perkins and White, 2008).

2.5.2.2 Talent Attraction and Retention Policy

Deresky, 2006: 370 reasons that in order to attract best talent, compensating such talent luxuriously is worth it and organisations must be willing to offer substantial monetary compensation. This he says is further warranted by the ever-increasing complexity of the global economy that calls for top talent in order to adapt the enterprise to a globalised business environment. The above supposition is supported by Martocchio, 1998 who contends that the critical drivers for remuneration levels in many organisations are remuneration competitiveness and retention of key staff required in order to enhance organizational performance and success.

It thus goes without saying, that in a globalised economy where boundaries are non-existent with respect to talent and given the limited crop of top quality talent, paying competitive remuneration in order to attract the right calibre of talent is a prerequisite. The inverse is also true, that in a limited pool of experienced and top talent the challenge to retain the best in order for them to see through their key strategic initiatives and projects is all the more challenging. Therefore the stake for performance and retention require that the level of the remuneration package is competitive.

As Cyert et al, 2002 puts it, the more ambiguous, ambivalent and uncertain environment organisations are facing, the higher the pay package that should be granted to employees as reward for their intensive endeavours. Such high pay package is considered to be return for the complex environment and responsibility employees have shouldered. The inverse will present major attraction and retention challenges. Thus, for organisations to effectively attract and retain top talent a competitive package becomes a must, which has the ability to entice and lure the right talent to join the organization and to ensure the employee's tenure with the company.

2.5.2.3 Skills Scarcity

The worldwide shortage of certain specified skills (e.g. professional and leadership talent) noted in both developed and underdeveloped countries is a factor cited for rising remuneration levels. The success of organisations is directly attributable to the quality of their people. The extent to which organisations are able to compete within the local and international market is thus influenced singularly by the quality of skills possessed by their people (Marchington and Wilkinson, 2008).

Murphy and Zabochnik (2004) reason that the composition of managerial skills required to manage a company has changed, with a greater emphasis placed on general managerial, entrepreneurial strategizing and transformational leadership skills as opposed to company or industry specific skills. Similarly certain specified skills (e.g. engineering and ICT skills) are scarce and hence critical to ensure that the enterprise continue to respond and adapt to changes in the business environment in order to remain profitable.

The scarcity of these skills is exasperated by the general unavailability and short supply of same in the labour market as well as difficulty in accumulating the experience. This had led to a situation where organisations are having to pay a premium in order to secure the services of certain skills and hence the resultant higher remuneration levels Murphy and Zabochnik (2004).

Competition for these skills is thus intense due to the need and fight for such scarce skills. The case for competitive remuneration for scarce skills has hence a sound basis in business setting as it is critical component to the success of organisations. The implication is that an organisation that does not offer competitive pay for scarce skills shall settle for second best if not suffer from skills unavailability thereby impacting the ability of an organisation to perform (Marchington and Wilkinson, 2008: 462).

It thus follows from the above that the relationship between the supply and demand of certain skills largely determines the equilibrium price of the service provided by such skills. Rising pay is thus reflective of and is certainly and to greater extent also influenced by the supply and demand market forces.

2.5.2.4 Technological Changes

Technological changes can rapidly change the value of a particular skill/occupation and usually bring about the need for new skills set. These skills set ordinarily do not exist in the market or are in short supply. In instances where the skills are in short supply, this often warrant employers to pay a premium in order to lay their hands on these skills. However, where these skills do not exist, staffs are usually developed from within the organisation accompanied by additional premium to recognise the additional competencies acquired and/or to mitigate the risk of losing these skills to the market (Perkins and White, 2008: 101).

For example in the past the skills of the typesetter in the printing industry were very well rewarded but the advent of new computer-based technology largely de-skilled these jobs with resulting reductions in the value attributed to these jobs.

2.5.2.5 Inflationary Pressures

Whilst Milkovitch and Newman, 2008 identified rising costs, currency fluctuations and competition as having a bearing on the cost of doing business, these economic pressures actually have a bearing on remuneration increases also. This is premised on the fact that these economic pressures tend to negatively impact employees buying power warranting employers to grant inflationary adjustments to mitigate inflationary pressures on employees in an effort to keep them happy and in turn productive at work.

2.5.2.6 Competitors

An organisation that offers more pay relative to its competitors has usually competitive advantage in the market, all other things being equal (Pfeffer, 2001). This is especially true given the impact of globalisation i.e. increased the extent to which talent has become mobile locally and internationally. This is thus another factor that has contributed to rising pay levels in organisations that operate in competitive environments.

2.5.2.7 Long Service/Seniority-Based Pay Systems

Service-based pay systems operate according to the length of service, with organisations giving recognition to employees who have served the company for specified uninterrupted period of years. It is premised on the assumption that the longer a person occupies a job, the more skills and knowledge will have been acquired leading to improved performance (Perkins and White, 2008:158). Such systems also act as a retention device in that employees are paid for their continued loyalty in staying with the organisation (Boyle, 1995). Employees are usually guaranteed additional remuneration or increments within their salary scale for each year of service committed to the employer.

The biggest drawback of the system is that poor performance is treated equally with good performance, so there is no incentive to improve. It thus seeks to retain all employees not just the organisation's mission critical skills and does nothing to facilitate the departure of those employees whose skills have become redundant (Lawler, 2000:122). Additionally,

the assumption that length of service implies more experience and hence higher performance is unproven.

Although service-based pay system is still popular in the public sector, it has been increasingly becoming absent from the private sector as it is seen to encourage time-serving behaviour and an entitlement-oriented culture rather than performance among employees. The system is nonetheless popular with both trade unions and line managers for they provide automatic and guaranteed increments and do not involve subjective elements found in performance-based pay systems (Perkins and White, 2008: 159).

2.5.2.8 Competency-Based Pay

Competency-based pay refers to *“a payment system that relates salary progression or a cash bonus to the display of competencies by individual employees. Systems originate in the identification of competency, understood as the key attributes and behaviours of employees that underlie good performance in a particular organisation or job”*, Heery and Noon (2001) cited in Perkins and White (2008: 177).

Competency-based pay rewards those hard competences (i.e. skills, knowledge) and soft competences (i.e. attitudes, behaviours) required by an employee to be able to effectively and competently carry out his job (Armstrong, 2000). Under this system individual employees are subject to an assessment on an annual basis to establish the extent to which they have met or exceeded the expected level of competency for their role. The extent of increment varies therefore according to the level and value of the skills and competencies achieved by the employee (Marchington and Wilkinson, 2008: 462).

The competency-based system is credited for focussing attention on the need for improved competence; encouraging staff to take interest in their own development; facilitating lateral career moves as well as for helping to integrate role and generic competences with organisational core competences (Armstrong, 2002: 301). The system has been found to be popular among employees and union due to the incorporation of employee development into pay progression, for employees are not only encouraged to develop their skills but they are also rewarded for doing so.

The system is however questioned for linking trait-based competencies (i.e. such traits as personality that are not amenable to change) to pay, while doubt is cast on the ability of managers to measure and evaluate complex issues like human behaviour. Although being used alone in organisations, they system is largely used in combination with other pay progression criteria given its limitations (Perkins and White, 2008: 180-181).

2.5.2.9 Qualifications-Based Pay

Qualification-based pay can be defined as a payment system under which employees receive increases in pay for acquiring additional qualifications or being professionally registered with a recognised institution e.g. registration as a Professional Engineer. Acquisition of additional qualifications or professional registration and/or certification is rewarded through an additional increment or pay increase (Perkins and White, 2008: 182).

The system is flawed in that it is expensive to introduce and maintain given that in practice individuals would not necessarily be using the additionally acquired qualifications all the time, if at all.

2.5.2.10 Time-Based Pay

Time-based pay systems normally reward the employee for his attendance at the workplace. Such systems developed with the industrial revolution and the shift from agricultural production to factories. Employees are paid for the actual time they spend at work, usually based on an hourly rate, but paid out weekly, fortnightly or monthly. Where additional hours are required of employees by their employers, additional remuneration is paid to employees in the form of overtime, night shift allowance, standby duty allowance and shift allowance (Perkins and White, 2008:156-158).

Although pay-by-time spent at the workplace has the advantage of predictability for both the employer and employee, it is in decline given the move towards pay progression systems linked more to performance and market rates.

2.5.2.11 Trade Unions

Trade Unions are a compelling driver of remuneration increases, usually driven by their members to bargain for higher remuneration increases in light of rising inflation and personal costs. For the individual employee, remuneration is the major source of personal income and hence a critical determinant of an individual's purchasing power which in turn determines their standard of living and social wellbeing (Bratton and Gold, 2007). It is against this background that employees persistently seek to maximise their remuneration through the union bargaining process due to inflation and rising expectations.

Bussin, 2003 states that Unions play a major role in the determination and extent of remuneration increases as the outcome often depends on the strength of Union's bargaining position relative to Management. It has become generally accepted that Union submits remuneration increase demands on an annual basis.

2.5.2.12 Promotions

Promotion (also known as progression between grades) indicates advancement to a larger vacant job graded at a higher level. Promotion appointments are often made along the same lines as any recruitment process (i.e. jobs are advertised, candidates apply and interviews take place) although in rare cases promotion between grades may be automatic after a period of service, probation or induction (Perkins and White, 2008:152).

In some organisations promotion to a higher-graded job is initially reserved for high performers only. In such instances, when a vacancy occurs, the HR Division in conjunction with the relevant Line Manager shall review the organisation's "High-Performers Talent Pool" to identify if there are any employees in the pool whose skills profile closely match the competency profile for the vacant position. Employees meeting the criteria are automatically short-listed for promotion assessment interviews for positions to which they are considered suitable. It is only in the event that these employees are interviewed and found to be not suitable that an internal advert for all other interested employees is placed (Perkins and White, 2008).

It goes without saying that in these instances promotions are accompanied by a change in remuneration for the promoted employee.

2.5.2.13 Progression within Career Path Ladders

Career path ladders allow a company to maintain a clear grade structure where employees can see the internal relativities but the employer can still differentiate on the basis of pay. Each job grade will have its own number of levels with different pay ranges. These levels are usually linked to levels of experience, knowledge, performance, skills and/or competencies

The career ladder structure allow employees to advance and progress to a higher job level within same job grade, accompanied by a change in remuneration and/or benefits in line with applicable pre-set standards. It is usually contingent on a matrix of required pre-defined criteria, usually service, age, performance, competence, acquisition of skills, and attainment of qualifications (Armstrong and Baron, 2007). As an example a three-tiered career path ladder may be classified as entry, competent ad senior. Employees meeting the predefined criteria are then typically appointed to a “senior” designation e.g. from Junior Technician to Senior Technician, accompanied by commensurate remuneration adjustment but with no change in job grade.

Perkins and White, 2008 suggested that the main objectives for career ladders are the flexibility provided to vary the pay for employees within the same job grade based on individual levels of performance and expertise, to map out career paths and to vary the pay for particular jobs based on market factors.

2.5.2.14 Job Re-evaluation

Jobs are usually re-evaluated in instances where the content of the existing job has significantly increased or decreased in responsibility to such an extent that the position is now operating at either a senior or junior level or as part of the regular review of job grades within the company as a whole (Perkins and White, 2008).

A re-evaluation of a job to higher job grade is usually accompanied by remuneration changes irrespective of whether the employee meet the minimum qualification, experience and competence criteria for appointment at the higher sub-grade level for the employee has already been operating in that job. This is however subjected to compilation of a development plan for the employee concerned to enable him/her to obtain the required competencies (Armstrong and Baron, 2007).

2.5.2.15 Term Contracts

Term Contracts encompasses any form of premium that is offered and paid for the completion of a defined term of employment (Milkovitch and Newman, 2008). The following forms are found (Lawler, 2000):

- Retention bonus earned if the employee remains in service through to a stipulated date
- Restraint consideration paid for agreeing to enter into a term contract constraining employment rights
- Upfront premium upon joining, paid to entice an employee to switch employment accompanied by a term contract
- End-loaded remuneration – a contract that provides for remuneration to escalate towards the end of a defined term inducing the employee to serve the contract out
- Replicated term contract – each term with a bonus payable upon termination if specified long term objectives have been achieved. The contract would contain an annexure defining the objectives and how attainment would be measured or adjudicated

2.5.2.16 Legal Compliance (i.e. Affirmative Action Act, Labour Act etc.).

The level of pay gets affected by such legislations as the Labour Act or the Affirmative Act. The origin of equal pay legislation can be traced back to 1919 when the International Labour Organisation made the concept of equal pay for work of equal value one of its founding principles (Bratton and Gold, 2007).

In Namibia, such legislations as the Affirmative Action Act brought about the move towards greater transparency due to a need to eliminate discrimination in the workplace and

minimize subjectivity. For example the discretionary approach of reserving a management prerogative over bonuses which was popular in the past, whereby Management could use its power to judiciously recognise and reward above-average performance to its advantage, has become a thing of the past. Those organisations still paying discretionary bonuses are living in a dream world – one to be awakened by law-suits based on contravention of employment equity legislation. The reasons for these trends relate in one way or another to the greater awareness which employees at all levels have today of their rights and of what constitute fair labour practice as well as the adoption of the King Report recommendations as the cornerstone of Corporate governance in Southern Africa (P-E Corporate Services (2009).

2.5.2.17 Regulator / Government

Government has a profound impact both directly and indirectly on employees' remuneration. Government can directly affect remuneration management by introducing pay control programmes which typically aim to maintain low inflation by limiting the size of pay increases. The standard for allowable pay increases can range from zero to increases equal to some change in the consumer price index or a measure of labour productivity. According to Bratton and Gold (2007), numerous governments have used a tight control of public sector pay to influence pay trends in their economies. Additionally, government has an indirect influence on the pay-setting process. Government actions affect both the demand and supply of labour in an occupation e.g. a statute setting minimum wage limits. Second, government is a major employer and therefore a dominant force in determining pay levels in and beyond the public sector, which is another indirect influence.

The successful implementations of many remuneration drivers are performance-related and therefore dependent on an effective performance management system. Since an effective performance management system is a prerequisite for an effective remuneration system, the next section is devoted to discoursing performance management systems as well as what constitutes organisational performance.

2.6 Remuneration and the Performance Management System

There has been a strong shift among employers towards the implementation of performance-based pay. The academic literature has also generally confirmed that one of the most distinctive and efficient ways of driving individual and corporate performance is to tie employees' remuneration to a performance management system (Lawler, 2000; Armstrong and Baron, 2007). Thus solid evidence exists confirming that performance-based remuneration positively impact organisational performance and a correlation have been found between remuneration changes and corporate performance (Gerhardt, 2008 & Martocchio, 1998).

The same literature has however indicated that the success of any performance-based pay is contingent upon an effective performance management system. Perkins and White, (2008: 170-173) reason that performance management systems do not always work as intended and a weak link between pay and performance is accordingly found in those organisations that fails to implement effective performance management systems, effective remuneration policies and/or a combination of both. This is corroborated by Becker et al (1997) who propounded that problems are bound to arise when organisations fail to implement effective performance management systems; when they espouse remuneration policies that provide insignificant reward differentiation between top and poor performing employees or when organisations encourage a teamwork approach to work but then recognise and reward employees based on individual performance.

It follows that implementation of remuneration policies without the necessary supportive performance management systems and vice versa can lead to disjointed outcomes and a resultant negative impact on corporate performance.

Therefore, while there is a need to understand factors driving remuneration in Namport, an equal need exist to establish the extent to which such factors have positively contributed to Namport organisational performance.

2.6.1 Managing Employees Performance

Performance management has become a key feature of an organisation's drive towards competitive advantage and achieving high performance. It is seen as the core of the strategic link between human resource management and organisational performance. Some regard it as the primary vehicle through which an organisation seeks to operationalize and execute its business strategy. Business strategy dictates strategic priorities for the organisation and contain strategic measurable targets which if met enable the organisation to achieve its strategy (Bratton and Gold, 2007).

Based on the well-known dictum that "if you cannot measure it, you cannot manage it", organisations have dedicated attention to setting organisational goals and directions to improve business performance and importantly to show how such improvements can be measured. It thus follows that performance management is used to manage the performance of employees towards clear targets and to enable organisations to measure employees' actual contributions to organisational success and then reward for contributions on an objective basis (relative to an agreed standard, or, if the organisation so wishes, relative to all other staff members). It also seeks to assign responsibility in a clear and mutually agreed manner, so that the employee can, with the support of the manager, manage his/her job with a full awareness of expectations and consequences of his/her actions in respect of performance outcomes (Armstrong and Baron, 2005:17).

2.6.2 Performance Management Systems

Sophisticated individual performance management systems have been proliferating within organisations. However, they only work well when they are properly designed and can be used to focus on both financial and non-financial strategic objectives (Bratton and Gold, 2007). The common types of performance management systems include the following:

2.6.2.1 Traditional Performance Appraisal System

The Traditional appraisal method consists of the top-down approach whereby a supervisor exclusively grades an employee against the employee's performance measures and objec-

tives which may be similar across the department or organisation. The traditional "Performance Appraisal Systems" are rooted in either Paternalism or Authoritarianism, or even both, in that the appraisal is typically management controlled and/or subjective, with little room for the appraisee to have some degree of control or manage the process. It is typically a "defensive situation", where subjective opinions about the appraisee are debated, if at all (Armstrong and Baron, 2005).

2.6.2.2 Multisource Feedback System (360 Degree Feedback)

The multisource feedback system is a process through which individual employees receive feedback from different sources including peers, subordinates, customers and themselves. This is also referred to as a 360 degree feedback. This use of the system has trended upward in recent years, based on the view that feedback from different sources allows for more balance and objectivity than does single view of a line manager (Bratton and Gold, 2007: 286).

2.6.2.3 Outcomes Based Performance Management System

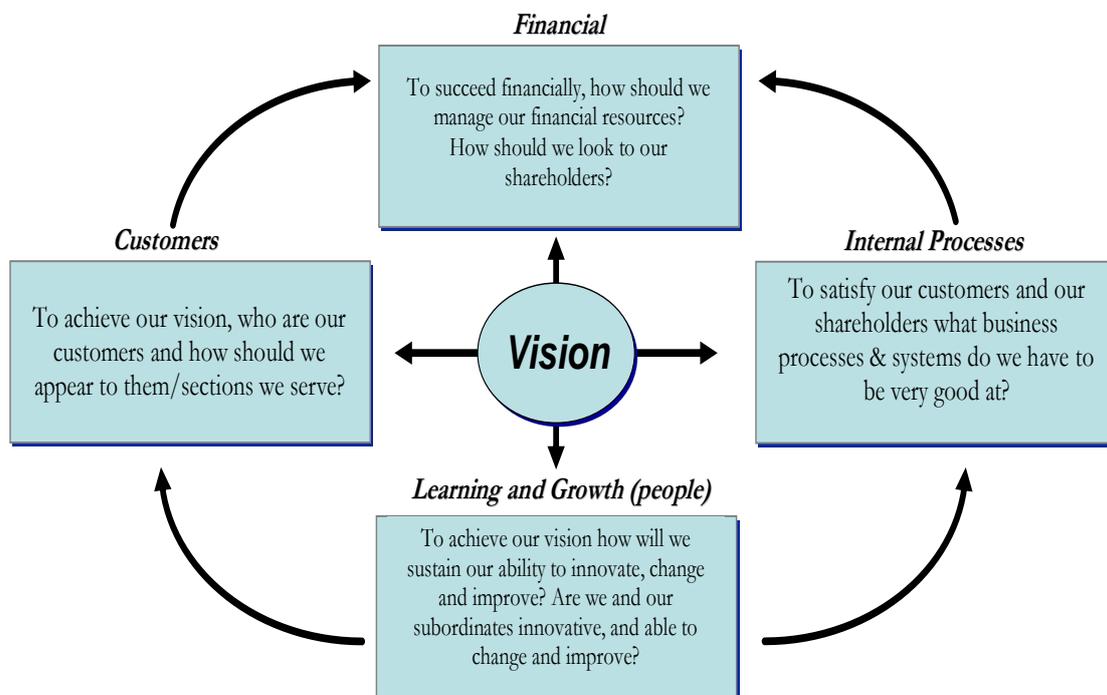
The outcome-based performance management system evaluates performance against pre-agreed performance outcomes. The outcome is usually an anticipated tangible end-result as opposed to an activity. More specifically according to Armstrong and Baron (2007), an outcome based performance management system communicated the organisation's vision and objectives to all employees, sets departmental and individual performance targets linked to organisational objectives and uses formal review procedures to communicate performance requirements.

2.6.2.4 Balanced Scorecard

The balanced scorecard is a holistic performance management framework developed by Kaplan and Norton in the early 1990s through which the Company's vision and strategy are operationalised through cascading to the individual employee level. The scorecard indicates to each employee how they can contribute towards the strategy and ultimately towards achieving the mission. A variety of business areas worth measuring are identified

through the perspectives of customer, financial, internal processes and people (Kaplan and Norton, 2000).

Apart from its ability to operationalize strategy, its balanced set of measures provides management with a fast and comprehensive view of the business in a performance measurement framework with a balanced presentation of financial and operational measures that converts a company strategy into specific measurable goals (Kaplan and Norton, 2000). It looks at a company or team's performance from four perspectives that have a logical relationship with one another as follows:



12

Figure 2.2: Balanced Scorecard Framework

Adapted from Kaplan, R and Norton, D (2001). *The Strategy-Focussed Organisation: How Balanced Scorecard Companies Thrive in the New Business Environment*. Boston, MA: Harvard Business School Press.

The Balanced Scorecard is strongly measurement & output / indicator oriented and focuses on a handful of most important measures which measures how well the strategy is executed and hence allows for rapid adjustment and realignment of the strategy. Moreover, in order to ensure consistency as well as alignment between the individual performance and organizational performance, individual performance contracts and measures are derived from the balanced scorecard, reflecting a downward cascade of the organisational objectives and ensuring an integrated approach to success (Kaplan and Norton, 2000).

2.6.3 Fundamentals of an Effective Performance Management System

A properly designed performance management system is critical as it provides the basis upon which performance is to be measured, monitored and controlled within the company. This is premised on the fact that whilst performance may be easy to define from the point of view of investors as good returns and dividends, it is internally multi-faceted and a highly complex composite of factors all of which have to be planned for, initiated and continuously monitored and managed (Perkins and White, 2008: 173).

The essential elements of an effective performance management system include the following: performance planning, performance contracting, performance measurement and review, performance rating, performance audit and moderation as well as linkage of performance to pay (Perkins and White, 2008: 173). These are discussed next.

2.6.3.1 Performance Planning

The performance planning process commences with an annual review of the business strategy to develop an annual operating business plan which is informed by the business' long-term (usually 3-5 years) strategic blueprint. The priority areas for the particular financial year are usually determined by the Board of Directors derived from the organisation's strategic blueprint. Based on such priority areas, the management team in consultation with the Board of Directors will agree on company targets, which are subsequently reflected in the business plan. These targets are arrived at through analysis of future possibilities as well as historic constraints (Marchington and Wilkinson, 2008).

From these targets, critical targets for each Head of Division, starting with the CEO, are derived, through either a team process, or between the employee and the Supervisor (in this case the CEO). Similarly, each Head of Division will present these targets to his/her team and again the employees will derive portions of these for which they will then be held responsible through performance contracting. In this way the sum-total of all targets arrived at through cascading will result in the organization's overall performance result (Marchington and Wilkinson, 2008).

Developing a winning strategy is certainly not easy. Executing strategy is even more challenging. According to a Fortune magazine study, 70% of CEO failures were due to poor execution of good strategies. The key to achieving business objectives lies in not shelving strategy maps after a one-time corporate scorecard exercise, but ingraining the strategy, as a living plan, in the core of organisational operations. By taking several critical steps, cascading the scorecard to every individual in the organisation, linking employee performance measures and rewards to execution of strategy, and making operational decisions through proactive visibility, organisation can reach unprecedented success by actualising business strategy (Marchington and Wilkinson, 2008).

2.6.3.2 Performance Contracting

The performance contracting process involve the collaborative determination of strategic objectives and targets between the employee and the Supervisor, referenced against the organisation's strategy and business plan and ensuring that such objectives relate directly to the employee's job accountabilities (Armstrong and Baron, 2007).

The individual employee's level of achievement is agreed upon through performance contracting process, encapsulating the following:

- The employee's core/critical objectives/competencies, which he/she is responsible and accountable for
- Measures for each objective, which in some cases can be directly adopted from the relevant Balanced Scorecards. These are usually defined in terms of such criteria as time,

quality, resource management & quantity and are indicators of what will constitute adequate performance.

- Targets for each measure, specifying beforehand exactly what the target/standard would be
- Weights (which should be allocated to each objective and measure to differentiate between the importance of different objectives and targets.
- Action steps (which should be identified to assist the employee to develop the necessary competencies to improve his/her performance (Armstrong and Baron, 2007).

A performance contract is usually signed by the Supervisor and the employee to formally confirm the performance agreement. In instances where an objective and its measures are affected due to a change in business needs or priorities, the agreed deliverables are renegotiated between the employee and the Supervisor at point of such change.

2.6.3.3 Performance Measurement and Review

Performance measurement and evaluation is at the centre of performance management as it creates opportunities for meaningful positive reinforcement as it is through this process that an indication is given as to how an employee is progressing towards objectives attainment and what he/she may need to do to achieve more or to enhance the quality of what one is already achieving (Marchington and Wilkinson, 2008).

According to (Marchington and Wilkinson, 2008), the most prevalent performance review model is the individual performance review usually conducted by the line manager, although others may be involved. Choices about who should appraise often depend upon prevailing organisational circumstances and the group to be appraised. Options include self-assessment, peer assessment, upward assessment, external assessors, internal or external customers for the individual's services.

Dependent on an organisation's own circumstances, the evaluations are usually carried out on an annual, semester, trimester or quarterly basis. However, performance management experts encourage organisations to have regular informal review or feedback sessions over and above the formal scheduled reviews. These can be quick meetings, informal discus-

sions, short weekly or monthly status report meetings with each employee, regular group/team meetings in which every employee report on the status of his/her projects and jobs etc. By doing this, the supervisor can pick up problems, rectify them and support employees in achieving key targets that will add to the bottom line of the company (Marchington and Wilkinson, 2008)..

The performance review session provides an opportunity for both the Manager and the employee to discuss the extent to which set targets were reached or not. It also provides an opportunity for the Manager to provide feedback to the employee on his/her performance and to address performance deficiencies.

2.6.3.4 Performance Rating

A rating scale is usually used to indicate the quality of performance achieved by an employee by selecting the level on a scale that most closely corresponds with the view of the manager on how well the individual employee has been doing relative to agreed performance targets. It is used to assist in making judgements and it enables those judgements to be categorised to inform performance decisions or simply to produce an instant summary for the record of how well or not so well an employee is doing. This will also result in greater consistency in the application of the performance management system across the organisation (Marchington and Wilkinson, 2008).

Rating scales can be defined alphabetically (a, b, c) or numerically (1, 2, 3), both of which may be described adjectivally e.g. a=excellent, b=good, c=satisfactory and d=unsatisfactory. Initials (i.e. ex for excellent etc.) may also be used in an attempt to disguise the hierarchical nature of the scale. The choice of which scale to use is depended on each organisation's own circumstances (Armstrong and Baron, 2007).

However, an increasingly popular approach is the one that provides positive reinforcement or at least emphasize the need for improvement at lower levels. This is in line with a culture of continuous improvement. Positive definitions aim to avoid the use of terminology for middle ranking but entirely acceptable performers such as satisfactory or competent that seem to be damning people with faint praise (Armstrong and Baron, 2007).

The problem with rating scales is that it is very difficult, if not impossible without very careful management, to ensure that a consistent approach is adopted by managers responsible for rating and this means that performance or contribution pay decisions will be suspect (Marchington and Wilkinson, 2008). It is almost inevitable that some people will be more generous than others, while others will be harder on their staff. Some managers may be inconsistent in the distribution of ratings to their staff because they indulge in favouritism or prejudice.

In spite of the afore-mentioned problems, Armstrong and Baron, 2007 state that there are several methods available for increasing consistency as described below. Training can take place in the form of consistency workshops for managers who discuss how ratings can be objectively justified and test rating decisions on simulated performance review data. This can build a level of common understanding about rating levels. The Performance Audit Committee or groups of managers can also be used to meet and review the pattern of each other's ratings and challenge unusual decisions or distributions. This process of moderation or calibration is time consuming but is possibly the best way to achieve a reasonable degree of consistency. The distribution of ratings can also be monitored by a central department, usually HR, which challenges any unusual patterns and identifies and questions what appear to be unwarrantable differences between departments' ratings.

2.6.3.5 Performance Audit / Moderation

A performance audit structure is usually established to amongst others audit all aspects of the performance management system to ensure organization wide compliance and to determine areas for improvement. As an example as part of the audit process each manager's ratings are moderated to ensure that consistent standards are being applied across the workforce. This may result in what is called a "forced distribution" whereby there are limits on the number of staff who can be entered under each rating category (Perkins and White, 2008:175).

There are a number of possible governance structures. For example one person may be designated as the internal moderator and sample all assessments. This is supplemented by a

meeting of line managers (at least annually). Another option is to have all supervisors act as internal moderators in their business units. This is supplemented by regular meetings of all internal moderators where internal consistency is discussed. A third option would be where all managers come together at regular meetings (usually once a quarter) where assessments are examined for internal consistency and coherence (Armstrong and Baron, 2007).

Whichever model is adopted an organisation must ensure that there are procedures and systems to ensure consistency and validity of the award of merit and distinction across all departments. Leaders should develop a consistent approach to assessment across the organisation and constitution of the Performance Audit Committee varies from organisation to organisation but is usually constituted by senior staff and members of the organised labour.

This process of shared understanding facilitates more effective assessment practices and consistent application of the process. Staff professionalism is enhanced when supervisors become more familiar with assessment theory and practice and are able to make more consistent assessment judgements (Perkins and White, 2008:175).

2.6.3.6 Linking Performance to Remuneration

Directly linking every employee's performance measures and rewards to their execution of corporate strategy is considered by best performing organisations to be an invaluable tool for achieving better financial results, and with good reason. Linking compensation to strategically aligned performance metrics helps employees to be more engaged and increases productivity. Linking employee metrics and rewards to strategy will ensure that efforts are focussed on what is truly critical to the success of the business (Perkins and White, 2008: 175).

For any performance-based remuneration system to be successful it must be supported by an effective performance management system. The performance management system is therefore a critical input in the determination of performance-based remuneration as it impact both fixed and variable pay.

The impact of performance on remuneration is briefly revisited next.

(a) Fixed / Guaranteed Remuneration

The Performance Management System generates an individual rating for each employee based on the achievement of set performance targets which may be utilised to determine additional increases to an individual employee's guaranteed remuneration. The pay increases may be granted in the form of merit increment, general inflationary adjustments differentiated for each employee on the basis of own actual individual performance rating as well as movement / progression within the remuneration scale, also determined for each employee by their own actual individual performances (Murphy, 1999).

(b) Variable Remuneration

The performance management system is also utilised to enable employees to earn once-off performance bonuses on top of their guaranteed remuneration, giving them the potential to earn additional higher variable remuneration. Performance bonuses are not guaranteed and are almost always dependant on the performance of both the individual employee and organisation (Lawler, 2000).

The bonus is linked to the performance of the organisation to make individuals think of working together and not merely look at self-interest since overall goals are achieved through consideration of broad aspects.

2.6.4 Corporate Performance Determination and Measurement

In order to determine company performance, financial results must be analyzed and interpreted compared with previous year's results. Comparisons take the form of ratios, fractions, percentages or money values. Comparisons may also be made with another business in the same industry or against established norms, if the analysis is to be of any value to the business or user. There are very few standard norms because norms differ for various types and sizes of businesses and also for various regions where businesses are located. Even when all these factors are similar, certain norms may still not apply (Velleman, 1996).

In determining appropriate corporate performance indices, there are several corporate performance indicators or measures that can be used. These are typically categorised into external and internal measures. External measures include such measures as share price appreciation, or earnings per share (EPS), whilst internal measures include net profit, revenue growth, return on equity (ROE), return on assets (ROA), total shareholder return and return on capital over the budget approach, amongst others. Researchers in the remuneration field generally argue that external (market) measures are in many ways superior to internal (accounting) measures. This is based on the fact that accounting data is backward looking, short-term and fairly easy to manipulate, and therefore an inappropriate determinant of performance-based pay (Murphy, 1999).

In light of the fact that Namport is a State Owned Enterprise (SOE) and has not been listed, we shall focus on internal measures only for purposes of evaluating the company's performance. Additionally, for purposes of this study, the financial criteria shall be used as the overriding performance indicators. It may be argued that SOEs are established to render a service and not to make a profit. However, in many instances including the Namibian Ports Authority, which is the subject for this study, SOEs are expected to make a minimal profit or to operate and deliver services on a cost recovery basis. Similarly, if the non-financial performance criteria are appropriately managed, this will in any case ultimately reflect in an improvement in bottom-line results of the SOE.

Ratio analysis have been found to be beneficial to various users of financial statements in that it helps the accountant in interpreting financial results, assist the investor to monitor his investments; guides the potential investor in deciding whether to invest and it enables the providers of finance to establish the creditworthiness of the company. All these analysis and interpretations are actually carried out to determine company performance (Velleman, 1996). The key financial performance indicators / measures that are deemed relevant for purposes of evaluating Namport performance will be evaluated and discussed.

Velleman (1996), continue by stating that there are around 36 diverse ratios used by analysts to evaluate the performance of a business. Ratio analysis is divided into the following broad categories, namely profitability, liquidity, solvency, activity and growth ratios. The-

se are discussed next, focusing on those ratios and norms that are commonly used in the business world and would be used to measure organizational performance.

2.6.4.1 Profitability ratios

Profitability ratio is an analysis of the profits per the statement of comprehensive income as well as the analysis of the profitability in relation to the related capital investments and sources of finance per the statement of financial positions (Sowden-Service, 2008).

Profitability ratios compare various financial statements items and also the profits generated by a business to either the owner's equity or to the total asset investment of the business. These ratios indicate how well a business is being managed in general. The commonly used profitability ratios include:

(a) **Gross Profit Margin:** $\frac{\text{Gross Profit (i.e. Sales - Cost of Goods Sold)}}{\text{Sales}}$ / Turnover

The gross profit ratio evaluates the organisation's ability to make a profit from its operations through assets, sales, and equity. It indicates the percentage of each sales dollar remaining after a firm has paid for its goods (Sowden-Service, 2008). The higher the gross profit margin the more the organisation is flexible with respect to its pricing structure and/or the more the organisation is able to manage and control its costs.

(b) **Operating Profit Margin:** $\frac{\text{Profit Before Interest and Tax}}{\text{Sales}}$

The operating profit margin indicates the earnings of the company before interest and taxes are deducted from revenue generated from operations. The higher the operating profits margin, the greater the flexibility that an organisation has with respect to its pricing structure. However, it could also indicate the extent to which the organisation has a grip on its costs (Sowden-Service, 2008).

(c) **Net Profit Margin:** Profit After Interest and Tax / Sales

Similar to the operating profit margin, the net profit margin assesses earnings available to shareholders after interest and taxes have been deducted on the income statement (Sowden-Service, 2008). The higher the profit margin, the more the flexibility that the organisation has on its pricing structure or the more management has been successful in managing and curtailing costs.

The ratio is used to compare one financial period to another or to the industry norm in order to determine performance. Changes in this ratio from year to year are compared to changes in the gross profit percentage. Adverse differences may indicate that overhead expenditure has increased disproportionately to business activity.

(d) **Return on Investment (ROI):** Total Asset Turnover x Net Profit Margin

The ROI is calculated by multiplying the total asset turnover by the net profit margin. The figure is useful because it demonstrates the extent to which the organisation has effectively used its assets to generate earnings. Assets are valued at replacement cost or net realizable value and the difference taken to reserves (thereby increasing the owners' funds) (Sowden-Service, 2008).

The DuPont method provide for the company to categorise its return on investment into a profit on sales category and an asset efficiency category. Typically, a company with a low net profit margin would have a total asset turnover. The relationship between the net profit margin and Total Asset turnover is largely dependent on the industry in which the company operates.

(e) **Return on Equity:** Profit After Interest and Tax / Ordinary Shareholders Equity

This is an important ratio to the owners of the shares as they require a certain return relative to the risks involved with the investment in the entity. It measures the return attributable to these shareholders and indicates the earning power of ordinary shareholders equity. The return on equity assesses the return earned on capital in the company (Sowden-

Service, 2008). The greater the return the more the company has been able to maximise shareholders' wealth.

(f) **Return on total assets:** Profit Before Interest and Tax / Total Assets

The purchase of assets presupposes a capital investment, which in turn presupposes the intention to increase productivity and to stimulate profits. The ratio is thus used to measure the productivity of assets regardless of capital structures (i.e. the percentage returns on the assets) (Sowden-Service, 2008). The ratio indicates the effectiveness of management's use of the company assets entrusted to them.

(g) **Return on Capital:** Return on Equity (ROE) / (1 + Debt to Equity Ratio)

OR

ROE x (1 - Debt to Capital)

The return on capital ratio assesses the financial performance of the company by ascertaining how much funds (i.e. total borrowings and total owners' funds) were required to generate the company's earnings. The ratio also shows the extent to which the company has proficiently utilised its funds to maximise earnings for the shareholders (Sowden-Service, 2008). The ratio is akin to return on equity.

2.6.4.2 Liquidity Ratios

Liquidity ratios are used to determine financial health of the company and reveal whether the business will have the capacity to meet its short-term commitments as and when they fall due. Consequently these ratios focus on the current assets (i.e. assets convertible into cash within 12 months) and the current liabilities (i.e. debts payable within 12 months). These ratios indicate management's operational capabilities regarding the management of working capital (Sowden-Service, 2008). The main liquidity ratios include:

(a) **Current ratio:** $\text{Current Assets} / \text{Current Liabilities}$

The ratio measures the liquidity of the business or short-term paying capacity of the business to honour its existing liabilities out of its current assets. It is a simple comparison of total current assets to total current liabilities. The norm or acceptable ratio should normally be 2:1 (Velleman, 1996). This means for every Rand owed by the business, there should at least be two rand to cover for the debt.

2.6.4.3 Solvency Ratios

Solvency ratios are used to determine financial health of the company and reveal whether the business will have the capacity to meet its long-term commitments as and when they fall due. These ratios, therefore, are not restricted to the current assets and the current liabilities but deal with the total assets and total liabilities.

Solvency ratios indicate to what extent the owner has funded the assets compared to outside borrowings. In other words it measures the funds supplied by owners relative to borrowings. Therefore, the solvency ratios give an estimate of the structural safety of the company by calculating in various ways the ratio of internally sourced finance to externally sourced finance. Internally sourced finance is more expensive but yet a low risk source of finance versus externally sourced finance which is cheaper but yet a riskier source of finance (Sowden-Service, 2008).

The main solvency ratios include:

(a) **Debt Ratio:** $\text{Total Liabilities} / \text{Total Assets}$

This ratio calculates the portion of total assets funded through debt i.e. indicates the percentage of total assets financed through borrowings (shows the extent of the leverage being used) (Sowden-Service, 2008).

(b) **Debt Equity ratio:** $\text{Total Debt} / \text{Total Equity (ordinary \& preference)}$

The ratio measures the proportion of borrowed capital to equity and is a comparison of either internal funds to total investment or of external funds to total investment. Debt is considered to be cheaper but riskier than equity finance (Sowden-Service, 2008).

(c) **Interest Coverage:** $\text{Earnings Before Interest and Tax} / \text{Interest Charges or Expense}$

Interest coverage (also known as times interest earned) indicates how well the company's earnings can cover the interest payments on its debt (Sowden-Service, 2008).

2.6.4.4 Operational Efficiency (Activity) Ratios

Activity ratios compare various business activities to other activities or to norms. The key ratios are as follows (Sowden-Service, 2008):

(a) **Total Asset Turnover:** $\text{Sales} / \text{Total Assets}$

(b) **Fixed Asset Turnover:** $\text{Sales} / \text{Total Fixed Assets}$

(c) **Equity Turnover:** $\text{Sales} / \text{Equity}$

2.6.4.5 Growth Ratios

Growth ratios indicate the growth (or decline) of business activities from one year to the next. The key ratios are as follows (Sowden-Service, 2008):

- **Sustainable Growth Rate:** $\text{Retention Rate of Earning Reinvested (RR x ROE)}$
- **Retention Rate:** $\text{Dividends Declared} / \text{Operating Income After Taxes}$

2.7 Chapter Summary

Increases to employees' remuneration are driven by several external and internal factors. These increases are effected to several components of remuneration. However, it has not been empirically established the extent to which each of these factors positively contribute to corporate performance. It has also not been established which remuneration components positively impact corporate performance. As a result remuneration decision makers do not know the factors on which they should be placing greater weight when making remuneration decisions. This study will go a long way in overcoming this gap.

The next chapter outlines the research design proposed for this study

CHAPTER 3: RESEARCH DESIGN

3.1 Introduction

The purpose of this chapter is to describe in considerable detail the focus and objectives of the study as well as how the study was carried out. It discusses the methodology employed with respect to the type of research conducted, the research approach as well as the strategy and design that was followed. It further describes the data collection methods and data analysis methods used and highlight the limitations of this study.

3.2 Focus of the Study

Remuneration levels in Namibia's SOEs have trended upwards over the last couple of years. It is believed that these increases happened at a faster rate and without being necessarily accompanied by commensurate growth in corporate performance (Staff Reporter, 2009). It is contended that organisational performance in many of these enterprises has been on a descending trend. Consequently, increases in compensation have primarily been attributed to self-enrichment schemes even in cases where such increases were perhaps justified (Maletsky, 2005).

The trend has drawn attention from both the shareholder and the general public, illustrated by the rapid growth of critiques on the topic. What perplexes the public is that among the Executives earning tremendous compensation are ones of companies that are providing negative returns for their shareholders.

This has generally caused a stir amongst the shareholder and stakeholders due to the fact that even poor performing enterprises are said to be paying high compensation packages which are not informed by corporate productivity and performance. Public concern about the scale and extent of executive compensation is exasperated where SOEs are receiving government support in the form of taxpayer funded bailouts (Amupadhi, 2008).

Although the literature has generally confirmed that organisations that have implemented performance-based compensation are best placed to attract and retain best talent and in turn

generate higher productivity or performance (Martocchio, 1998; Greenhill, 1988; Rynes and Gerhart, 2000), it is believed that Namibia's SOEs are arguably able to attract and retain best talent due to high levels of compensation paid, but not necessarily able to generate high levels of productivity and performance. This phenomenon is attributed to the inconspicuous link between compensation and performance. Thus the concept of performance-based pay appears to be unknown in many Namibian SOEs.

It follows that the government of the Republic of Namibia which is the shareholder of these SOEs is clearly under pressure to respond and address the professed excessive pay in SOEs which it is believed have not been accompanied by commensurate corporate performances.

Contrastingly, there are those that maintain that current levels of compensation in SOEs are justified and that for SOEs to be competitive (i.e. self-funding, generating profits from own revenue operations, raising own loans for capital expenditure and paying dividends to the State) and able to achieve their mandates, their compensation levels need to be competitive to be able to attract and retain talent with the required expertise and experience. It is contended that failure to pay competitive remuneration packages would further dampen performance in SOEs especially those that have been performing (Muadinohamba, 2008).

Consequently, many State Owned Enterprises have been placed in an uncertain position as to what remuneration decisions they should be making in the compensation arena. The need for organizations' ability to understand the factors that will help them overcome this timidity is therefore critical in order for them to come up with compensation policies that enable them to get value from their growing wage bills and determine their present and future success in good compensation governance and organisational performance.

The link between remuneration and company performance has been researched and a positive correlation has been found. It is found that enhanced organisational performance drives the remuneration policy (governance) thereby enabling the organisation to attract and retain high-performing employees and in turn maximizing return on investment (Armstrong and Murlis, 1998; Lawler, 1990; Milkovitch and Rabin, 1991).

However, there has been no scientific study conducted in Namibian SOEs to comprehensively investigate pay drivers and the empirical relationship between organisational performance and compensation levels. The actual levels and drivers of pay in Namibia's SOEs as well as their impact on corporate performance have not yet been quantified. This makes it difficult to determine the extent to which pay levels in SOEs have actually been justified. Likewise, understanding factors that drive compensation decisions within these SOEs, and the extent to which such factors drive corporate performance will help shape and inform the debate and decisions on remuneration levels in SOEs.

Given the sensitivity of the topic as well as the difficulty to obtain necessary information, this study shall only focus on one SOE, the Namibian Ports Authority.

3.3 Research Objectives and Research Questions

The primary objective of the study is to empirically establish and determine pay increase drivers in Namport and to establish the extent to which current remuneration structure and levels have contributed to increased corporate performance and returns for the shareholders. The finding would help confirm or refute the current opposition and concerns round the perceived excessive compensation levels amongst SOEs.

The fundamental questions requiring answers are as follows:

- What factors drove pay increases and to what extent did they drive such increases in Namport over the last 3 years?
- Which components of the remuneration package were increased and to what extent were they increased?
- What impact did the pay increases have on Namport's corporate performance and what is the extent of such impact on Namport's corporate performance?

In addition the following secondary questions shall be answered through a secondary study:

- Did Namport remuneration levels increase and to what extent did they actually increase in over the past 3 years?

- Was the increase in Namport's remuneration levels accompanied by commensurate increase in corporate performance? In other words, to what extent has there been a relationship between extent of change in pay and corporate performance.

The study seek to carry out an empirical assessment of pay change drivers in Namport and to establish the extent to which current compensation structure and levels have contributed to increased corporate performance and returns for the shareholders.

The prime objective of this study is thus to evaluate past and current compensation practices in the Namibian Ports Authority, with an intent to empirically establish whether a positive relationship, dependence and/or correlation exist between corporate performance and changes in pay levels as well as the extent of such a relationship. If it is proven that a positive correlation exist, this would help overcome the current opposition and concerns round the perceived excessive compensation levels.

3.4 Research Methodology

Research is commonly regarded as a technical process of finding information that enhances the researcher's knowledge. According to Bryman and Bell (2007), research design provides a structure required to collect and analyse data. The nature of the research question determines the research methodology that would be appropriate.

This study focused on a single organisation, following a combination of exploratory and case study approach. The case study approach entails the detailed and intensive analysis of a single case, such as a single organisation, location, person or single event (Bryman and Bell, 2007), whilst the exploratory approach as defined by Yin (2003), is interpretative in nature and will enable the exploration of findings in an inductive manner in order to build a more robust, strategic framework, offering a better understanding with respect to the impact of pay increases on company performance. Exploratory research is thus a method of "finding out what is happening and to seek new insights" (Lewis *et al*, 2003: 96).

The case study method is one of many exploratory research techniques that can be used to obtain information and knowledge from one particular situation. It is best put by Yin (2003:7) who defined the case study approach as a research methodology which encompasses studying a specific occurrence within its actual setting utilising numerous sources of evidence. The case study approach is thus used where one wants to cover a contextual condition, which is the case in this study. A case study research design is appropriate because it is focussed on one company and the survey data collection technique is preferred to compute the “what” questions which are central to this study because it is suited for the “what” question (Yin, 2003:6).

For the purpose of this study, the use of multi-methods to gather data was adopted, enabling triangulation to take place. Triangulation involves the utilisation of disparate data gathering techniques within the same research project with a view to ascertaining whether the data are telling what one think they are telling (Leedy and Ormrod, 2005; Saunders, Lewis & Thornhill, 2003:99).

The advantage of triangulation is that it affords the researcher more than one method of investigating or gathering data with the eventual hope that these multiple sources of data will all support the problem under investigation (Leedy and Ormrod, 2005). The use of triangulation will also help to overcome the potential problems associated with research reliability, bias, rigour and validity (Yin, 2003). Further statistical analysis allow for opportunities to gain richer insight as to whether a correlation exist between participants’ perceived impact of increases on company performance and actual corporate performance.

Yin (2003) suggests that the major strength of case study research design lies in the opportunity to use many different sources of data. It allows for one to cancel out the limitations of one method through utilisation of other methods to cross-check the findings (Bryman and Bell, 2007: 59). This has both epistemological and ontological importance on the research outcome.

The triangulated research model that was adopted comprised of two parts, Part 1 being the Primary Data study and Part 2 being the Secondary Data study.

3.4.1 **Part 1: Primary Data Study**

The quantitative approach was adopted, making use of a self-administered online survey in order to determine factors that drive pay increases and their impact on corporate performance in the Namibian Ports Authority.

The research variables for the primary data study were defined as follows:

- Primary independent variable: “perceived pay increase in remuneration components”
- Secondary independent variable: “perceived pay increase drivers”
- Dependent variable: “perceived impact on corporate performance”

Both variables were operationalized by listing pay increase drivers, remuneration package components and gauging the extent of both the increase and impact via a five-point ordinal likert scale on a continuum of no extent to a very large extent and extremely negative impact to extremely positive impact respectively. All major variables were obtained through a comprehensive review of the literature.

3.4.2 **Part 2: Secondary Data Study**

The quantitative approach was also adopted, but making use of the company’s annual reports and payroll data in order to determine the actual increases granted in Namport as well as the actual company performance over the past three years, so as to quantify the impact of pay increases on Namport’s corporate performance. A financial analysis of the secondary data was specifically adopted in order to cross-check the findings.

The major variables for the secondary data study were defined as follows:

- Primary independent variable: “remuneration increase”
- Dependent variable: “corporate performance”

All variables were obtained through a comprehensive review of the company’s annual reports and payroll data for the past three years and were and operationalized through de-

scriptive statistics and financial analysis of quantitative measures / key performance indicators.

Corporate performance is determined through the use of internal (accounting) and external (market) measures. Although researchers in the remuneration field generally argue that external measures are in many ways superior to internal (accounting) measures (Velleman, 1996), this study shall only focus on internal measures. This is accounted for by the fact that external measures are inappropriate for Namport given that the company is not listed.

The following internal measures were used to determine the extent of Namport's corporate performance over the past three years:

- (a) **Profitability ratios:** Revenue growth; net profit growth; Gross Profit Margin, Operating Profit Margin; Net Profit Margin; Return on Investment (ROI); Return on Equity (ROE); Return on total assets and Return on Capital

- (b) **Liquidity ratios:** Current ratio

- (c) **Solvency Ratios:** Debt Ratio; Debt Equity ratio and Interest Coverage

- (d) **Operational Efficiency (Activity) Ratios:** Total Asset Turnover; Fixed Asset Turnover and Equity Turnover

- (e) **Growth Ratios:** Sustainable Growth Rate and Retention Rate

3.5 Population and Sampling Approach

A sample is considered a representative subset of a population. It is hence a literature requirement that an accurately determined sample should be reflective of the results obtained from the broader population in order to reduce sampling error from occurring (Sapsford, 1999). Several sampling techniques are in existence and the specific ones employed for purposes of this study are discussed next.

3.5.1 **Part 1: Primary Data Study**

The Namibian Ports Authority (Namport) employs 601 employees who constituted the population for the study (Namport Annual Report, 2009). The targeted sample of this study consisted of 191 employees or 31.78% of the total population scattered across the various departments and levels within the organisation. The sample was selectively chosen based on the following:

- Employees appointed on a full-time permanent basis
- Employees that have been working at Namport for a period longer than a year
- Employees that are computer literate and have access to a work computer (i.e. issued with a computer for work / business purposes)

It was assumed that employees constituting the sample can understand the rationale and contextual background of the study when completing the questionnaire because of their level of computer literacy. This approach is easier, practical and more economical, as well as being useful if one wants to get the desired results (Saunders, 2003).

It follows that purposeful sampling technique was observed because the approach entailed breaking down the population into a closely defined sample that serve the purpose of the study (Bryman and Bell, 2007).

The self-administered questionnaire that was used to collect responses from individuals was forwarded to 191 employees and a total of 91 (47.64%) employees responded. The response rate is considered sufficient enough for purposes of generalisation about the population, given that the research is based on a case study approach.

3.5.2 **Part 2: Secondary Data Study**

Actual payroll data and company performance figures derived from annual reports for the past three years (i.e. since 2006) were subjected to financial analysis.

3.6 Data Collection Methods

Data collection is made through a number of methods dependent on the study being carried out. The methods employed to collect information for the purposes of both our primary and secondary studies are discussed next.

3.6.1 Primary Data Study

After permission was obtained from the Chief Executive Officer at Namport, primary information was collected through a self-administered questionnaire (Leedy, 1997) to collect data from employees. The questionnaire was structured in such a way that it consist of three (3) focal areas, each of which consists of several questions. The completed questionnaires (Annexure A) were quantitatively analysed for significant conclusions to the questions asked. The findings are summarised in Chapter 4 of this study.

The primary data collection process followed entailed the following:

3.6.1.1 Identification of Key Pay Increase Drivers and Remuneration Components

The identification of key pay increase drivers and pay components happened at the early phase of the study and involved researching various sources for relevant academic references that relates to the research topic. Emphasis was put on literature that focuses on the relationship between pay and performance, whilst taking cognisance of pay change drivers to identify the relevant themes that was used to draft the questionnaire.

3.6.1.2 Questionnaire Design

The purpose of this research is to uncover the variables that led to pay increases at Namport during the past 3 years and to establish the extent to which such variables have contributed to corporate performance. For effective data gathering, a questionnaire adapted from previous work by Bussin (2003) was used and adapted with input from the literature. Bussin (2003) investigated the factors driving changes to remuneration policy and outcomes. The questionnaire contained a set of structured questions.

The questionnaire was designed using Survey Monkey, an internet-based online questionnaire tool and it covered four main areas:

- Section A consist of structured questions on demographics to enable classification analysis
- Section B contains generic factors that drive pay increases, drawn and adapted from the mentioned literature sources. These factors are classified into internal drivers and external drivers. A 5-point ordinal likert scale is used to determine the extent to which each factor contributed to a pay increase.
- Sections C consist of the most common remuneration components drawn from the literature, and seek to establish the extent to which such remuneration components increased over the last three years as well as their perceived impact on corporate performance.

The self-administered questionnaire was used to collect responses from individuals. The survey was forwarded to 191 employees made up of 32% of Namport employees that have access to and have been issued with a computer by the company for work purposes. These represent the entire population of all employees with employment service longer than 1 year and access to a work computer and meeting the criteria to participate in the survey. The survey was specifically targeted at this group of workforce and it was only forwarded to those employees because they have achieved a certain level of literacy and can thus understand the rationale and contextual background of the study when completing the questionnaire. The company has a total of 601 employees of which 191 met the sampling criteria. The full Questionnaire used is attached as Appendix A.

3.6.1.3 Administering of the Questionnaire

The online and self-administered questionnaire along with a covering letter was distributed electronically via e-mail to 191 potential respondents. The distribution was made on the 19th October 2010 and the participants were given 21 days to complete the survey. Several reminders were sent to the respondents.

On the whole, 191 questionnaires were administered, of which 91 questionnaires; representing 48% percent were completed by the respondents. However, only 68 respondents or 36% of the sample completed all questions in the questionnaire. Percentages and frequencies were used as a basis of data analysis since they provide a simple framework on which to make comparisons.

3.6.2 Secondary Data Study

Secondary sources used included the company's published annual reports, payroll data and Board minutes for the past 3 years, which were studied during the documentary review processes. The purpose of the review was to look at the company's historical performance, the actual historical movements in remuneration levels as well as to assess the extent to which a relationship exist between the historical company performance and remuneration information with the findings from the primary study.

3.7 Data Analysis

The questionnaire was designed in electronic web-based format by Survey Monkey and responses were hosted on the survey monkey server. An electronic link to the questionnaire was included in the mail sent to the potential respondents. A file of raw data collected was downloaded from the server onto an excel spread-sheet and the SPSS software programme Version 13 for Windows for data analysis purposes. The following statistical techniques were employed for data analysis.

3.7.1 Part 1 – Primary Data Study

This study aims to understand and gain insight into the main pay increase drivers in a single port authority organisation as well as to establish the impact which such increases have had on company performance over the past 3 years. This study uses the quantitative data analysis approach. The primary data were quantitatively analysed in line with Saunders, Lewis and Thornhill (2003) suggestion. The findings are summarised in Chapter 4 of this study.

Data collected through the questionnaire were subjected to rigorous statistical analysis, using Microsoft Excel and the SPSS statistical software, Version 13 for Windows. The SPSS statistical software was employed to code and analyse the data. SPSS was preferred because the survey focused mainly on quantitative data. A mixture of text, analytical tables and diagrams will be used where necessary for further interpretations of data. The relationships between the variables were assessed through the use of the following statistical methods.

3.7.1.1 Descriptive statistics

Descriptive statistics were used to analyse the demographic data, to understand the characteristics of the sample group and to interpret the data.

3.7.1.2 Pearson Correlation Coefficient

Relational statistics were used to establish the relationship and association between the independent and dependent variables. The Pearson Correlation Coefficient was conducted to describe the strength and direction of the linear relationship between the perceived movements in remuneration and corporate performance.

3.7.1.3 Cronbach Alpha (α) Coefficient

The Cronbach alpha, a measure of internal consistency (inter-item reliability, according to Pallant (2006) was used on the items in the questionnaire in order to assess the reliability thereof.

3.7.1.4 Factor Analysis

The questionnaire was used to conduct factor analysis. Two preliminary tests were conducted to assess whether the data was suitable for factor analysis. The two tests used were the Kaiser-Meyer-Olkin and Bartlett's test of sphericity (Pallant, 2006).

- **Kaiser-Meyer-Olkin measure of sampling adequacy** indicated whether the items used in the questionnaire could be grouped into categories for purposes of determining pay drivers. The KMO index ranges from 0 to 1, with 0.6 suggesting a minimum value for a good factor analysis. High values close to 1.0 generally indicate that a factor analysis can be performed on the data and would be useful (Pallant, 2007).
- **Bartlett's test of sphericity** assesses the assumption of sphericity of the data. This test tends to be sensitive in detecting the correlations among the dependent variables and compares the correlation matrix to an identity matrix. Results on Bartlett's test of sphericity should be significant ($p < 0.05$) to be considered appropriate (Pallant, 2006).

A factor analysis was done on the 23 items included in Section B of the questionnaire. Factor analysis is a data-reduction technique that takes large sets of variables and finds ways to summarise these into smaller sets of factors or components. The factor analysis allowed for the clustering of the 23 factors used in the questionnaire into different factors (Pallant, 2006). The factors that supported the two pay driver categories used in the questionnaire (derived from the literature review), were sorted into initially four factors in the first-order factor analysis. The principal axis technique with an orthogonal rotation (Varimax method) and Kaiser normalisation were applied. The Varimax technique aims to minimise the number of variables that have high loadings on each factor (Pallant, 2006). In applying the pay driver items reduction technique, drivers with a loading of < 0.3 were excluded. The eigenvalues were calculated and represented the amount of the total variance explained by the identified factors retained, using the Kaiser criterion of eigenvalues > 1 (Pallant, 2006).

As the Kaiser's criterion has been criticised for resulting in the retention of too many factors in some situations (Pallant, 2006:175), the Catell scree test (Catell, 1966, cited in Pallant, 2006) was employed, which involve plotting each of the eigenvalues of the factors and examining the plot to discover a point at which the shape of the curve changes direction and becomes horizontal. Catell advocates maintaining all factors above the elbow or break in the plot as these factors contribute the most to the explanation of the variance in the data set (Pallant, 2006: 175). The scree test identified two factors that explained 56.78% of the difference between variables.

3.7.1.5 Multiple Regression

Pallant (2006) states that multiple regression is used to explore relationships between one continuous dependent variable and a number of independent variables (usually continuous) which allows a more extensive investigation of the interrelationship between a set of variables especially actual rather than experimental based research questions. It is credited for indicating how well a set of variables is able to predict a particular outcome. The three main types of multiple regression analyses are standard or simultaneous, hierarchical or sequential and stepwise regressions.

A standard multiple regression was employed to establish the extent to which corporate performance can be explained by the various remuneration components and/or how much variance in corporate performance can be explained by remuneration components. Initial investigations were performed to ascertain that there is no violation of the assumptions of multicollinearity, outliers, normality, linearity, homoscedasticity and independence of residuals (Pallant, 2006). The five remuneration components (independent variables) were entered into the equation simultaneously and were evaluated in terms of their predictive power over and above that offered by all the other independent variables. The results of the regression are reported in Chapter 4.

An **R Square** value returned by the regression indicates how much of the variance in the dependent variable is accounted for explained by the independent variables. For small samples, the results may be reported in terms of the **Adjusted R Square** value also returned by the regression. In both instances the value is multiplied by 100 for percentage expression. The higher the percentage, the higher the explanation of the dependent variable. For purposes of assessing the statistical significance of the result, analysis of variance tests (ANOVA) were conducted. Where the p-value was <0.05 , a statistical significance result was present. In order to establish the relative contribution of each independent variable within the equation, the variables' contributions are compared using beta coefficients. A high beta value generally indicates that the corresponding variable makes the strongest unique contribution to explaining the dependant variable. As in the case of the R Square, it can also be established whether a variable is making a significant unique contribution to the prediction of

the dependent variable. This is found where statistical significance for a specific variable is less than 0.05 ($p < 0.0005$) (Pallant, 2006).

3.7.2 Part 2 – Secondary Data Study

Data collected from the company's annual reports and payroll data the company's financial statements which represent a quantitative summary of a company's operations and activities. In order to ascertain the company's actual performance, these were subjected to rigorous financial analysis using excel spread-sheet which involves examining trends in key financial data, comparing financial data across financial periods and analysing financial ratios to assess how well the company has been performing. The specific ratios employed for the purpose of this study include the following:

In order to determine company performance, financial results must be analyzed and interpreted compared with previous year's results. Comparisons take the form of ratios, fractions, percentages or money values. Comparisons may also be made with another business in the same industry or against established norms, if the analysis is to be of any value to the business or user. There are very few standard norms because norms differ for various types and sizes of businesses and also for various regions where businesses are located. Even when all these factors are similar, certain norms may still not apply (Velleman, 1996).

Measures for evaluating corporate performance are typically categorised into external and internal measures. External measures include such measures as share price appreciation, or earnings per share (EPS), whilst internal measures include net profit, revenue growth, return on equity (ROE), return on assets (ROA), total shareholder return and return on capital over the budget approach, amongst others.

Researchers in the remuneration field generally argue that external (market) measures are in many ways superior to internal (accounting) measures. This is based on the fact that accounting data is backward looking, short-term and fairly easy to manipulate, and therefore an inappropriate determinant of performance-based pay (Murphy, 1999).

However, given that Namport is a State Owned Enterprise (SOE) and has not been listed, this study focussed on internal measures only for purposes of evaluating the company's performance. Additionally, for purposes of this study, the financial criteria shall be used as the overriding performance indicators. It may be argued that SOEs are established to render a service and not to make a profit. However, in many instances including the Namibian Ports Authority, which is the subject for this study, SOEs are expected to make a minimal profit or to operate and deliver services on a cost recovery basis. Similarly, if the non-financial performance criteria are appropriately managed, this will in any case ultimately reflect in an improvement in bottom-line results of the SOE.

Ratio analysis have been found to be beneficial to various users of financial statements in that it helps the accountant in interpreting financial results, assist the investor to monitor his investments; guides the potential investor in deciding whether to invest and it enables the providers of finance to establish the creditworthiness of the company. All these analysis and interpretations are actually carried out to determine company performance. The financial measures that were deemed relevant and appropriate for this study are grouped into profitability, liquidity, solvency, activity and growth ratios. These are discussed next.

3.7.2.1 Profitability ratios

Profitability ratios analyse the profits in the statement of comprehensive income as well as the profitability in relation to the related capital investments and sources of finance presented in the statement of financial position (Sowden-Service, 2010). The following profitability ratios were employed for this study:

- Gross Profit Margin
- Operating Profit Margin
- Net Profit Margin
- Return on Investment (ROI)
- Return on Equity
- Return on total assets
- Return on Capital

3.7.2.2 Liquidity Ratios

Liquidity ratios measure the capacity of the business to repay its borrowings in the short-term. They indicate management's operational capabilities regarding the management of working capital (Sowden-Service, 2010). Only the current ratio measure was employed for this study.

3.7.2.3 Solvency Ratios

Solvency ratios measure the business's capacity to honour its borrowings in the long-term. They provide an estimate of the structural safety of the company by calculating in various ways the ratio of internally sourced finance to externally sourced finance (Sowden-Service, 2010). The solvency ratios conducted include the following:

- Debt Ratio
- Debt Equity ratio
- Interest Coverage

3.7.2.4 Operational Efficiency (Activity) Ratios

Activity ratios compare various business activities to other activities or to norms. The ratios employed are as follows:

- Total Asset Turnover
- Fixed Asset Turnover
- Equity Turnover

3.7.2.5 Growth Ratios

Growth ratios indicate the growth (or decline) of business activities from one year to the next. The ratios employed to ascertain actual growth in business activities are as follows:

- Sustainable Growth Rate
- Retention Rate

3.8 Issues of validity

Validity is a highly debated topic in social research since there is no single or common definition of the term. However, insofar as validity definitions are concerned, two common elements in these definitions revolve around whether the means of measurement are accurate as well as whether they are actually measuring what they are intended to measure (Bryman and Bell, 2007). This is an important requirement in research and the next discussion focuses on means employed to provide the required assurances in this regard.

3.8.1 Triangulation

Yin (2003) suggests that the major strength of case study research design lies in the opportunity to use many different sources of data. Triangulation involves the utilisation of disparate data gathering techniques within the same research project with a view to ascertaining whether the data are telling what one think they are telling (Leedy and Ormrod, 2005; Saunders, Lewis and Thornhill, 2003:99). It is a useful attempt to cancel out the limitations of one method through utilisation of other methods to cross-check the findings (Bryman and Bell, 2007: 59). This has both epistemological and ontological importance on the research outcome.

The study used two different data collection techniques, a self-administered online survey and secondary data derived from the company's annual reports.

3.8.2 Research Ethics

The specific and relevant ethical considerations suggested Bryman and Bell (2007) was considered throughout the research. These included taking care to prevent any harm to participants, privacy invasion and the use of appropriate technique to protect anonymity of participants.

The participants were also properly briefed about the background of the study. Participation in the survey was voluntary. Permission was requested and granted by the Chief Executive Officer of Nampont to use Nampont as the case study.

Anonymity of respondents was respected in terms of not requiring respondents to indicate their names and surnames unless specific feedback was requested. The researcher undertook to keep all data collected for purposes of the study confidential and to make available as far as is possible the results of the study.

3.8.3 Reliability and validity of the research results

Validity refers to accuracy, in other words whether the test is measuring what it purports to measure. Reliability is a prerequisite for validity, but it does not guarantee validity. A research instrument can therefore be reliable but invalid but cannot be unreliable and valid. The validity of a measure can be tested through criterion-related validity, content validity and construct validity. The three types of validity complement each other in practice and, therefore, if a measure has content validity, it is likely to have criterion validity (Terre Blanche et al., 2007).

Reliability refers to the dependability of the measurement instrument, namely the extent to which the results are repeated through a number of different surveys over a relatively short period of time. Reliability is essential to ensure the validity of a study. Question reliability can be obtained through the following measures:

- the stability coefficient, by giving the same questionnaire to a group of respondents to complete for the second time;
- the equivalence of responses requires the drafting of two versions of the questionnaire that will yield similar responses if they are given to the same or comparable group of respondents for completion; and
- the internal consistency or homogeneity technique that determines the reliability of a set of responses to a questionnaire (Fox and Bayat, 2007).

Reliability of observations or data is influenced by four variables; namely, the researcher, the participants, the measuring instrument and the research context or circumstances under which the research is conducted. In this study compliance with reliability and validity were attained through detailed literature review as well as the research design and execution that followed to ensure that the study could be replicated and results in the same findings. The

validity and consistency of the Questionnaire was adopted from Bussin (2003) and was confirmed through detailed literature review.

Additionally, the internal consistency reliability coefficient for the questionnaire was calculated using Cronbach's alpha coefficient (Pallant, 2006).

3.8.4 Limitation of the research

Namibia SOEs have been classified into economic and productive enterprises, regulatory enterprises and service rendering enterprises, depended on their reason for existence. An SOE operating in a monopoly which is protected by legislation does not have the dynamism required by one which is operating in a competitive environment. These varying circumstances require different remuneration practices. This research is a case study and focuses only on one State Owned Enterprise company and not on all State owned Enterprises in Namibia and neither does it take into account the classification regime. Due to the research taking place in a single organisation, this limits broader generalisation to government and other SOEs, though findings should offer instructive insights and be useful to other organisations.

The study was limited to exploring the impact of pay increase on corporate performance and did not venture into impacts of pay remuneration strategy on such variables as staff attraction, retention and motivation. It would be useful for future research to explore impact of pay increases on these.

Additionally, due to the fact that a single SOE is not representative enough to make general conclusions and generalisations to other SOEs, it would be useful for future research to survey a number of SOEs and get a more wider opinion base for further inductive statistics.

3.9 Chapter Summary

To understand the relationship between remuneration and corporate performance, a quantitative and exploratory study was undertaken. The literature review supported the research hypotheses and provided sufficient input into the design of the questionnaire. The literature review identified 23 pay increase drivers which were included in the Questionnaire to assess extent of impact on corporate performance. A total of 91 questionnaires were returned representing a response rate of 48%.

A financial analysis of the company's financial statements was also conducted in order to ascertain actual company performance and movements in remuneration levels relative to the findings from the primary study.

A detailed analysis of the data and results for both the primary and secondary studies are provided in the next chapter.

CHAPTER 4: RESEARCH RESULTS

4.1 Introduction

In this chapter, the results of the data collected are analysed and presented in terms of the research design described in Chapter Three. The dataset used for the analysis is derived from the results of both the survey and the company's secondary data (i.e. publications, annual reports, payroll data and Board of Directors minutes).

The study seek to understand pay change drivers in Namport, to establish the extent to which remuneration structure have changed over the past three years and the impact thereof on company performance. The fundamental research questions requiring answers are as follows:

- What factors drove pay increases in Namport and to what extent did they drive such increases over the last 3 years?
- Which components of the remuneration package were increased and to what extent were they increased?
- What impact did the increased pay components have on Namport's corporate performance and what is the extent of such impact on Namport's corporate performance?
- Did Namport remuneration levels increase and to what extent did they actually increase in over the past 3 years?
- Was the increase in Namport's remuneration levels accompanied by commensurate increase in corporate performance? In other words, to what extent has there been a relationship between extent of change in pay and corporate performance.

The results from the survey are discussed first under Part 1, followed by the results from the analysis of company data and records, which are discussed under Part 2.

4.2 Part 1: Primary Study - Survey Results

The characteristics of the data are discussed first, where after the research propositions for each of the following are discussed: factors driving pay increases; remuneration components increased and the extent of perceived increase and the perceived impact of remuneration component increases on company performance.

4.2.1 Characteristics of Data

In this section the characteristics of the survey respondents is reported from Section A of the questionnaire (Appendix A). The information in the figures and tables are reported directly from the captured respondent questionnaires.

4.2.1.1 Age Profile

Table 4.1: Age Profile of Respondents

	Frequency	Percent
<21 years	1	1.1
21-30 years	18	19.8
31-40 years	36	39.6
41-50 years	29	31.9
51-60 years	7	7.7
Total	91	100.0

The age profile for the participants is shown in Table 4.1. The age distribution reflects that out majority of respondents (39%) are aged between 31 and 40 years followed by those aged between 41 and 50 representing 32%. These age group distributions are consistent with the actual and overall composition of the company's workforce.

4.2.1.2 Job Grade Distribution

Table 4.2: Job Grade Distribution of Respondents

	Frequency	Percent
1-4	6	6.6
12-15	18	19.8
16-19	2	2.2
5-7	10	11.0
8-11	55	60.4
Total	91	100.0

As reported in Table 4.2, a large portion of the respondents (60%) are employed in Peromnes job grades 8-11 and the second-largest grouping (20%) are employed in job grades 12-15. The job grade distribution reflects the overall job grade breakdown of the entire workforce with a specific bias towards skilled levels which were targeted for the purpose of this survey.

The respondents are sufficiently spread across the various job grades of the workforce, save for job grades 16-19 where the responses are relatively low. This is to be expected given the purposeful sampling adopted which invariably excluded the group. Table 4.2 can be represented graphically in figure 4.1:

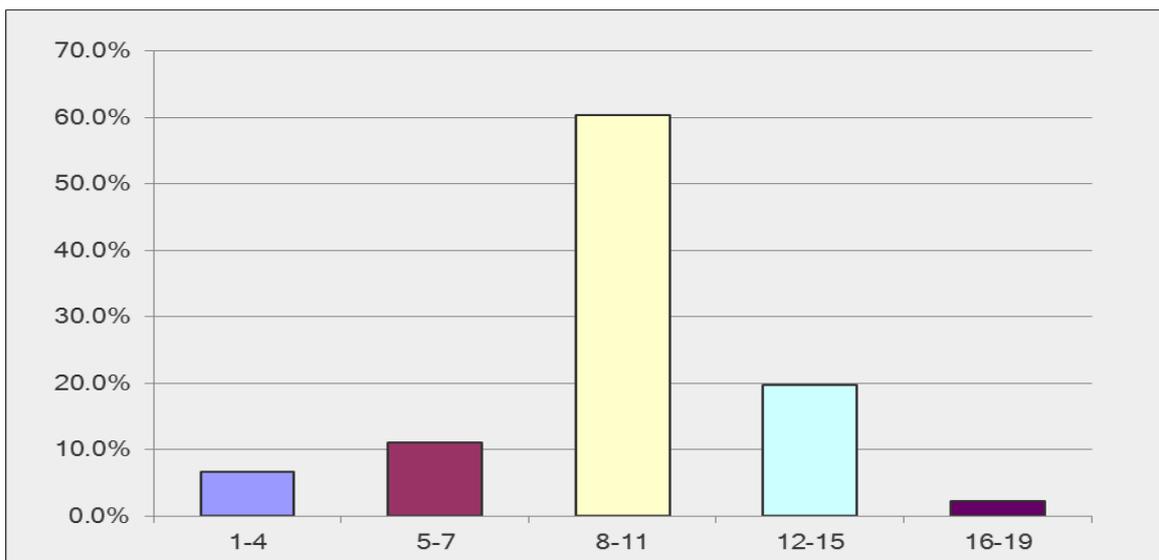


Figure 4.1: Respondents Job Grade Distribution

4.2.1.3 Uninterrupted years of service

The employees were asked to “select the number of uninterrupted years they have worked at Namport” and were provided with six choices to choose from. The results are shown in Table 4.3.

Table 4.3: Years of Uninterrupted Service

	Frequency	Percent
Between 10 years and 19 years	15	16.5
Between 20 years and 29 years	11	12.1
Between 3 years and 4 years	11	12.1
Between 5 years and 9 years	21	23.1
Less than 3 years	29	31.9
More than 30 years	4	4.4
Total	91	100.0

In terms of completed years of service, out of all the 91 employees that participated in the survey, 31.9% of the sample reported to have less than 3 years with Namport and 23.1% reported to have 5-9 service years with Namport. 12.1% are between 3-4 years in employment, 16.5% are between 10-19 years in employment, 12.1% are between 20-29 years and 4.4% are employed for over 30 years.

Although the respondents that have been employed for a period less than 3 years constitute more than 30% of the respondents, they have all been employed for a period longer than a year. This is a function of the purposeful sampling to enable them to make informed choices in the survey.

4.2.1.4 Satisfaction with Remuneration Level

Table 4.4: Satisfaction with Salary

	Frequency	Percent
Dissatisfied	29	31.9
Satisfied	50	54.9
Very dissatisfied	4	4.4
Very satisfied	8	8.8
Total	91	100.0

Respondents were asked to indicate their level of satisfaction with their remuneration packages and with the remuneration increases at Namport. These questions serve to provide a reflection of the extent to which employees feel that their remuneration packages are commensurate with their jobs and performance. The results are summarised in Table 4.4. Just more than 64% of the employees are “satisfied” or “very satisfied” while the balance was made up of respondents that are “dissatisfied” and “very dissatisfied” with the current remuneration packages. It is uncommon to find such a higher number of employees that are satisfied with their remuneration levels. This could indicate that Namport generally offers competitive remuneration packages. The graph indicates a normal distribution which is commendable.

4.2.1.5 Satisfaction with Pay Increases

Table 4.5: Satisfaction with Pay Increases

	Frequency	Percent
Dissatisfied	11	12.1
Satisfied	61	67.0
Very dissatisfied	4	4.4
Very satisfied	15	16.5
Total	91	100.0

Table 4.5 reveals that 84% of the employees are “*satisfied*” or “*very satisfied*” and 16% are “*dissatisfied*” or “*very dissatisfied*” with remuneration increases at Namport. This indicates that in the last three year Namport has generally offered competitive remuneration increases. Also the graph indicates a normal distribution curve though skewed towards the right which could be a good thing.

4.2.2 Factors Driving Pay Increases

Question 6 of Sections B of the questionnaire covered 23 factors that drive pay increases, established from the literature and aimed to collect responses from respondents on which factors contributed to an increase in their pay over the last three years as well as the extent to which identified factors are thought to have driven such increases.

The question was expressed as follows: For each factor in question 6 below, please indicate the choice that best describe your view, using the scale of 1-5, where 1 = to no extent and 5 being to a very large extent. “Please indicate the extent to which each of the following factors contributed to an increase in your pay over the last 3 years (i.e. since 2006)”.

4.2.2.1 Recorded Frequencies

Table 4.6 indicates the various factors driving pay increase, reported and rated by participants as to the extent that they contributed to increases in Namport.

Table 4.6: Response Frequencies for Section B, Question 6

Factors Driving Pay Increases	To no extent (1)		To a small extent (2)		To an average extent (3)		To a large extent (4)		To a very large extent (5)		Total		Mean Rating	
	n	%	N	%	n	%	n	%	N	%	n	%	Score	%
Skills based pay policy (increase based on acquisition of additional skills and competences)	59	76.6%	7	9.1%	8	10.4%	2	2.6%	1	1.3%	77	100.0%	1.43	28.6%
Qualifications based pay policy (increase based on acquisition of additional qualifications)	51	66.2%	10	13.0%	10	13.0%	5	6.5%	1	1.3%	77	100.0%	1.64	32.8%
Performance-based bonus (once-off bonus based on individual performance)	9	11.7%	7	9.1%	26	33.8%	7	9.1%	28	36.4%	77	100.0%	3.49	69.8%
Merit based pay (increase based on individual performance)	43	55.8%	15	19.5%	12	15.6%	6	7.8%	1	1.3%	77	100.0%	1.79	35.8%
Long service-based pay policy (increase based on long service and staff loyalty)	28	36.4%	25	32.5%	16	20.8%	3	3.9%	5	6.5%	77	100.0%	2.12	42.4%
Time-Based Pay (overtime, standby and shift allowances)	20	26.0%	13	16.9%	23	29.9%	15	19.5%	6	7.8%	77	100.0%	2.66	53.2%
Trade Unions (increase resulting from union demands and/or negotiations)	13	16.9%	8	10.4%	28	36.4%	20	26.0%	8	10.4%	77	100.0%	3.03	60.6%
Promotions (advancement to a vacant higher level position)	35	45.5%	17	22.1%	16	20.8%	8	10.4%	1	1.3%	77	100.0%	2.00	40.0%
Career path progression (increment based on advancement through the in-grade career path ladder)	36	46.8%	15	19.5%	23	29.9%	3	3.9%	0	0.0%	77	100.0%	1.91	38.2%

Job re-evaluation / job re-grading (pay increase resulting from a re-evaluation of a job due to content change)	37	48.1%	16	20.8%	17	22.1%	6	7.8%	1	1.3%	77	100.0%	1.94	38.8%
Share schemes policy (granting of shares by a company to an employee without any payment by the employee or for a nominal payment)	63	81.8%	6	7.8%	4	5.2%	4	5.2%	0	0.0%	77	100.0%	1.34	26.8%
Company financial performance (once-off performance bonuses based on excellent company financial results)	5	6.5%	5	6.5%	24	31.2%	13	16.9%	30	39.0%	77	100.0%	3.75	75.0%
Productivity (salary increase or bonus based on meeting set production targets)	20	26.0%	11	14.3%	16	20.8%	8	10.4%	22	28.6%	77	100.0%	3.01	60.2%
Fixed-term contract (salary premium paid to staff for being on contract and/or attaining contract targets)	47	61.0%	6	7.8%	18	23.4%	4	5.2%	2	2.6%	77	100.0%	1.81	36.2%
Commission Schemes (commission payable on meeting or exceeding set performance targets)	38	49.4%	14	18.2%	19	24.7%	6	7.8%	0	0.0%	77	100.0%	1.91	38.2%
Market benchmark / survey policy (increment based on need to match or exceed salaries payable in the market)	38	49.4%	15	19.5%	16	20.8%	7	9.1%	1	1.3%	77	100.0%	1.94	38.8%
Skills retention and attraction policy (payment of higher salaries to attract and keep staff)	51	66.2%	13	16.9%	10	13.0%	1	1.3%	2	2.6%	77	100.0%	1.57	31.4%

Skills Scarcity (higher salaries paid to staff with scarce skills)	45	58.4%	12	15.6%	14	18.2%	3	3.9%	3	3.9%	77	100.0%	1.79	35.8%
Technological changes (premium paid for new skills sets dictated by a change in technology)	57	74.0%	9	11.7%	10	13.0%	1	1.3%	0	0.0%	77	100.0%	1.42	28.4%
Inflationary Pressures (increase based on inflation)	7	9.1%	11	14.3%	23	29.9%	23	29.9%	13	16.9%	77	100.0%	3.31	66.2%
Competitors (increase based on need to match or exceed salaries payable by competitors)	36	46.8%	20	26.0%	15	19.5%	5	6.5%	1	1.3%	77	100.0%	1.90	38.0%
Legal compliance (adjustments brought about by requirements or changes in law)	54	70.1%	7	9.1%	13	16.9%	2	2.6%	1	1.3%	77	100.0%	1.56	31.2%
Regulator / Government (pay directives from government or regulator)	55	71.4%	8	10.4%	7	9.1%	6	7.8%	1	1.3%	77	100.0%	1.57	31.4%

The frequencies in respect of the factors that respondents felt contributed to a very large extent or to no extent at all were highlighted in red.

As can be seen from the Table 4.6 and based on the mean scores, more than 60% of respondents rated the following factors as “the top five factors” that drive pay increases at Namport:

- Company financial performance (75%)
- Performance-based bonus (69.8%)
- Inflationary Pressures (66.2%)
- Trade Unions (60.6%)
- Productivity (60.2%)

Topping the list for the pay drivers at Namport is bonuses paid in lieu of company financial performance. The second pay driver i.e. performance based bonus compliments the top pay driver factor, all of which suggest that company performance is a key determinant of pay at Namport. These factors can be considered as the key drivers of pay increase at Namport.

Of particular interest are the third and fourth factors, being inflationary pressures and trade unions. This indicates that apart from performance based remuneration inflationary pressures and bargaining by the Union contribute to pay levels at Namport.

The top five pay drivers are represented in Figure 4.2:

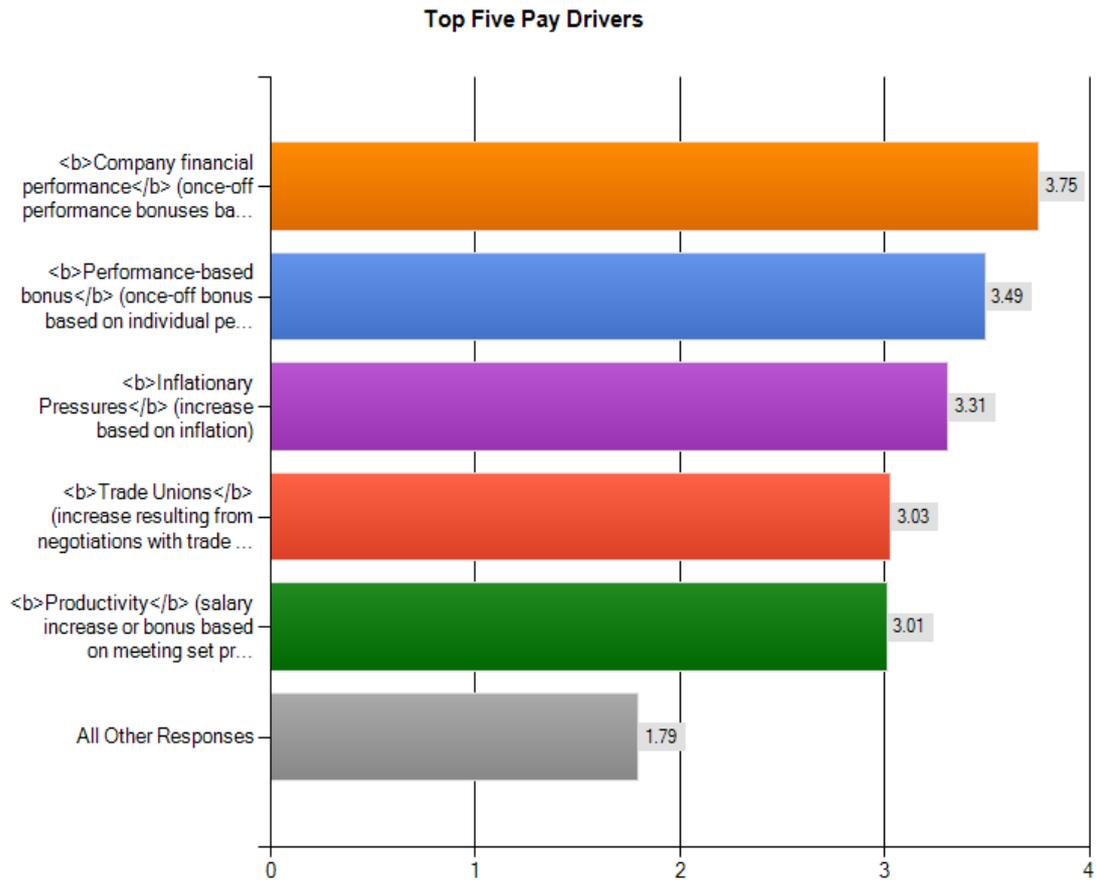


Figure 4.2: Top Five Pay Drivers

For the following reward factors, the respondents’ mean score indicated that they contributed “to a small extent or to no extent at all, with ratings of 1 and 2 respectively. These are the bottom pay drivers i.e. those factors that were perceived by the respondents to have not contributed or contributed to a very less extent to pay levels at Namport. Factors falling in this category in terms of the survey results include:

- Share scheme policy (81.8%)
- Technological changes (74%)
- Skills based pay (76.6%)
- Legal compliance (70.1%)
- Skills retention and attraction policy (66.2%)

These are recapitulated in Figure 4.2

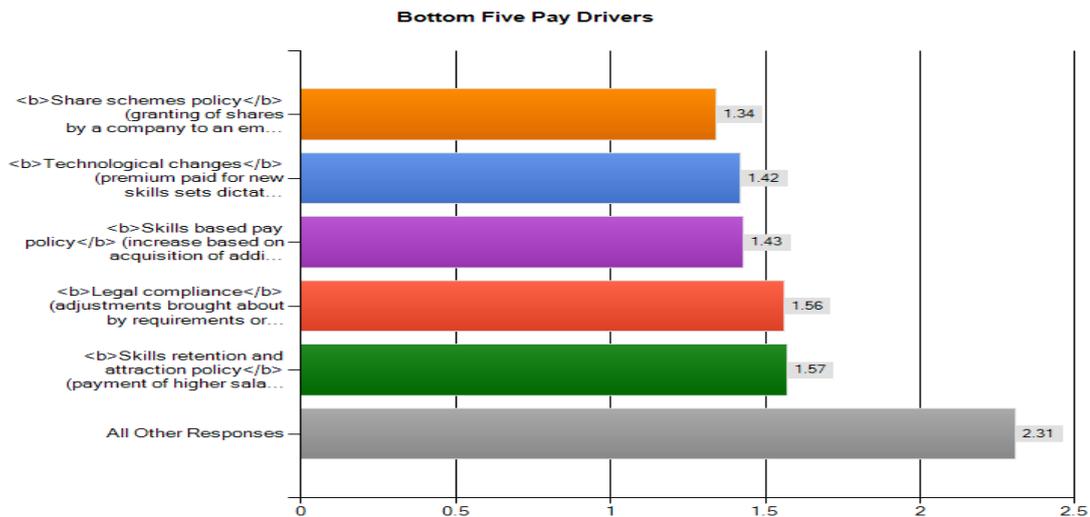


Figure 4.3: Bottom Five Pay Drivers

It is evident from the results presented above that performance and productivity have been the key drivers of pay increases at Namport.

4.2.2.2 Factor Analysis

In order to reduce the 23 pay driving factors in the questionnaire to a manageable and meaningful set of factors, factor analysis was employed as the data reduction technique and the factors were evaluated using the principal component analysis (PCA) using SPSS Version 12. Before carrying out the PCA analysis, an assessment was carried out to ascertain the appropriateness of the data for factor analysis. PCA is a better choice for providing an empirical outline of the data (Tabachnick and Fidell, 2001:610-611) cited in Pallant (2006), given that the research objective is to empirically establish key pay drivers at Namport.

In order for the factor analysis technique to be considered appropriate for the study, the correlation matrix should show at least some correlations of $r=0.3$ or greater. The Bartlett's test of sphericity should be significant ($p<0.05$) while the KMO index should be equal to or greater than a value of 0.6 (Tabachnick and Fidell, 2001) cited in Pallant (2006). The correlation matrix is represented in Table 4.7 while the Bartlett's test of sphericity and the KMO index are represented in Table 4.8.

Table 4.7: Correlation Matrix

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
Correlation Skills Based Pay Policy	1.000	.759	-.090	.536	.471	.471	.322	.381	.373	.562	.722	.111	.253	.697	.582	.495	.583	.480	.766	-.004	.548	.668	.756
Qualification Based Pay Policy	.759	1.000	-.105	.489	.384	.389	.209	.373	.446	.411	.486	.032	.150	.691	.667	.425	.432	.566	.680	-.079	.504	.655	.635
Performance Based Bonus	-.090	-.105	1.000	.190	.347	.194	.363	.357	.005	.058	-.046	.761	.620	-.116	-.070	.144	.013	-.181	-.035	.463	.169	-.123	-.192
Merit Based Pay	.536	.489	.190	1.000	.423	.202	.179	.578	.240	.478	.579	.122	.097	.520	.455	.456	.473	.331	.612	.042	.578	.457	.437
Long Service Based Pay Policy	.471	.384	.347	.423	1.000	.586	.527	.448	.236	.415	.484	.330	.409	.549	.333	.458	.468	.317	.453	.225	.516	.493	.410
Time Based Pay	.471	.389	.194	.202	.586	1.000	.729	.225	.136	.371	.318	.232	.272	.505	.217	.372	.324	.348	.361	.088	.236	.439	.349
Trade Unions	.322	.209	.363	.179	.527	.729	1.000	.236	.103	.306	.220	.429	.421	.312	.223	.170	.238	.227	.257	.260	.119	.169	.209
Promotions	.381	.373	.357	.578	.448	.225	.236	1.000	.447	.571	.401	.332	.366	.223	.442	.427	.415	.139	.359	.202	.422	.377	.220
Career Path Progression	.373	.446	.005	.240	.236	.136	.103	.447	1.000	.519	.244	.115	.149	.287	.484	.370	.101	.313	.319	-.033	.486	.415	.358
Job Re-evaluation	.562	.411	.058	.478	.415	.371	.306	.571	.519	1.000	.500	.178	.260	.406	.498	.526	.335	.320	.387	.193	.525	.566	.584
Share Schemes Policy	.722	.486	-.046	.579	.484	.318	.220	.401	.244	.500	1.000	-.048	.153	.554	.387	.489	.501	.372	.729	-.043	.508	.660	.636
Company Financial Performance	.111	.032	.761	.122	.330	.232	.429	.332	.115	.178	-.048	1.000	.617	-.083	.034	.194	.077	-.105	-.029	.552	.221	-.061	-.043
Productivity	.253	.150	.620	.097	.409	.272	.421	.366	.149	.260	.153	.617	1.000	.084	.205	.246	.154	.047	.149	.501	.272	.110	.182
Fixed Term Contract	.697	.691	-.116	.520	.549	.505	.312	.223	.287	.406	.554	-.083	.084	1.000	.576	.590	.560	.691	.736	-.221	.624	.705	.755
Commission Schemes	.582	.667	-.070	.455	.333	.217	.223	.442	.484	.498	.387	.034	.205	.576	1.000	.370	.403	.442	.549	-.041	.480	.549	.546
Market Benchmark	.495	.425	.144	.456	.458	.372	.170	.427	.370	.526	.489	.194	.246	.590	.370	1.000	.504	.539	.394	.097	.690	.630	.606
Skills Retention and Attraction Policy	.583	.432	.013	.473	.468	.324	.238	.415	.101	.335	.501	.077	.154	.560	.403	.504	1.000	.497	.500	-.067	.468	.427	.481
Skills Scarcity	.480	.566	-.181	.331	.317	.348	.227	.139	.313	.320	.372	-.105	.047	.691	.442	.539	.497	1.000	.487	-.239	.454	.457	.550

Technological Changes	.766	.680	-.035	.612	.453	.361	.257	.359	.319	.387	.729	-.029	.149	.736	.549	.394	.500	.487	1.000	-.116	.577	.651	.627
Inflationary Pressures	-.004	-.079	.463	.042	.225	.088	.260	.202	-.033	.193	-.043	.552	.501	-.221	-.041	.097	-.067	-.239	-.116	1.000	.027	-.051	-.051
Competitors	.548	.504	.169	.578	.516	.236	.119	.422	.486	.525	.508	.221	.272	.624	.480	.690	.468	.454	.577	.027	1.000	.629	.620
Legal Compliance	.668	.655	-.123	.457	.493	.439	.169	.377	.415	.566	.660	-.061	.110	.705	.549	.630	.427	.457	.651	-.051	.629	1.000	.782
Regulator / Government	.756	.635	-.192	.437	.410	.349	.209	.220	.358	.584	.636	-.043	.182	.755	.546	.606	.481	.550	.627	-.051	.620	.782	1.000

An investigation of the correlation matrix shows that there are many coefficients with correlations exceeding the minimum recommended coefficient of 0.3.

Table 4.8: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.853
Bartlett's Test of Sphericity	Approx. Chi-Square	1327.952
	Df	253
	Sig.	.000

The Kaiser-Meyer-Olkin (KMO) measure returns a value of 0.853, which exceeded the suggested value of 0.6 (Kaiser, 1974 cited in Pallant, 2006). The Bartlett's test of sphericity (Bartlett, 1954) reached statistical significance ($p < 0.000$), corroborating the factorability of the correlation matrix pertaining to the factors in the questionnaire.

A first-order factor analysis was done on the 23 factors reflected in Question 6 of the questionnaire to determine the smallest number of factors which best represent the interrelations among the set of variables. In order to aid with the decision concerning the extraction of factors to be maintained, the Kaiser criterion (also known as the eigenvalue rule), was employed, where only factors with an eigenvalue of 1.0 or higher are retained for further analysis. The eigenvalues are indicated in Table 4.9.

Table 4.9: Initial eigenvalues on First-Order Factor Analysis

Component	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1	9.575	41.630	41.630
2	3.483	15.145	56.776
3	1.587	6.898	63.674
4	1.129	4.909	68.583
5	.969	4.211	72.794
6	.900	3.911	76.705
7	.835	3.628	80.334
8	.663	2.882	83.216
9	.523	2.275	85.491
10	.478	2.080	87.571
11	.430	1.869	89.439
12	.399	1.734	91.174
13	.388	1.686	92.859
14	.277	1.205	94.065
15	.242	1.051	95.116
16	.203	.883	95.999
17	.200	.870	96.869
18	.173	.754	97.624
19	.165	.718	98.341
20	.127	.551	98.893
21	.096	.415	99.308
22	.085	.368	99.676
23	.075	.324	100.000

Extraction Method: Principal Component Analysis.

The eigenvalue of a factor represents the amount of the total variance explained by that factor. The analysis in Table 4.9 revealed that four factors, with eigenvalues >1, explained 68.58% of the variances. This is based on the presence of four components with eigenvalues exceeding 1, and explaining 42 percent, 15.1 percent, 7 percent and 5 percent of the variance respectively.

As the Kaiser's criterion has been criticised for resulting in the retention of too many factors in some situations (Pallant, 2006:175), the Catell scree test was employed which involve plotting each of the eigenvalues of the factors and examining the plot to discover a point at which the shape of the curve changes direction and becomes horizontal. Catell advocates maintaining all factors above the elbow or break in the plot as these factors contribute the most to the

explanation of the variance in the data set (Pallant, 2006: 175). The scree plot is indicated in Figure 4.4

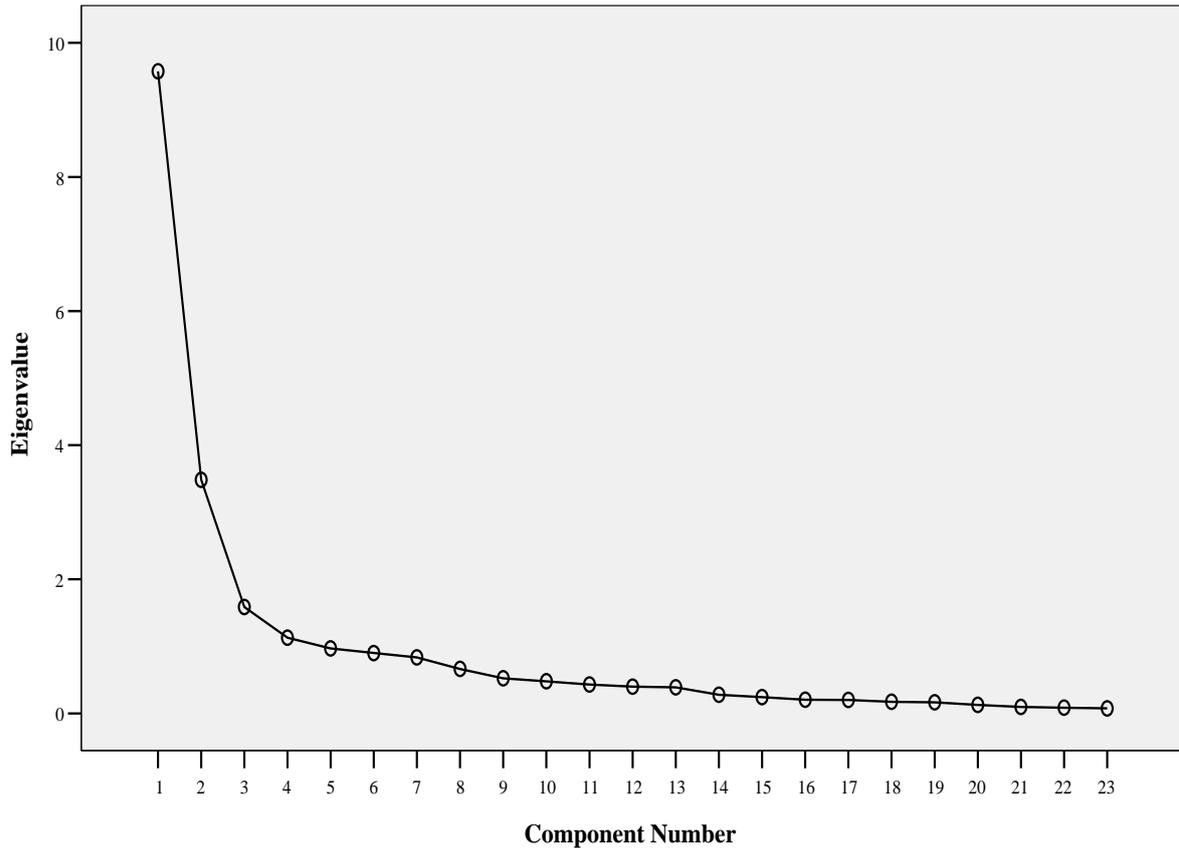


Figure 4.4: Scree Plot

An investigation of the scree plot established a clear break after the second component. In light of this, it was resolved to maintain two components for additional analysis.

The resolution to reduce the factors to be retained from four (as per the Kaiser criterion) to two (as per the scree plot) is supported by the loadings of each of the items on the four components. Most of the factors load quite strongly (i.e. above 0.5) on the first two components and very few items load on Components 3 and 4. The component loadings on the original four factors are shown Table 4.10

10 Table 4.10: First-Order Factor Analysis: Factor Matrix (correlation) (a)

	Component			
	1	2	3	4
Skills Based Pay Policy	.853			
Fixed Term Contract	.830			
Legal Compliance	.815			
Regulator / Government	.809			
Technological Changes	.796			
Qualification Based Pay Policy	.774			
Competitors	.767			
Share Schemes Policy	.745			-.308
Market Benchmark	.724			
Job Re-evaluation	.695			
Commission Schemes	.694			
Merit Based Pay	.682			-.434
Long Service Based Pay Policy	.677	.358		
Skills Retention and Attraction Policy	.656			-.393
Skills Scarcity	.634	-.306		
Promotions	.575	.356	.430	
Performance Based Bonus		.862		
Company Financial Performance		.848		
Productivity	.332	.715		
Inflationary Pressures		.715		
Time Based Pay	.556		-.616	
Trade Unions	.418	.495	-.567	
Career Path Progression	.506		.462	.547

Extraction Method: Principal Component Analysis.

a 4 components extracted.

In order to validate our scree test decision and due to cross-loadings and the small number of items loading on some of the first order factors, a second-order factor analysis was deemed fit and appropriate. The principal axis factoring method with an orthogonal (uncorrelated) rotation, namely Varimax method, was used in the second-order factor analysis. The Varimax method was selected due to the ease with which its results can be interpreted and reported.

From the four original factors identified, two factors were extracted as pay increase drivers by using the Kaiser criterion of eigenvalues >1 which explained 56.78% of the variances in the second order factors, with Component 1 contributing 39.98% and Component 2 contributing 16.80% (see Table 4.11).

Table 4.11: Eigenvalues on Second-Order Factor Analysis

Component	Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %
1	9.194	39.975	39.975
2	3.864	16.800	56.776

Extraction Method: Principal Component Analysis.

The rotated solution showed that a simple structure exist (Thurnstone, 1947) cited in Pallant (2006), having both components reflecting various solid loadings and almost all factors loading considerably on one component only. The solution is depicted in Table 4.12.

Table 4.12: Pattern/structure for coefficients (Rotated Component Matrix (a))

Varimax Rotation of Two Factor Solution for Pay Driving Factors		
	Component 1	Component 2
Factors	Non-performance Related Pay	Performance Related Pay
Fixed Term Contract	.873	-.063
Skills Based Pay Policy	.854	.103
Regulator / Government	.846	-.042
Legal Compliance	.843	-.004
Technological Changes	.820	.005
Qualification Based Pay Policy	.800	-.003
Share Schemes Policy	.757	.051
Competitors	.735	.221
Commission Schemes	.702	.054
Skills Scarcity	.690	-.137
Market Benchmark	.687	.237
Merit Based Pay	.654	.196
Skills Retention and Attraction Policy	.650	.108
Job Re-evaluation	.641	.299
Long Service Based Pay Policy	.566	.515
Career Path Progression	.492	.115
Time Based Pay	.475	.384
Company Financial Performance	-.042	.865
Performance Based Bonus	-.133	.856
Productivity	.142	.775
Inflationary Pressures	-.146	.700
Trade Unions	.280	.584
Promotions	.468	.489
% of variance explained	39.98%	16.80%

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a Rotation converged in 3 iterations.

The pattern matrix shows that the main loadings on Component 1 are fixed-term contract, skills-based pay policy, regulator government, legal compliance, technological changes and qualifications-based pay. These are all factors that are not necessarily performance-related, primarily driven by market benchmarks and remuneration governance. The main factors on

Component 2 are performance-related pay factors including company financial performance, performance bonuses and productivity whilst taking cognisance of inflationary pressures.

The two factors were categorised and named in terms of the type of underlying drivers they represented. This is indicated in Table 4.13.

Table 4.13: Underlying Pay Drivers

Pay Driver Categories	Non-performance Related Pay Drivers	Performance-Related Pay Drivers
Fixed Term Contract	.873	
Skills Based Pay Policy	.854	
Regulator / Government	.846	
Legal Compliance	.843	
Technological Changes	.820	
Qualification Based Pay Policy	.800	
Share Schemes Policy	.757	
Competitors	.735	
Commission Schemes	.702	
Skills Scarcity	.690	
Market Benchmark	.687	
Merit Based Pay	.654	
Skills Retention and Attraction Policy	.650	
Job Re-evaluation	.641	
Long Service Based Pay Policy	.566	.515
Career Path Progression	.492	
Time Based Pay	.475	.384
Company Financial Performance		.865
Performance Based Bonus		.856
Productivity		.775
Inflationary Pressures		.700
Trade Unions		.584
Promotions	.468	.489

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a Rotation converged in 3 iterations.

In order to determine the reliability or internal consistency of each of the second-order factors, Cronbach Alpha (Pallant, 2006) was subsequently calculated. The Cronbach Alpha on the non-performance related pay factor was 0.939 which exceeds the minimum requirement of 0.7 indicating that the factor is reliable. The satisfactory Cronbach alpha result confirms the internal consistency or reliability of the items in the questionnaire.

Table 4.14: Reliability Statistics: Factor 1

Cronbach's	
Alpha	N of Items
.939	17

The descriptive statistics for the items included in factor 1 are shown in Table 4.15.

Table 4.15: Item Statistics: Factor 1 - Non-performance Related Pay

	Mean	Std. Deviation	N
Fixed Term Contract	1.81	1.124	77
Skills Based Pay Policy	1.43	.880	77
Regulator / Government	1.57	1.031	77
Legal Compliance	1.56	.953	77
Technological Changes	1.42	.767	77
Qualification Based Pay Policy	1.64	1.025	77
Share Schemes Policy	1.34	.805	77
Competitors	1.90	1.021	77
Commission Schemes	1.91	1.028	77
Skills Scarcity	1.79	1.116	77
Market Benchmark	1.94	1.092	77
Merit Based Pay	1.79	1.056	77
Skills Retention and Attraction Policy	1.57	.952	77
Job Re-evaluation	1.94	1.068	77
Long Service Based Pay Policy	2.12	1.147	77
Career Path Progression	1.91	.962	77
Time Based Pay	2.66	1.273	77

Table 4.15 shows that the mean score for all the items were relatively low, indicating that although acknowledged in the literature as pay drivers, non-performance related pay factors contributed very little to pay increase in Namport over the last three years.

The Cronbach Alpha on the performance-related pay factor was 0.824 which exceeds the minimum requirement of 0.7 indicating that the factor is reliable.

Table 4.16: Reliability Statistics: Factor 2

Cronbach's	
Alpha	N of Items
.824	6

The descriptive statistics for the items included in Factor 2 are shown in Table 4.17.

Table 4.17: Item Statistics: Factor 2 - Performance Related Pay

	Mean	Std. Deviation	N
Company Financial Performance	3.75	1.226	77
Performance Based Bonus	3.49	1.373	77
Productivity	3.01	1.569	77
Inflationary Pressures	3.31	1.184	77
Trade Unions	3.03	1.214	77
Promotions	2.00	1.100	77

Table 4.17 shows that the highest means scores were received for company financial performance, performance-based bonus and productivity. With the exception of promotion, the rest are all above average indicating that performance related factors contributed significantly to pay increase in Namport over the last three years.

The extraction of the two components corroborate past research findings on pay drivers, with non-performance related pay factors loading significantly on Component 1 and performance-related pay factors loading strongly on Component 2. The literature review revealed that these remuneration components are part of the pay driver framework. The results of this analysis support the incorporation of both performance-related and non-performance related pay factors into remuneration policy.

The factor analysis result yielded a group of distinct performance-related pay factors driving pay increase in Namport. The gap addressed through this analysis is that key Namport decision makers representing the shareholder and other stakeholders are now aware of which fac-

tors have contributed to current remuneration levels at Namport and what factors need to be considered when adjusting the remuneration policy for the State Owned Enterprise.

The next section discourses the remuneration components that were increased to enable the analysis of their impact on corporate performance.

4.2.3 Pay Components Increased

Section C of the questionnaire aimed to determine the respondent's perception on what remuneration components, derived from the literature, were increased over the last three years and the extent to which such increases have impacted on company performance.

The question was expressed as follows: For each pay component in question 7 below, please indicate the choice that best describe your view, using the scale of 1-5, where 1 = to no extent and 5 being to a very large extent. "Please indicate the extent to which each of the following components of your pay package has increased in the last three (3) financial years i.e. since September 2006".

Table 4.18 indicates the various pay components, extracted and rated by participants as to the extent to which they were increased over the last three years.

Table 4.18: Response Frequencies for Section C, Question 7

Pay Package Components	To no extent (1)		To a small extent (2)		To an average extent (3)		To a large extent (4)		To a very large extent (5)		Total		Mean Rating	
	n	%	N	%	n	%	n	%	n	%	n	%	n	%
Basic Salary	2	2.9%	21	30.9%	26	38.2%	17	25.0%	2	2.9%	68	100.0%	2.94	58.8%
Total Package	18	26.5%	13	19.1%	30	44.1%	5	7.4%	2	2.9%	68	100.0%	2.41	48.2%
Fringe Benefits (e.g. Housing, Transport, Medical, Pension Fund, Allowances etc.)	3	4.4%	16	23.5%	39	57.4%	8	11.8%	2	2.9%	68	100.0%	2.85	57.0%
Short Term Incentive (once-off performance bonuses, paid out in a period not more than a year)	17	25.0%	8	11.8%	16	23.5%	3	4.4%	24	35.3%	68	100.0%	3.13	62.6%
Long Term Incentive (once-off performance bonuses paid out after a period longer than 1 year)	37	54.4%	10	14.7%	18	26.5%	2	2.9%	1	1.5%	68	100.0%	1.82	36.4%

Evident from Table 4.18 is that the biggest increase in remuneration levels at Namport was brought about by the short-term incentive scheme, coming in at 62.6%, followed by basic salary at 58.8%. The mean ratings for the pay components are depicted in Figure 4.5

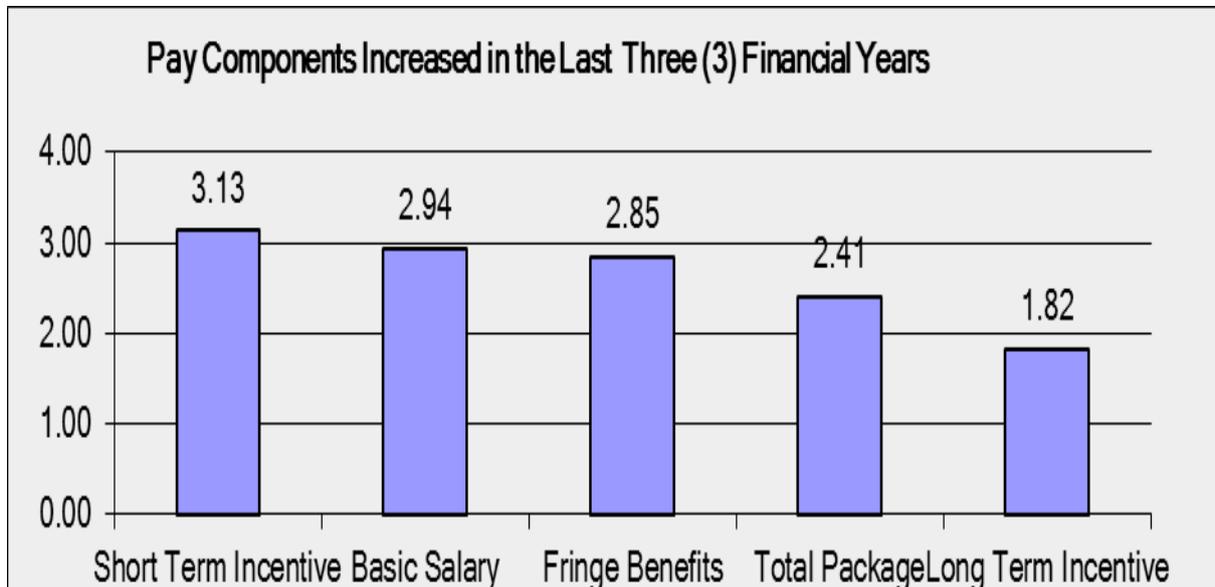


Figure 4.5: Pay Components Increased - Mean Ratings

The results for the remuneration component with the highest mean rating is further represented in graphical format in Figures 4.6

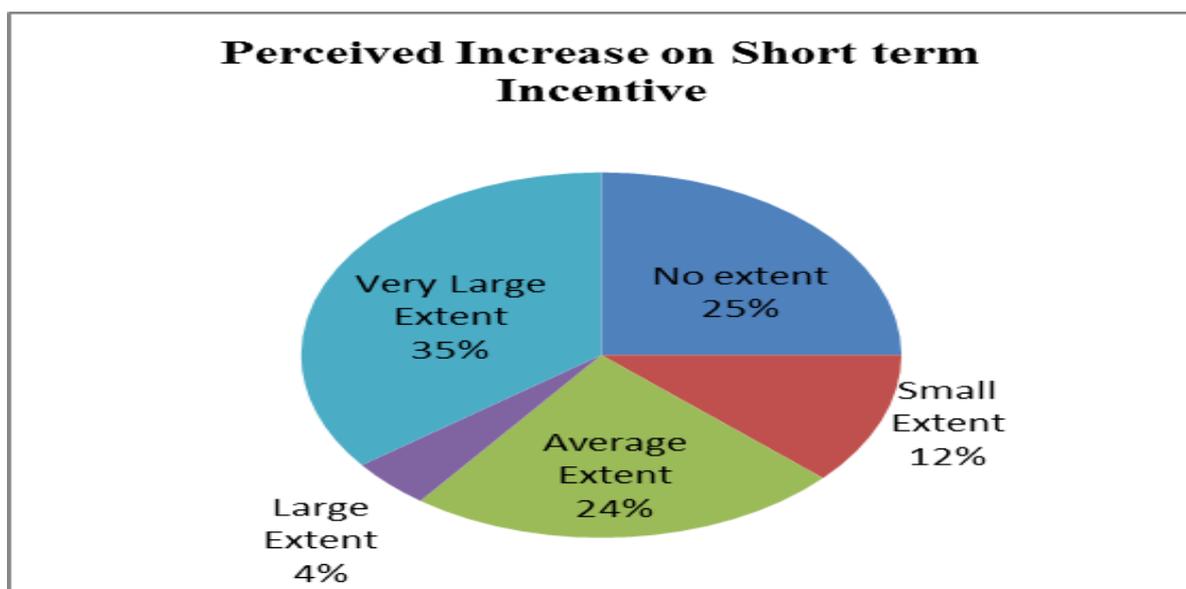


Figure 4.6: Perceived Increase on Short-term Incentive

Namport employees believe that relative to other remuneration components, the short-term incentive component was increased to a very large extent (35%), a large extent (4%) and an average extent (24%). Only 12% and 25% believe that component was increased to a small and no extent respectively.

These results compliment the findings in the previous section that the performance related pay was the single biggest driver of pay levels followed by inflationary pressures and trade union bargaining. In support of the literature review, the short term incentive scheme is a significant contributor to performance.

4.2.4 Perceived Impact of Pay Changes on Company Performance

The respondents were asked in Section C of the questionnaire to indicate and quantify the extent to which increases on pay components, derived from the literature, have impacted on company performance over the last three years.

The question was expressed as follows: For each pay component in question 8, please indicate the choice that best describe your view, using the scale of 1-5, where 1 = high negative impact and 5 being high positive impact. "Please indicate the impact which the increases on each of your pay components had on company performance over the last three (3) financial years?"

4.2.4.1 Recorded Frequencies

The responses as extracted and rated by the participants with respect to the impact of increased pay components on Namport company performance are indicated in Table 4.1.

Table 4.19: Response Frequencies for Section C, Question 8

Pay Package Components	High negative impact (1)		Negative impact (2)		No impact (3)		Positive impact (4)		High positive impact (5)		Total		Mean Rating	
	N	%	N	%	N	%	n	%	n	%	n	%	n	%
Basic Salary	3	4.4%	6	8.8%	20	29.4%	38	55.9%	1	1.5%	68	100.0%	3.41	68.2%
Total Package	6	8.8%	6	8.8%	29	42.6%	25	36.8%	2	2.9%	68	100.0%	3.16	63.2%
Fringe Benefits (e.g. Housing, Transport, Medical, Pension Fund, Allowances etc.)	4	5.9%	4	5.9%	23	33.8%	35	51.5%	2	2.9%	68	100.0%	3.40	68.0%
Short Term Incentive (once-off performance bonuses, paid out in a period not more than a year)	5	7.4%	6	8.8%	15	22.1%	15	22.1%	27	39.7%	68	100.0%	3.78	75.6%
Long Term Incentive (once-off performance bonuses paid out after a period longer than 1 year)	7	10.3%	9	13.2%	39	57.4%	13	19.1%	0	0.0%	68	100.0%	2.85	57.0%

The results reveal that Namport employees generally feel that pay changes have had a positive impact on company performance. Of particular interest and note is the observation that more than 76% of the respondents identified short term incentive scheme as the pay component that has the most positive impact on company performance. The mean ratings for the perceived impact of pay increase on company performance are depicted in Figure 4.6.

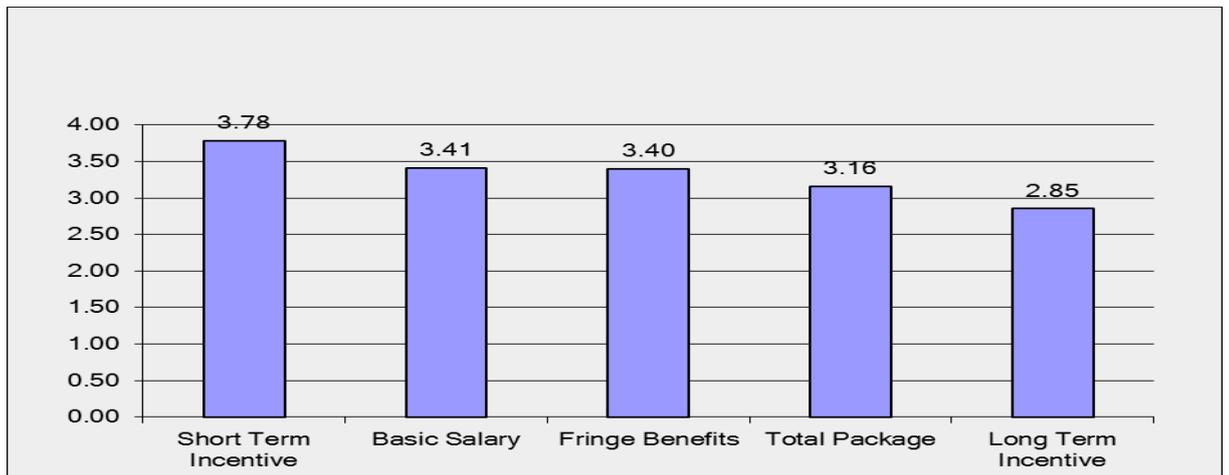


Figure 4.7: Perceived Impact of Pay on Company Performance

The results for the remuneration component with the highest mean rating impact on performance is further represented in graphical format in Figure 4.8

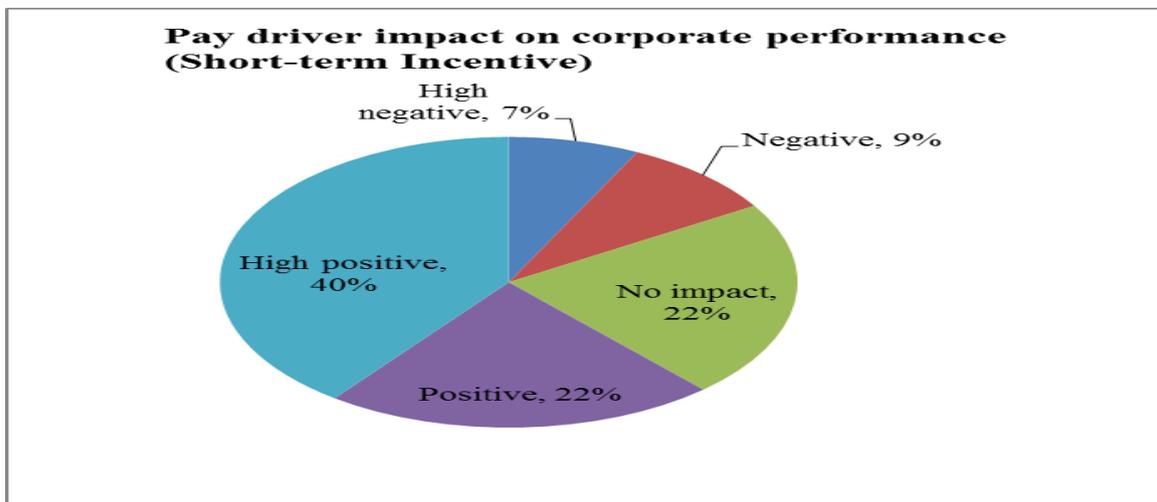


Figure 4.8: Pay driver impact on corporate performance (short-term incentive)

Namport employees believe that relative to other remuneration components, increase to the short-term incentive component have a positive impact on company performance. Forty percent believes it has a high positive impact, 22% a positive impact with the balance believing it has no impact or has a negative impact.

4.2.5 Correlation

In this section, the correlation between the extent of increase in pay components and impact of increase on company performance is reported. The extent of increase on pay components was cross-tabulated with the perceived impact of the increase on company performance. The null hypothesis test is that a correlation exists between the extent of increase in pay components and the impact on company performance.

A reliability test was performed on the matrix as per Table 4.20.

Table 4.20: Reliability Statistics

Cronbach's	
Alpha	N of Items
.817	10

As is evident from Table 4.20, a reliability test yielded a Cronbach Alpha coefficient value of 0.817 indicating that a good correlation exists. Cortina, 1993 (cited in Pallant, 2006) indicated that a Cronbach Alpha of 0.7 and greater is significant.

The relationship between the primary pay component increase driver extent of increase and the impact of increase on company performance was investigated using the Pearson product-moment correlations coefficient. The results are shown in Table 4.21.

Table 4.21: Correlation between primary pay driver extent of increase and impact of increase

	Extent of Increase Received on Short Term Incentive Scheme	Short Term Incentive Scheme Impact on Company Performance
Extent of Increase Received on Short Term Incentive Scheme	Pearson Cor- relation Sig. (2-tailed) N	1 .789(**) 68
Short Term Incentive Scheme Impact on Company Performance	Pearson Cor- relation Sig. (2-tailed) N	.789(**) 1 .000 68

** Correlation is significant at the 0.01 level (2-tailed).

The correlation was calculated to give a Pearson Correlation of 0.79. This shows that there was a strong positive correlation between the two variables ($r=0.79$, $n=68$, $p<0.0005$), with high levels increase on short-term incentive associated with high positive impact on company performance. There appears to be an association between the factors driving pay increase and the impact of the increase on company performance. The pay components that positively affect company performance have now been empirically explored and understood. Therefore the null hypothesis is accepted.

4.2.6 Multiple Regression

In this section, the standard multiple regression was employed to establish the extent to which corporate performance can be explained by the various remuneration components and/or how much variance in corporate performance can be explained by remuneration components. The null hypothesis test is that a third of corporate performance is explainable by remuneration components. The evaluation results are depicted in Table 4.22 and Table 4.23.

Table 4.22: Model Summary (b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.822(a)	.675	.649	.751

a Predictors: (Constant), Extent of Increase Received on Long Term Incentive Scheme, Extent of Increased Received on Basic Salary, Extent of Increase Received on Total Package, Extent of Increase Received on Short Term Incentive Scheme, Extent of Increase Received on Fringe Benefits

b Dependent Variable: Short Term Incentive Scheme Impact on Company Performance

The Adjusted R Square value of 0.649 indicates that 64.9% of the variance in perceived impact of remuneration on corporate performance is explained by the five independent predictor variables (i.e. basic salary, total package, fringe benefits, short-term incentive and long-term incentive). This is quite a respectable result particularly because the Adjusted R Square value is deemed to deliver a superior approximation of the actual population value (Tabachnick & Fidell, 2001: 147 cited in Pallant, 2006).

The statistical significance of the result was also assessed using the ANOVA test. The ANOVA test results are indicated in Table 4.23.

Table 4.23: ANOVA (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	72.719	5	14.544	25.784	.000(a)
	Residual	34.972	62	.564		
	Total	107.691	67			

a Predictors: (Constant), Extent of Increase Received on Long Term Incentive Scheme, Extent of Increased Received on Basic Salary, Extent of Increase Received on Total Package, Extent of Increase Received on Short Term Incentive Scheme, Extent of Increase Received on Fringe Benefits

b Dependent Variable: Short Term Incentive Scheme Impact on Company Performance

The model reaches statistical significance (Sig=0.000, meaning $p < 0.0005$). The contribution of each of the remuneration components included in the model to the extent of impact of remuneration corporate performance is depicted in Table 4.24.

Table 4.24: Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients		95% Confidence Interval for B		Correlations			Collinearity Statistics		
		B	Std. Error	Beta	t	Sig	Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	1.182	.409		2.888	.005	.364	2.000					
	Extent of Increased Received on Basic Salary	.111	.160	.078	.689	.493	-.210	.431	.567	.087	.050	.408	2.452
	Extent of Increase Received on Total Package	.116	.099	.097	1.171	.246	-.082	.315	-.076	.147	.085	.767	1.303
	Extent of Increase Received on Fringe Benefits	.302	.182	.190	1.665	.101	-.061	.665	.499	.207	.121	.403	2.484
	Extent of Increase Received on Short Term Incentive Scheme	.481	.084	.611	5.708	.000	.313	.650	.789	.587	.413	.456	2.191
	Extent of Increase Received on Long Term Incentive Scheme	-.207	.119	-.167	-1.745	.086	-.445	.030	-.365	-.216	-.126	.572	1.748

a Dependent Variable: Short Term Incentive Scheme Impact on Company Performance

Comparison of the standardized coefficient values (beta) indicates that the largest beta coefficient is 0.611 applicable to the short term incentive scheme. This means that short-term incentive is perceived to have made the strongest and unique impact on Namport's corporate performance. The beta values for all other remuneration components were in comparison to short term incentive far lower, indicating that they made less of a contribution.

Apart from the probability value for the short-term incentive remuneration component shown in the Sig. column of Table 4.24, the values for all other remuneration components are greater than 0.05. This means that these components have not made a significant and unique impact on Namport's corporate performance over the last three years.

The regression model which includes the remuneration components explains 64.9% of the variance in perceived impact of remuneration on corporate performance. Of the five variables short-term incentive made the largest unique contribution (beta=0.611). The results support the Pearson correlation test results as well as the mean rating by the respondents in Table 4.18. The pay components that positively affect company performance have now been empirically explored and understood and therefore the null hypothesis is accepted.

4.3 Part 2: Secondary Study – Company Data Analysis Results

Data collected from the company's annual reports, publications and payroll data were subjected to rigorous financial analysis, using Microsoft Excel. The results are presented in this section under two major sections, namely company performance and remuneration management.

4.3.1 Company Performance

The evaluation of Namport corporate performance was carried out through the use of internal (accounting) measures. Although researchers in the remuneration field generally argue that external measures are in many ways superior to internal (accounting) measures, external measures are deemed inappropriate for this study given that Namport is not a listed entity. The results of the analysis are presented next.

4.3.1.1 Revenue

During the period under study i.e. September 2006 to 31 August 2009, Namport recorded excellent operational results and significant growth with revenue exceeding the N\$ ½ bil-

lion mark. Revenue increased by 363 148 million or 144% compared to the base year, 2006. The results are shown in Figure 4.9

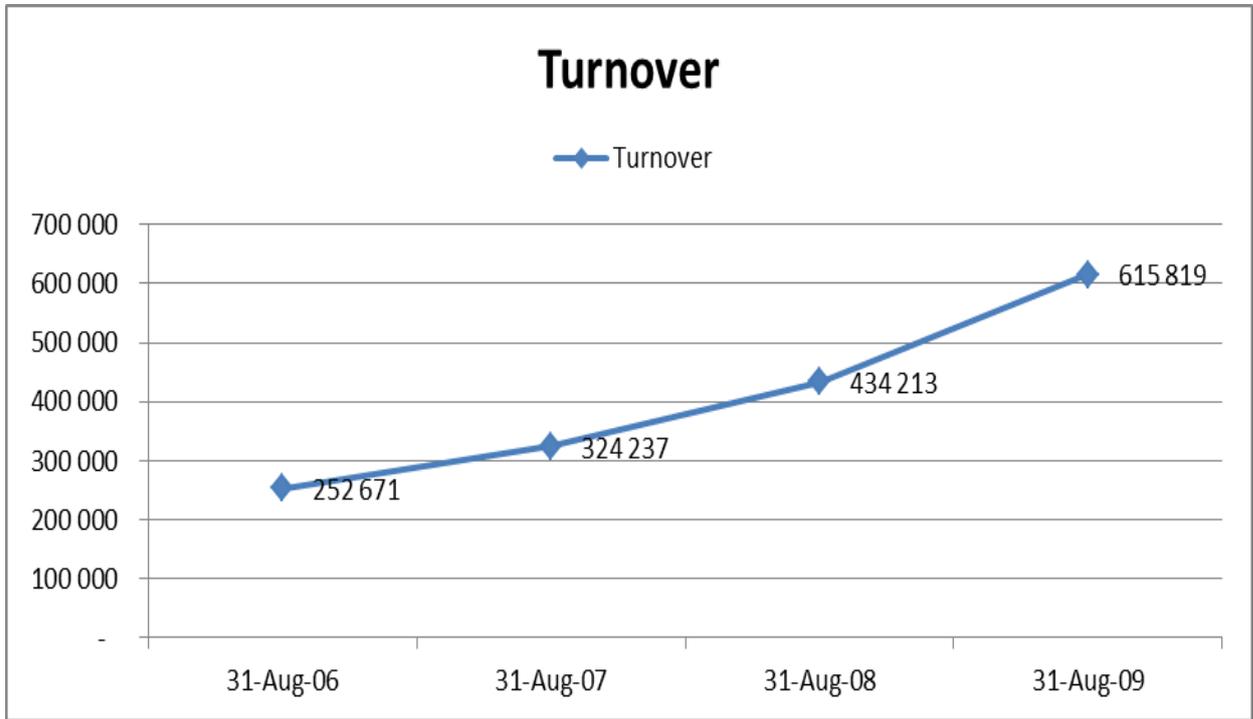


Figure 4.9: Namport Turnover

The growth in revenue is authenticated by the phenomenal increases recorded in cargo and TEUs handled as well as the increase in the number of vessels calling at the company’s ports. The statistics reflected in Table 4.25 relating to Port operations provide a clearer indication (Namport, 2009).

Table 4.25: Cargo handled (tonnage)

Cargo Handled in Tonnage	31-Aug-06	31-Aug-07	31-Aug-08	31-Aug-09	Overall Growth
Cargo shipped	1 223 368	1 322 934	1 420 833	1 438 950	215 582
% increase in cargo shipped		8.14%	7.40%	1.28%	17.62%
Cargo landed	2 050 595	2 406 212	2 830 479	3 120 887	1 070 292
% increase in cargo landed		17.34%	17.63%	10.26%	52.19%
Cargo transhipped	329 167	507 335	439 030	824 044	494 877
% increase in cargo transhipped		54.13%	-13.46%	87.70%	150.34%
Total cargo handled	3 603 130	4 236 481	4 690 342	5 383 881	1 780 751
% increase in total cargo handled		17.58%	10.71%	14.79%	49.42%

Table 4.26: Containers Handled (TEUs)

Containers Handled in TEUs	31-Aug-06	31-Aug-07	31-Aug-08	31-Aug-09	3-year Growth
Containers shipped	27 926	28 101	36 518	55 330	27 404
% increase in containers shipped		0.63%	29.95%	51.51%	98.13%
Containers landed	29 482	28 163	42 062	54 729	25 247
% increase in containers landed		-4.47%	49.35%	30.12%	85.64%
Containers transhipped	36 777	91 970	105 025	154 165	117 388
% increase in containers transhipped		150.07%	14.19%	46.79%	319.19%
Total containers handled	94 185	148 234	183 605	264 224	170 039
% increase in total containers handled		57.39%	23.86%	43.91%	180.54%

Table 4.27: Vessels visits (Number)

Vessels visits (Number)	31-Aug-06	31-Aug-07	31-Aug-08	31-Aug-09	Overall Growth
Vessels	2 439	2 384	2 509	2 716	277
% increase in vessels visits		-2.26%	5.24%	8.25%	11.36%

4.3.1.2 Profitability Ratios

4.3.1.2.1 Operating Profit Margin: Profit Before Interest and Tax / Sales

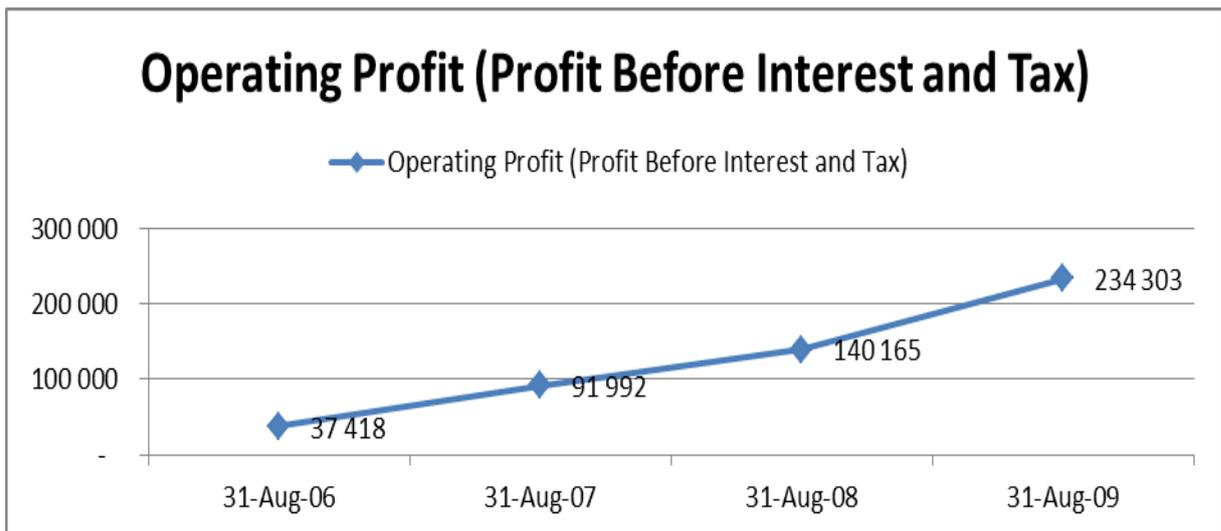


Figure 4.10: Namport Operating Profit Margin

The operating profit margin indicates the earnings of the company before interest and taxes are deducted from revenue generated from operations. The higher the operating profits margin, the greater the flexibility that an organisation has with respect to its pricing structure. However, it could also indicate the extent to which the organisation has a grip on its costs. Compared to the base year, operating profit went up by 526% as depicted in the Figure 4.10.

4.3.1.2.2 Net Profit Margin: Profit After Interest and Tax / Sales

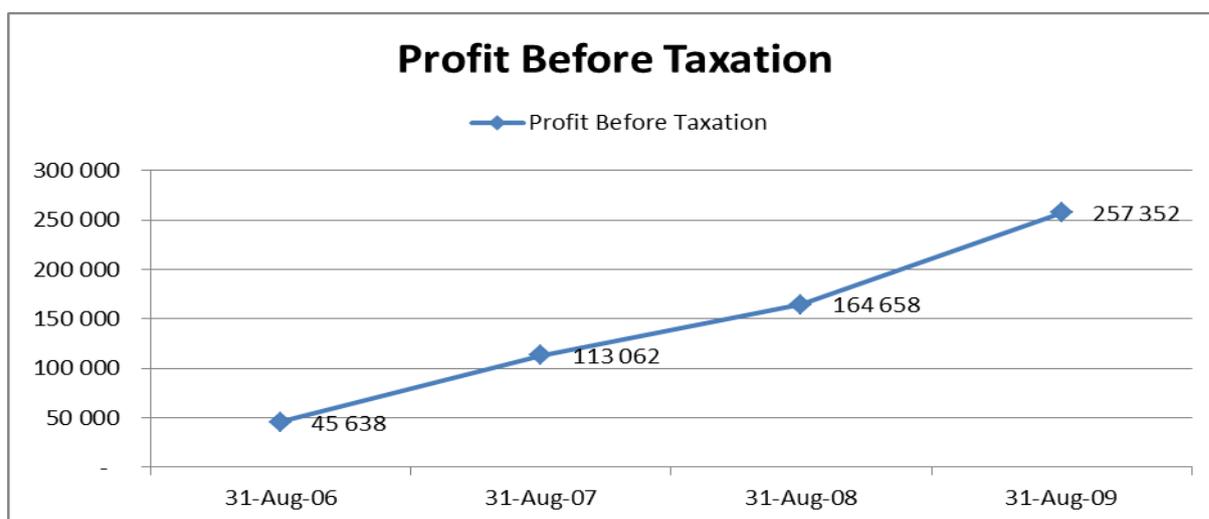


Figure 4.11: Profit Before Tax

Similar to the operating profit margin, the net profit margin assesses earnings available to shareholders after interest and taxes have been deducted on the income statement. The higher the profit margin, the more the flexibility that the organisation has on its pricing structure or the more management has been successful in managing and curtailing costs. Profit before tax increased by 464% over the period under review as per Figure 4.11.

4.3.1.2.3 Return on Investment (ROI): Total Asset Turnover x Net Profit Margin

The ROI is calculated by multiplying the total asset turnover by the net profit margin. The figure is useful because it demonstrates the extent to which the organisation has effectively used its assets to generate earnings.

The DuPont method provide for the company to categorise its return on investment into a profit on sales category and an asset efficiency category. Typically, a company with a low net profit margin would have a total asset turnover. The relationship between the net profit margin and Total Asset turnover is largely dependent on the industry in which the company operates.

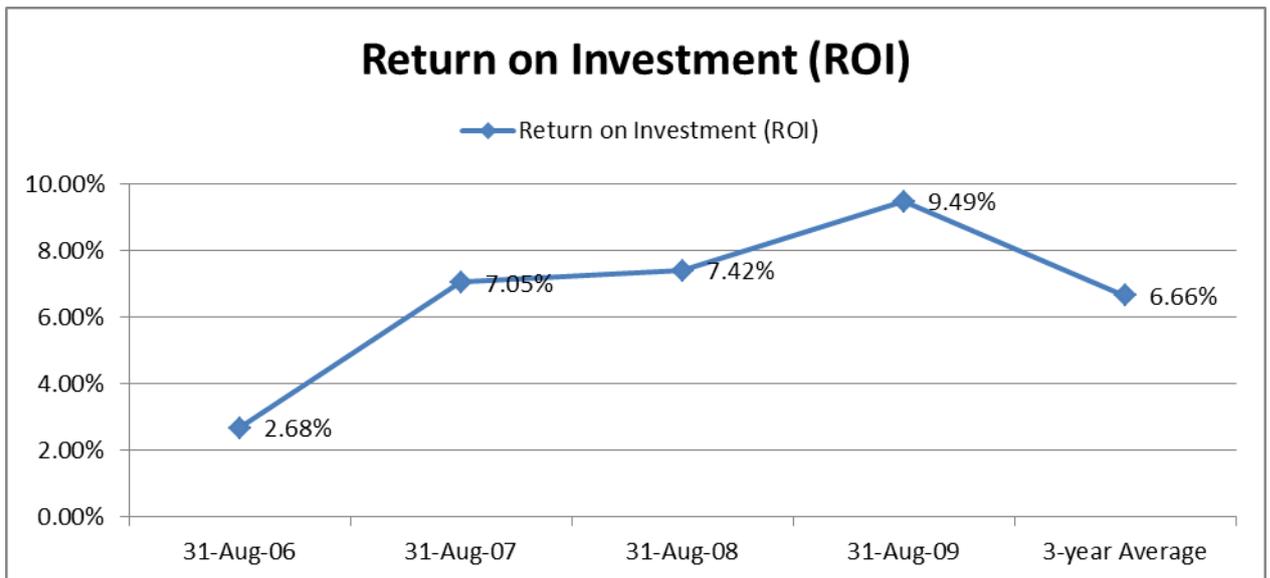


Figure 4.12: Return on Investment

The analysis of the results in Table 4.12 indicate that the company only had an ROI of 2.68% in 2006 and that grew to 9.49% by 2009, which is a positive growth trend. The 3-year average ROI of 6.66% is not bad either, considering the fact that the average overdraft rate over the same period was also around the same figure.

4.3.1.2.4 Return on Equity: Profit After Interest and Tax / Ordinary Shareholders' Equity

This is an important ratio to the owners of the shares as they require a certain return relative to the risks involved with the investment in the entity. It measures the return attributable to these shareholders and indicates the earning power of ordinary shareholders equity. The return on equity assesses the return earned on capital in the company (Sowden-Service, 2008). The greater the return the more the company has been able to maximise shareholders' wealth.

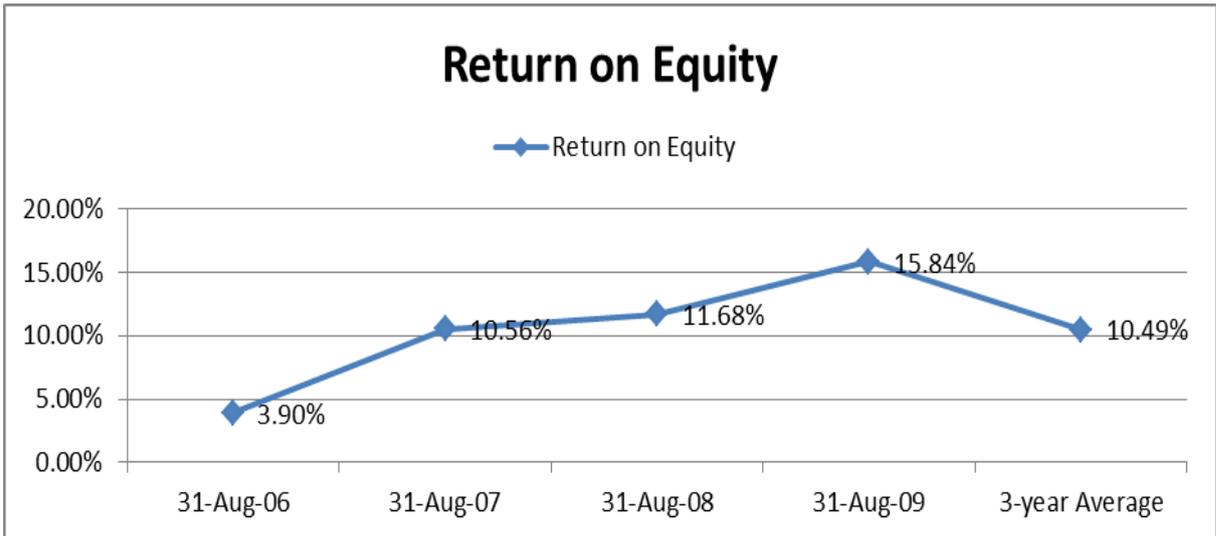


Figure 4.13: Return on Equity

The ratio also shows a positive growth trend from 3.90% in 2006 to 15.84% in 2009. The three year-average of 10.49% is also above industry standard.

4.3.1.2.5 Return on total assets: Profit Before Interest and Tax / Total Assets

The purchase of assets presupposes a capital investment, which in turn presupposes the intention to increase productivity and to stimulate profits. The ratio is thus used to measure the productivity of assets regardless of capital structures (i.e. the percentage returns on the assets). The ratio indicates the effectiveness of management's use of the company assets entrusted to them.

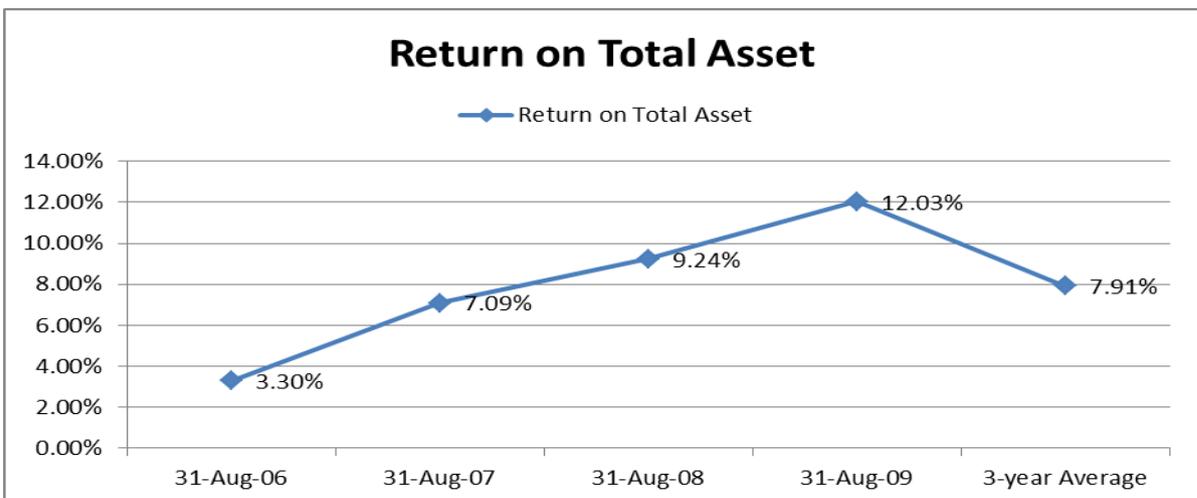


Figure 4.14: Return on Total Assets

The analysis indicates that there has been a positive growth trend since 2006 i.e. 3.30% which went up to 12.03% by 2009.

4.3.1.2.6 Return on Capital: $\text{Return on Equity (ROE)} / (1 + \text{Debt to Equity Ratio})$
OR
 $\text{ROE} \times (1 - \text{Debt to Capital})$

The return on capital ratio assess the financial performance of the company by ascertaining how much funds (i.e. total borrowings and total owners’ funds) were required to generate the company’s earnings. The ratio also shows the extent to which the company has profi- ciently utilised its funds maximise earnings for the shareholders (Sowden-Service, 2008). The ratio is akin to return on equity.

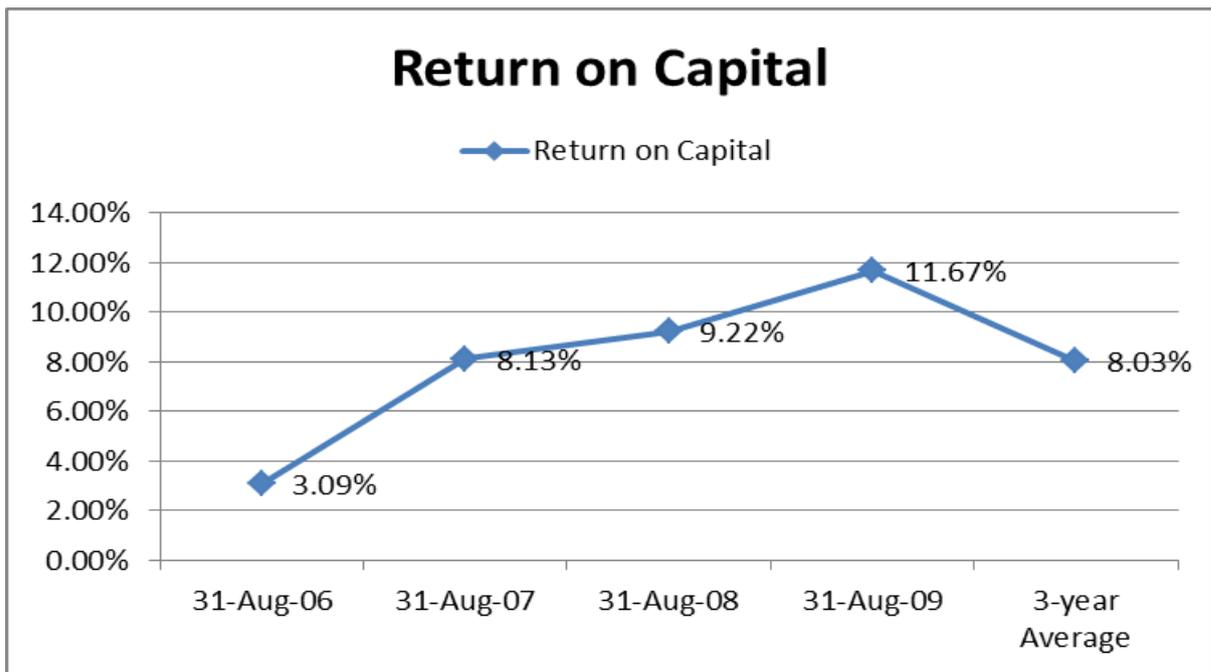


Figure 4.15: Return on Capital

The analysis shows there has been a positive growth in terms of return on capital. However, this ratio is more conservative unlike the return on equity (i.e. three year average return on capital of 8.03% vs. three year average return on equity of 10.49%). The comprehensive picture is given in Figure 4.15.

4.3.1.3 Liquidity Ratios

4.3.1.3.1 Current ratio: $\text{Current Assets} / \text{Current Liabilities}$

The ratio measures the liquidity of the business or short-term paying capacity of the business to honour its current liabilities out of its current assets. The general norm is around 2:1, whilst the port industry norm is around a ratio in excess of 1.5 times. Namport's current ratio remains at acceptable levels, having increased from 2.06 in 2006 to 3.18 in 2009 and returning an average ratio of 2.74 for the three-year period. Figure 4.16 attests to the fact that Namport is highly liquid compared to the industry norm.

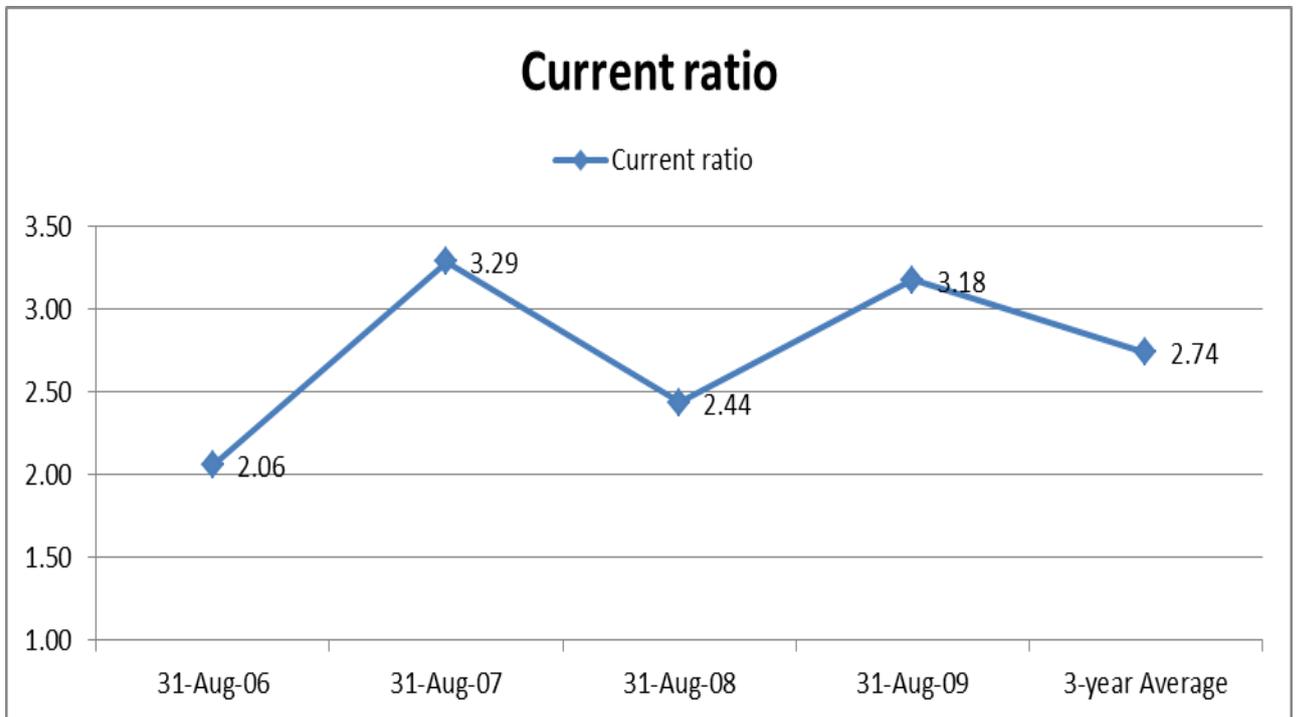


Figure 4.16: Current ratio

4.3.1.4 Solvency Ratios

Namport is highly solvent and well placed to meet its long-term commitments as and when they fall due. The solvency levels which are healthy provide the company with sufficient scope for procuring long-term financing gearing. This is reflected in the following ratios, all of which reflect very healthy ratios:

4.3.1.4.1 Debt Ratio: $\text{Total Liabilities} / \text{Total Assets}$

This ratio calculates the portion of total assets funded through debt i.e. indicates the percentage of total assets financed through borrowings (shows the extent of the leverage being used). The higher the ratio, the greater the amount of third party funds being used to finance the operations. Figure 4.17 below clearly indicates that the debt ratio has remained fairly constant, with the three years average standing at 0.35 which reflect a healthy balance sheet. This is generally above the norm in favour of Namport.

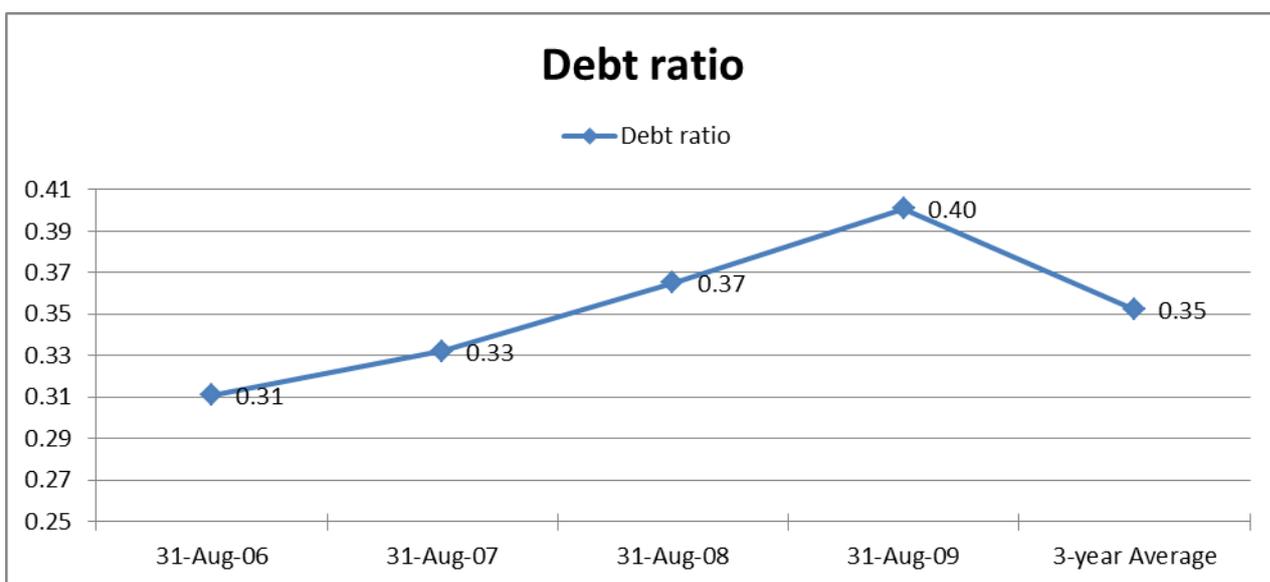


Figure 4.17: Debt ratio

4.3.1.4.2 Debt Equity ratio: $\text{Total Debt} / \text{Total Equity (ordinary \& preference)}$

The ratio measures the proportion of borrowed capital to equity and is a comparison of either internal funds to total investment or of external funds to total investment. Debt is considered to be cheaper but riskier than equity finance. The higher the ratio, the greater the amount of debt being used to finance the operations compared to equity funds. The graph in Figure 4.18 clearly indicates that the debt equity ratio has remained fairly constant, with the three years average standing at 0.30 which reflect a healthy balance sheet.

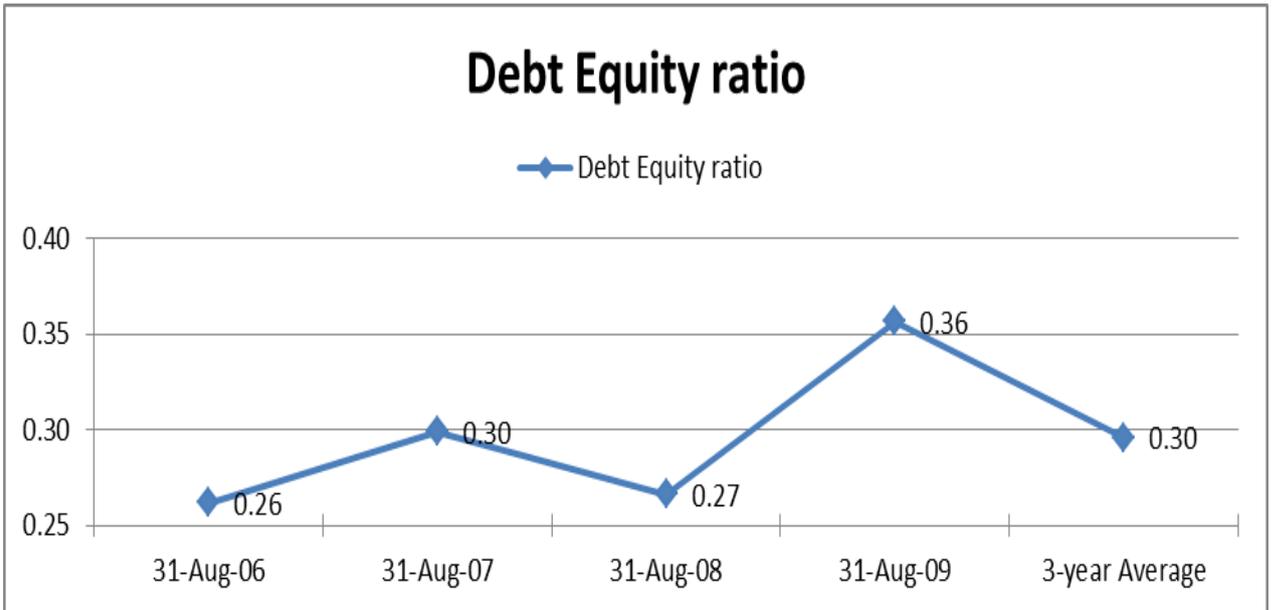


Figure 4.18: Debt Equity ratio

4.3.1.4.3 Interest Coverage: $\text{EBIT} / \text{Interest Charges or Expense}$

Interest coverage measures the company's ability to make contractual interest payments. The greater the ratio, the more the company is able to fulfill its interest obligations. A value of at least three is often suggested as a safe interest cover ratio. Figure 4.19 indicates a value well above norm having grown from 1.24 in 2006 to 4.90 in 2009.

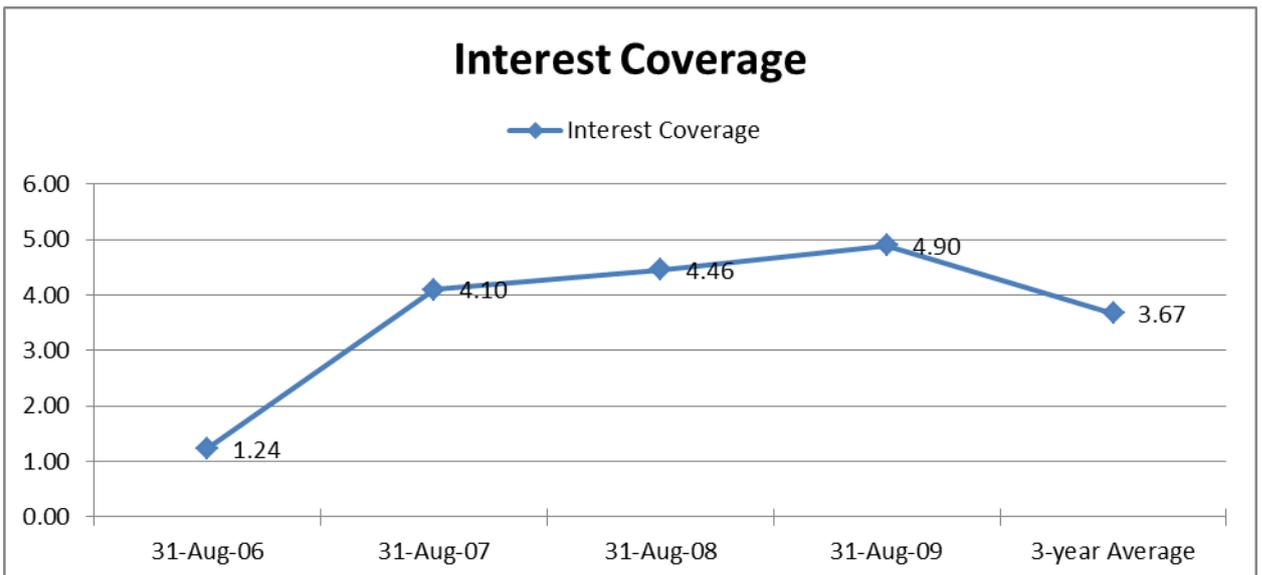


Figure 4.19: Interest coverage

4.3.1.5 Operational Efficiency (Activity) Ratios

Activity ratios compare various business activities to other activities or to norms. The key ratios are as follows:

4.3.1.5.1 Total Asset Turnover: Sales / Total Assets

4.3.1.5.2 Fixed Asset Turnover: Sales / Total Fixed Assets

4.3.1.5.3 Equity Turnover: Sales / Equity

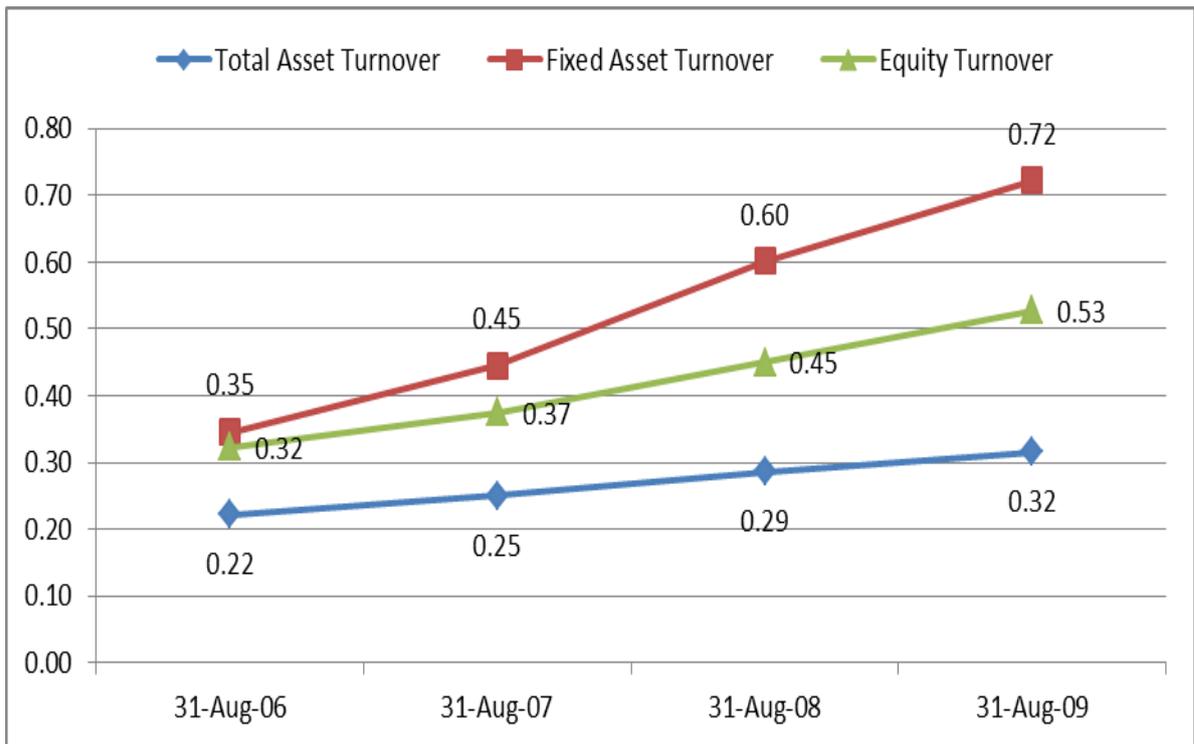


Figure 4.20: Activity ratios

The analysis shows there has been a positive growth in terms of both activity ratios.

4.3.1.6 Growth Ratios (Sustainable Growth Rate and Retention Rate)

Shareholders make money in two ways, increase in the market value of the shares and dividends (Garrison et al, 2006). Namport has a dividend policy in terms of which payment of a dividend must not adversely affect Namport's ability to maintain its infrastructure and must allow a plough back of profits to fund expansion. The Namport dividend policy provides for the determination of the dividend as follows (Namport Dividend Policy, 1999):

Net Profit After Tax (per audited financial statements)	X
Less: Depreciation based on fixed assets at market value (adjusted by CPI)	Y
Non-cash Profit	<u>Z</u>
	A
Dividend (3.0 times cover)	1/3 rd of A

The policy further stipulates that certain measures as will be prescribed in the performance contract must be adopted to ensure the financial soundness is not jeopardised. The following criteria must be applied to adjust the amount derived from the given formula:

- Liquidity: 2.0
- Debt/equity: 1.0
- Interest cover (or any higher value that may be required by a lender: 1.5
- Dividend cover 3.0

As Namport is classified as a SOE that falls in the economic and productive category, the company has also been able to meet its legal obligations provided for in Section 25 of the State-owned Enterprises Governance Act, 2006 (as amended) which provides that an SOE in the economic and productive category must declare and pay dividends to the Government of the Republic of Namibia on an annual basis (SOE, Act, 2006). The Act further provides that the dividend payable must be determined after taking the following into consideration:

- Retention of an amount for purposes of future capital requirements and sustainability
- Future loan agreements
- The State-Owned Enterprises' trade facilitator role
- The desired debt-equity ratio

Namport has annually declared dividends to the shareholder based on the financial results achieved and in line with its dividend policy and the SOE Act, 2006. Dividends declared are depicted in table 4.21.

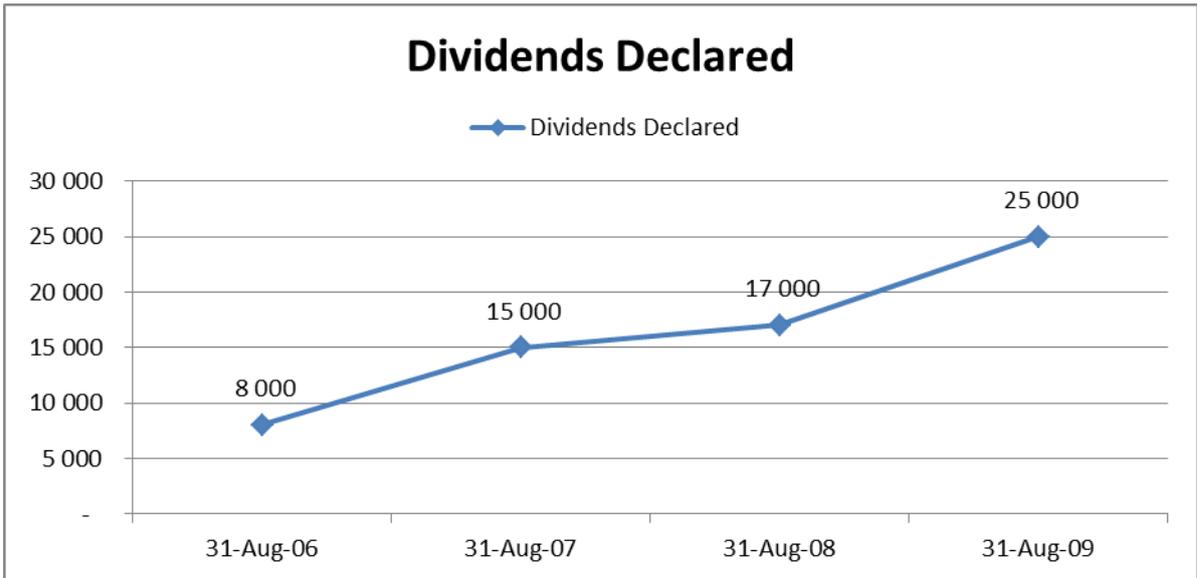


Figure 4.21: Dividends declared

An analysis of the dividends paid over the last three years, which is the subject of this study, indicates that all policy and legislation requirements have been complied with and in fact return positive results.

As a matter of fact the Namport has been able to declare dividend throughout despite the fact that the company is embarking upon a massive port expansion project which is estimated to cost in the region of N\$ 2 billion. Growth ratios flowing from the dividends declared and which reflect the expansion project are depicted in Figure 4.22.

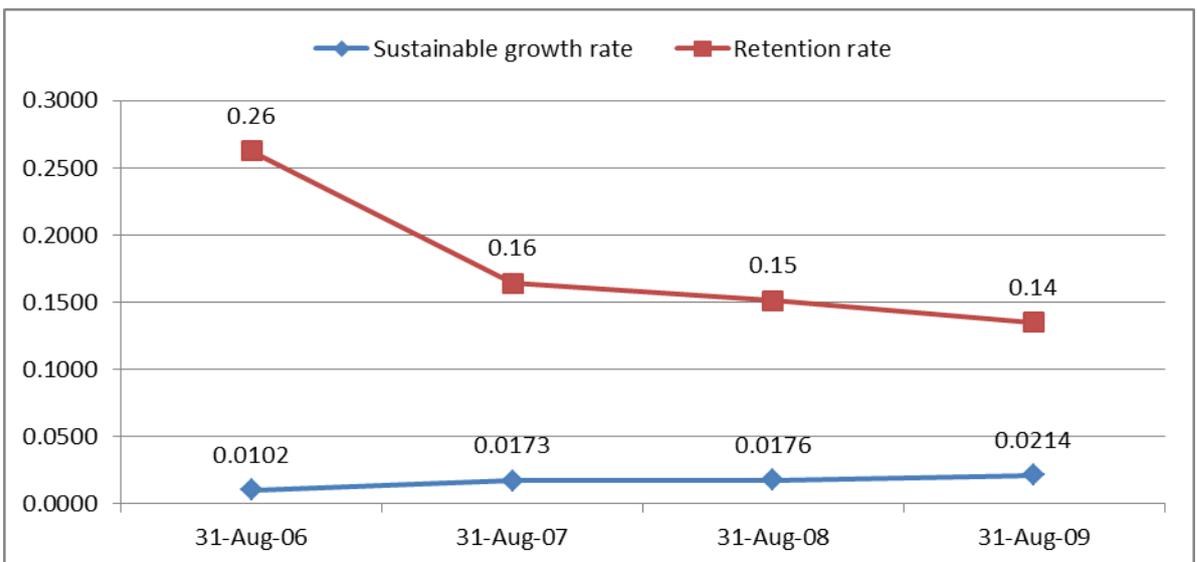


Figure 4.22: Growth rates

4.3.2 Remuneration Increases

The quantitative approach was also adopted, but making use of the company's annual reports and payroll data in order to determine the actual increases granted in Namport as well as the actual company performance over the past three years, so as to quantify the impact of pay increases on Namport's corporate performance. A descriptive and financial analysis of the secondary data was specifically adopted in order to cross-check the findings from the primary study.

4.3.2.1 Short Term Incentive Scheme

Namport implemented for the first time a Short Term Incentive Scheme in 2006 following the successful implementation of the Performance Management System based on the balanced scorecard approach.

At the beginning of each financial year, each employee gets assigned performance targets based on a combination of the balanced scorecard and the position's responsibilities. Performance reviews are carried out three times a year with each employee. At the end of the financial year an average performance score for each employee is calculated based on the three reviews of the year and categorised into five categories, namely excellent, very good, good, below average and unacceptable performance. In order to ensure fairness and transparency, each Manager's staff performance scores are reviewed and recommended by the next level of authority to the next higher level of authority, typically the head of the Division, which also review and authorises the performance scores (Namport Performance Management Policy, 2006).

Employees with scores above average and higher participate in the short term incentive whilst those with scores below average are not eligible to participate in the short term incentive scheme. Performance bonus distribution at an individual level is based on a combination of the individual performance scores, business unit performance score (Namport Performance Management Policy, 2006).

The objective of the scheme is to share the fruits of financial success with its workforce. Bonus pool is based on a percentage of the gain over predetermined targets and goals. Actual distribution is dependent on company performance, having attained or met a predetermined net profit target.

The Namport short-term incentive scheme provides for differentiated formulas in respect of incentive distribution for managerial and non-managerial staff.

For managerial staff, the Namport short-term incentive scheme provides for a different formula, i.e. 3% of EBT (Earnings Before Tax). The differentiation is based on the reasoning that management has control over all other elements having an impact on the bottom line which general staff may not necessarily have control over. These elements are depreciation, which flow from management decisions to invest in assets replacement and operations expansion; the cost of financing, returns on investments made as well as proper and effective tax planning all of which management have control over and which impact on the bottom line (Namport Performance Management Policy, 2006).

For general staff incentive distribution is based on 3% of EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization, excluding management. Management is excluded as management's performance bonus is based on a different formula as explained above.

Table 4.28 provides comparative information with respect to actual distribution for staff's performance bonuses:

Table 4.28: Actual short-term incentive distributed to staff, 2006-2009

Short Term Incentives Paid	31-Aug-2006	31-Aug-2007	31-Aug-2008	31-Aug-2009
	N\$'000	N\$'000	N\$'000	N\$'000
non-Managerial staff	3 022	6 044	6 690	10 580
Managerial staff	1 648	3 297	4 940	7 721
Total short-term incentive paid to Namport staff	4 670	9 341	11 630	18 301

Source: Board minutes dated 07 November 2009

The overall short-term incentive distributed to staff for the period 2006 to 2009 is represented below in Figure 4.23.

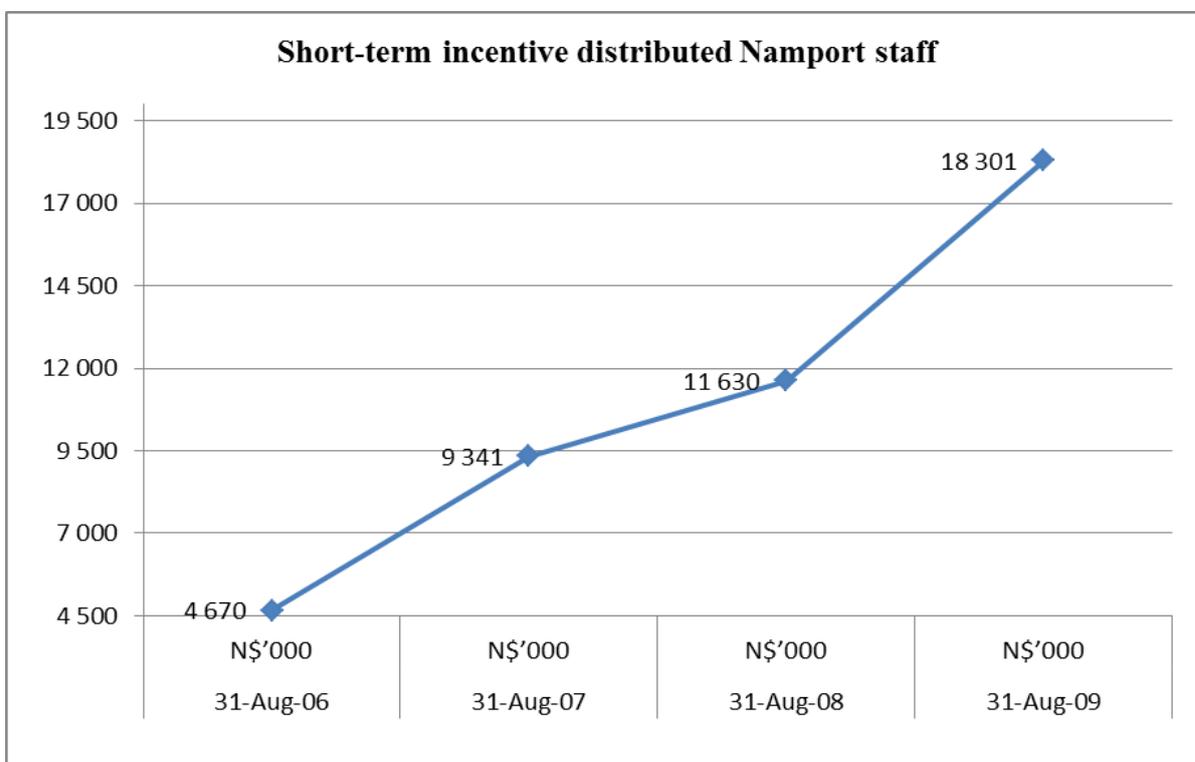


Figure 4.23: Short-term incentive distributed to Namport staff

The analysis indicates that there has been a positive growth in the amount bonuses distributed to staff. The distribution was made on the backdrop of positive growth recorded in overall company profitability during the past three years.

4.3.2.2 Guaranteed Remuneration

For the purposes of this section, guaranteed remuneration included basic salary, fringe benefits and the total cost to company guaranteed remuneration.

Namport's conditions of service provide for an annual automatic notch increase amounting to at least 2.3% of an employee's basic salary based on years of service. In addition the Namport Conditions of Service provide that guaranteed remuneration is reviewed annually for implementation effective 01st April of each year to take cognisance of inflationary movements (Namport Remuneration Policy, 2006). Namport has a Collective Bargaining

Agreement with the Namibian Transport and Allied Workers Union (NATAU). The agreement provides that Namport NATAU shall negotiate annually on substantive issues i.e. wages and conditions of employment of a collective nature on behalf union members within the bargaining unit agreed to between the parties (Recognition Agreement, Clause 4). Union’s demands are usually guided by inflationary pressure while management’s mandate is informed by a combination of inflationary pressures, competitiveness of remuneration vis-à-vis the market and the financial performance of the company. The average remuneration increases granted to staff based on guaranteed remuneration is reflected in Figure 4.24.

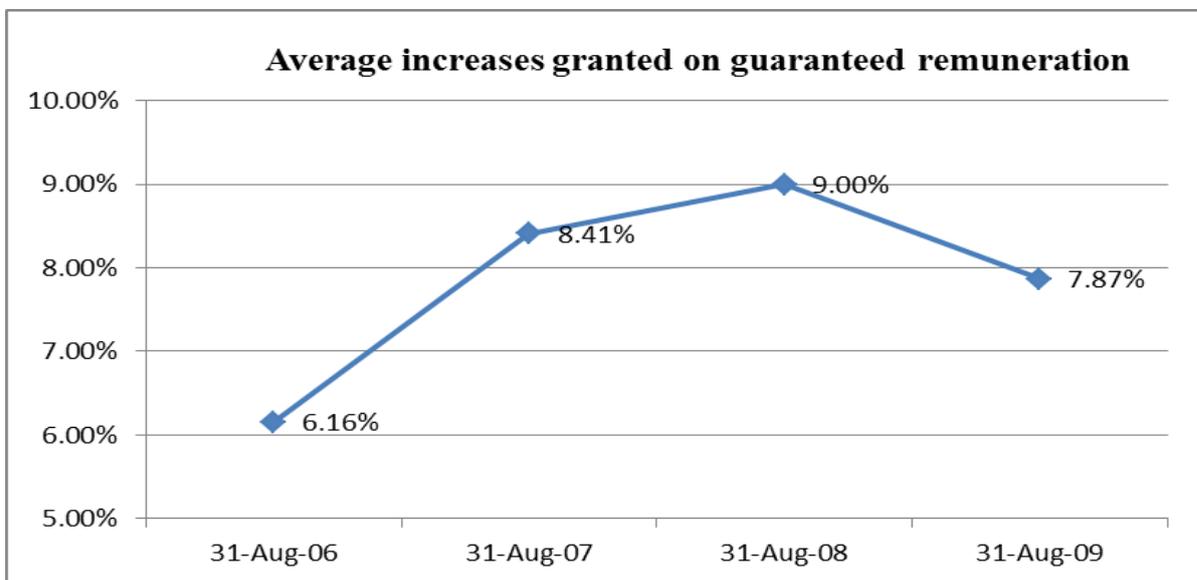


Figure 4.24: Average increases granted on guaranteed remuneration

The analysis indicates that during the past three years an increase of between 6% and 9% was granted to staff based on guaranteed remuneration. This supports the findings from the primary study to the effect that an increase was received on the various guaranteed remuneration components.

4.3.3 Long-term Incentive Scheme

Long Term Incentive Schemes (LTIs) are usually designed to drive an organisation’s long term business strategies and to promote an entrepreneurial flair. Its primary objectives are to align participants’ interests with shareholder interests; incentivise and motivate partici-

pants; attract and retain scarce human resources and reward superior and sustained long term performance of the organisation (P-E Corporate Services, 2009).

Namport does not have a strategy round this incentive scheme and ha therefore not implemented any long-term incentive scheme. This reality is reflected in the findings from the primary study.

4.4 Chapter Summary

In this chapter, the results of the data analysis observed in respect of the research questions were reported. The factors driving pay increases in Namport were validated. The relationship between the extent of the increase and the impact of increase on company performance was also explored and found to be positively associated.

Data derived from Namport's annual reports and payroll records were also analysed. It has been confirmed that the company recorded extraordinary growth in profitability during the past three years. It was also found that apart from increases granted on guaranteed remuneration, attractive performance bonuses were paid out to staff in the form of short-term incentives. Analysis of secondary data confirms the results from the primary study.

In the next chapter, the interpretation of the results and the conclusions drawn from the literature survey and the empirical research are discussed.

CHAPTER 5: DISCUSSION AND INTERPRETATION OF RESULTS

5.1 Introduction

The primary objective of this study was to establish factors driving remuneration in Namport, the remuneration components that increased over the last three years and to quantify the relationship, dependence and/or correlation that exist between the extent of change in remuneration components and the perceived impact of the changed components on company performance. The secondary research questions included an investigation and quantification of actual company performance and remuneration increases in Namport in order to correlate and confirm the findings from the primary study. Finally there was a need to understand the remuneration components that mostly impacted on company performance.

This chapter presents the interpretation of findings from both the literature review and the empirical study and attempts to integrate these findings into a meaningful conclusion.

5.2 Key Empirical Findings Drawn from the Literature

This study started-off by deriving and recognising four main research propositions from the literature review, namely (1) remuneration theories (i.e. economic-inclined and psychologically-inclined motivational theories), (2) factors driving pay, (3) remuneration components and (4) impact of remuneration components on company performance. Figure 5.1 shows the linkage between these research propositions as derived from the literature.

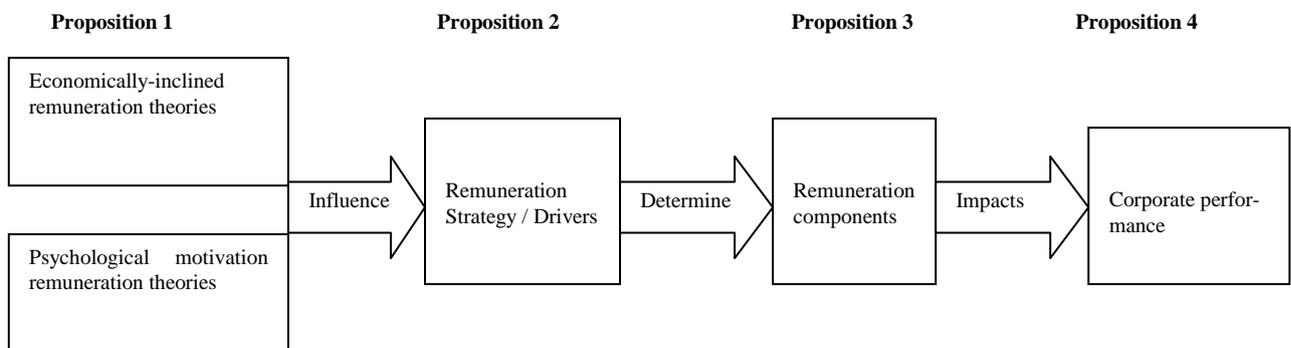


Figure 5.1: Research propositions

The propositions and their linkages were drawn from the literature. Perkins and White (2008: 60) categorised remuneration drivers into economic-inclined remuneration theories and the psychological motivation remuneration theories. The principle of economic-inclined remuneration theories is that there is competition for labour in the same way that within a capitalist society goods and services are traded in a market. In this regard, employers seek to purchase labour at the best price and employees seek to sell their labour within this market at the best price.

Psychological motivation remuneration theories on the other hand place greater emphasis on behavioural and biological factors and are based on the need to understand how people at work are motivated as remuneration systems affect employee behaviour and act as a managerial lever for employee performance (Perkins and White, 2008: 49).

These models are the theoretical foundations that inform and influence remuneration policies and practices, which ultimately impact on corporate performance. It thus goes without saying that these models should be considered by employers when designing remuneration policy in order to enhance its effectiveness and encourage higher levels of motivation and resultant levels of performance (Lawler, 2000).

According to Brown (2001), “the satisfactory management of employment requires the satisfactory management of remuneration as a necessary, if not a sufficient, precondition”. Whilst remuneration may not be a sole motivator, it is a critical if not indispensable motivating factor, of which the absence thereof or dissatisfaction with the absence thereof could have catastrophic consequences for the organisation’s performance.

The nature and quantum of remuneration originate from an organisation’s remuneration strategy framework, usually formulated by the Board of Directors, which encompasses strategic direction on the organisation’s approach to remuneration by providing strategic pointers to policy, best practice principles and a framework with respect to the level and form of remuneration that must be paid in order to attract, motivate and retain the right people (Mahoney, 1989). It usually seeks to align and ensures that remuneration policies and practices mirror and provide leverage to the organisation’s business vision, mission and values that underpin the business strategies.

The main conventional principles that underpin a typical organisation's strategy for a remuneration structure are the pay-for-the-job strategy; pay-for-the-market strategy; pay-for-the-person strategy and the pay-for-performance strategy (Mahoney, 1989). Given these varied strategies, remuneration structures can be designed in an unlimited number of ways and a single employer typically uses a combination of several ways to design remuneration packages appropriate to their organisations and industry, with a broadly defined remuneration package usually constituted by a combination of fixed and variable pay (Bratton and Gold, 2007).

Fixed pay is generally time- and skills-related, meaning the more time is made available by the employee to the employer and the higher the skills levels of the employee, the greater the level of pay. However, fixed pay is not necessarily considered by employees to be rewards, but regarded as entitlements (Wood et al 2005: 151). Consequently, its effect on both individual and corporate performance is to a greater extent limited and is thus not suitably aligned to the trend of rewarding for performance.

Resultantly, the presence of satisfactory fixed pay will not trigger performance or job satisfaction, but its absence will create job dissatisfaction (Wood et al 2005: 149). Dissatisfied employees reduce moral, are disruptive (Porter et al 2002: 343-345) and make smaller contributions to productivity than their satisfied counterparts. Thus, while money is not a motivational factor for many 'placed' employees, it is still used as a successful attraction method for potential employees (Wood et al 2005: 151). Fixed pay is thus a factor largely determining decisions by employees as to whether to remain in employment but not influencing job related behaviour or motivation driving employees to try harder.

Conversely, the variable pay approach is underpinned by the need for greater wealth sharing in order to stimulate both individual and corporate performance. It rewards performance and reflect the different impacts that individual and team performance have on overall business performance (Lawler, 2000). It ensures that remuneration is aligned to organisational performance and varies in relation to organisational performance. Employees enjoy higher compensation whenever they increase shareholder value and are penalized for any actions that destroy shareholder value. The common types of variable or performance

related pay are the Short-Term Incentives (STI), Long-Term Incentives (LTI) and the Commission Schemes. These were discussed extensively in Chapter 2.

There is general consensus in both the literature and general market that variable remuneration is the single significant contributor to individual performance and ultimately organisational performance. Becker et al, 1997 argue that variable remuneration has become an interior constituent of a performance management systems and an “essential element of the infrastructure that supports the value creation process” as it tend to provide strong motives to compel employees to give their best.

Bratton and Gold (2007) suggest that correctly designed performance-based pay systems have numerous advantages. Firstly signal key task behaviours and provide information about current performance levels. Second, they reduce the need for other types of managerial control over the labour process. Third, the practice helps to change the culture of the organisation and promote an entrepreneurial type of behaviour

Becker et al (1997) advocate that variable incentive compensation plans are a critical success factor for organisational performance and “must define desired employee behaviours and reward those behaviours in meaningful ways when goals are achieved” and should “reflect the values of the workforce that the organization wants to attract”

It is thus unsound to look at incentive schemes in seclusion from wider motivational factors. Incentive plans are just but one instrument available to Managers when facing the composite challenge of creating and sustaining a high performance culture in the organisation. Of course there are many options and the research in the area is immense.

Literature has undoubtedly confirmed that performance-based pay positively influence corporate performance. The pay-for-performance practice is therefore critical strategy for motivating employees to expend greater efforts to drive corporate performance.

The results from this study support the literature propositions. Evident from the study is that while fixed pay was identified as the second remuneration component that was increased to a greater extent, aside from variable pay (i.e. performance-related short-term

incentive), its perceived impact on corporate performance was found to be rather very little. Variable pay on the other hand was identified as the remuneration component that was increased to a very greater extent with its perceived impact on corporate performance having been found to be highly positive.

It is evident from the literature that it is the varied remuneration theories that shape an organisation remuneration strategy and policy framework, which framework define the remuneration components which would ultimately impact on organisational performance. It also follows that whilst fixed pay still constitute a critical component in remuneration decisions, its quantum in relation to the total compensation package need to be carefully looked at given its limited impact on both individual and corporate performance. This calls for a rather delicate balancing act as to what proportion it should account for in relation to variable pay, which has been empirically confirmed to have a high positive impact on company performance.

The linkages between the research propositions drawn from the literature has been confirmed and is specifically now known for Namport.

5.3 Factors Driving Pay Increases

The factors driving pay increases in Namport, their relative strength and the extent of increase is shown in Table 5.1

Table 5.1: Factors Driving Pay Increases Rank ordered by mean rating

Factors Driving Pay Increases	Mean Rating
	%
Company financial performance (once-off performance bonuses based on excellent company financial results)	75.0%
Performance-based bonus (once-off bonus based on individual performance)	69.8%
Inflationary Pressures (increase based on inflation)	66.2%
Trade Unions (increase resulting from union demands and/or negotiations)	60.6%
Productivity (salary increase or bonus based on meeting set production targets)	60.2%
Time-Based Pay (overtime, standby and shift allowances)	53.2%
Long service-based pay policy (increase based on long service and staff loyalty)	42.4%
Promotions (advancement to a vacant higher level position)	40.0%
Market benchmark / survey policy (increment based on need to match or exceed salaries payable in the market)	38.8%
Job re-evaluation / job re-grading (pay increase resulting from a re-evaluation of a job due to content change)	38.8%
Commission Schemes (commission payable on meeting or exceeding set performance targets)	38.2%
Career path progression (increment based on advancement through the in-grade career path ladder)	38.2%
Competitors (increase based on need to match or exceed salaries payable by competitors)	38.0%
Fixed-term contract (salary premium paid to staff for being on contract and/or attaining contract targets)	36.2%
Merit based pay (increase based on individual performance)	35.8%
Skills Scarcity (higher salaries paid to staff with scarce skills)	35.8%
Qualifications based pay policy (increase based on acquisition of additional qualifications)	32.8%
Regulator / Government (pay directives from government or regulator)	31.4%
Skills retention and attraction policy (payment of higher salaries to attract and keep staff)	31.4%
Legal compliance (adjustments brought about by requirements or changes in law)	31.2%
Skills based pay policy (increase based on acquisition of additional skills and competences)	28.6%
Technological changes (premium paid for new skills sets dictated by a change in technology)	28.4%
Share schemes policy (granting of shares by a company to an employee without any payment by the employee or for a nominal payment)	26.8%

The employment of the factor analysis statistical technique resulted in these factors being categorised into two main headings, namely: performance-related pay factors and non-performance related pay factors.

As discussed and indicated in Chapter 1, remuneration levels in Namibia's SOEs have trended upwards over the last couple of years. It is believed that these increases happened at a faster rate and without being necessarily accompanied by commensurate growth in corporate performance. It is contended that organisational performance in many of these enterprises has been on a descending trend and increases in remuneration were primarily attributed to self-enrichment schemes. This study was necessitated by the need to have empirical evidence to either support or disprove the above. This is an important empirical finding warranting the State Owned Enterprises Governance Council (SOEGC) to review its recently adopted one-size fits all remuneration policy framework for Namibian SOEs.

5.4 Remuneration Components' Extent of Increase and their Impact on Corporate Performance

The literature review generated two remuneration components, namely fixed pay or non-performance related pay typically represented by basic salary, fringe benefits and total package approach as well as variable pay represented by short-term incentive and long-term incentive schemes.

As there has been no scientific study conducted in Namibian SOEs to comprehensively investigate pay drivers and the empirical relationship between organisational performance and compensation levels, the actual drivers of pay in Namibia's SOEs as well as their impact on corporate performance had not been quantified. The remuneration components that were increased over the last three years as well as their impact on organisational performance were therefore unknown.

Table 5.2 shows each remuneration component in Namport rank ordered by both the mean extent of increase and the mean impact of the remuneration component on Namport performance.

Table: 5.2: Mean rating extent of increase of remuneration component and impact on Namport performance

Remuneration Components	Sorted by increase	Sorted by impact
Short Term Incentive (once-off performance bonuses, paid out in a period not more than a year)	62.6%	75.6%
Basic Salary	58.8%	68.2%
Fringe Benefits (e.g. Housing, Transport, Medical, Pension Fund, Allowances etc.)	57.0%	67.9%
Total Package	48.2%	63.2%
Long Term Incentive (once-off performance bonuses paid out after a period longer than 1 year)	36.4%	57.1%

It is evident from Table 5.2 that the varied Namport remuneration policy components' increases are driving different extents of impact on company performance. The extent of increase of remuneration component has a high correlation with the impact on corporate performance. The greatest perceived impact on corporate performance is being driven by the extent of increase in remuneration components. The extent to which the various Namport remuneration components were increased and the extent of their impact on Namport performance over the last three years has now been empirically established.

The literature has confirmed that performance-based pay positively influence corporate performance. Bratton and Gold (2007) pronounce that there continue to be a sturdy shift among employers towards implementation of performance-based pay, albeit with variations to ensure more transparency and manageability. This is attested to by table 25 where short-term incentives were increased the most, resulting in this component being perceived as having the most impact on corporate performance. Long-term incentives received the least increase. This is aligned to the fact that long-term incentive schemes are usually reserved for senior executives and also the fact that Namport has not fully implemented a long-term incentive scheme.

In addition, the categorisation of pay driving factors into two groups i.e. performance-related pay factors and non-performance related pay factors underscore the unique role that each of these groups has in the remuneration structuring space. As there is no one-size fits remuneration strategy or policy framework, a delicate balance will have to be ensured

when designing remuneration in order to have the desired effects. It thus flows that within the Namibian SOE environment where it is generally believed that remuneration levels are a function of self-enrichment schemes that are not accompanied by commensurate organisational performance, remuneration strategies should lean towards implementing performance based remuneration strategies in order to withstand the pervasive scrutiny of SOE remuneration levels.

The regression model explains 64.9% of the variance in perceived impact of remuneration on corporate performance. Of the five variables short-term incentive made the largest unique contribution ($\beta=0.611$). The results support the Pearson correlation test results as well as the mean rating by the respondents in Table 18. There is hence an association between factors driving pay increases, the extent of the increase on remuneration component and the impact on company performance. This is a fascinating finding for remuneration decision-makers that the remuneration component with the greatest impact on company performance falls within the performance-related factor component, more so because it is also in support of the literature review as to which pay drivers positively impact organisational performance.

The low correlation found relative to the loading on the performance-based component factor with respect to such pay driving factors as share schemes, commission schemes and merit-based pay are not surprising nor unexpected given that Namport is not a listed entity and that these factors are not part of the current Namport remuneration strategy. The same goes for the long-term incentive remuneration component as earlier explained. The findings are therefore not surprising nor misplaced. The lesson to be learnt is that where a need exist to create shareholder wealth.

The pay components that positively affect company performance have now been empirically explored and understood and therefore the null hypothesis is accepted. This necessitates the Namibian SOEGC to review the SOEs remuneration framework in order to provide for those pay factors that significantly and positively impact organisational performance.

5.5 Namport's Actual Corporate Performance

Results of the analysis for the secondary data revealed that despite the global economic recession that prevailed during the last three years, Namport achieved extraordinary financial results with turnover surpassing the N\$ ½ billion mark. The company continued to increase its market share in container handling, storage and ship repairs.

The financial position of the company, as depicted in its balance sheet remains healthy. Worth-noting is the fact that all key ratios have shown significant improvements and remain well above acceptable benchmarks. Both liquidity and gearing levels of the Company have been increasing on an annual basis and remains high by industry standard.

The results correlate the findings from the primary study that there has been a positive relationship between remuneration levels and corporate performance. Further correlations are that performance related pay factors have a huge positive impact on corporate performance. This is attested to by the revelation in the secondary study that short-term incentive paid to staff trended upward during the past three years as a function of extraordinary growth recorded in profitability over the review period.

5.6 Namport's Actual Remuneration Increase

The financial analysis of Namport's data revealed that following the implementation of the short-term incentive for the first time in 2006, it is evident that this implementation had a major positive impact on corporate performance. The results correlate the findings from the primary study that there is an association between corporate performance and remuneration. In particular, it has been found that short-term incentive had a significant influence on corporate performance. The implementation of the short term incentive scheme on the backdrop of a performance management system played a major role in the exceptional performance of Namport since its implementation.

5.7 Chapter Summary

The top pay drivers were discerned out of the 23 factors generated by the literature. The research findings confirmed that there is a strong correlation between the factors driving pay increases, the extent of increase on remuneration components and the resultant impact on corporate performance. Variable pay was found to be the top most pay driver with the greatest impact on company performance. These findings were collated by the findings from the secondary study. The fundamental research questions were thus empirically answered enabling remuneration decision-makers to make informed decisions.

Appropriate conclusions as well as befitting recommendations are made in the next chapter, which is also the concluding chapter for the study.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter provides a summary of the objectives of this study, the empirical findings and the contributions of the research to the existing body of knowledge. Recommendations, further research possibilities and limitations are identified. These are followed by a final conclusion.

6.2 Motivation for the Study

Namibian's SOE's are perceived to be characterized by persistent poor corporate performances and soaring remuneration levels, ostensibly justified by the need to pay remuneration levels that are competitive enough to attract, motivate and retain talent. Concerns have specifically been raised over these excessive remuneration levels, which are believed to have reached unprecedented levels, despite poor performance by some of the SOEs, which have had to continuously receive financial bail-outs from the government in the form of subsidies and guarantees.

The matter has been aggravated by stern critics from the public and media spotlights and has led to a rising wave of hostility against remuneration levels paid by SOEs. The shareholder went to the extent of issuing directive to peg SOE remuneration levels to those offered in the civil service. The directive placed many State Owned Enterprises in an uncertain position as to what remuneration decisions they should be making in the compensation arena. The need for SOEs to understand the factors that will help them overcome this timidity is therefore critical.

There is not enough Namibian empirical evidence to assist with decision making in terms of how this paradox of soaring remuneration levels coupled to poor corporate performance can be overcome. The lack of empirical data on pay drivers and the extent of their impact on corporate performance warranted a closer examination in order to close some of the knowledge gaps in this regard.

The primary research question was to firstly, establish factors driving pay increases in Namport during the past three years, secondly to determine remuneration components that were increased and the extent thereof and finally to determine the remuneration components that contributed greatly to a high positive impact on corporate performance i.e. determine relationship between remuneration components and corporate performance. The secondary research questions were to determine actual remuneration increases during the last three years as well as actual corporate performance over the same period.

In order to find empirical answers to the primary research questions, a survey questionnaire was designed based on pay drivers and remuneration components as discerned from the literature. An analysis of Namport's annual reports, publications and payroll data was also carried out to provide answers to the secondary research questions. The responses to the questionnaire were analysed to identify pay drivers, remuneration components and their perceived impact on corporate performance.

The following outcomes were obtained from this study. The mean ratings on pay drivers, remuneration components and their perceived impact on corporate performance were observed and reported on. First- and second-order factor analyses were also done to identify the two pay driver categories with twenty three underlying pay drivers that formed the empirical pay driver framework. Performance-related pay factors and variable pay were respectively identified as the top pay drivers and remuneration components with the greatest impact on company performance, which support the previous research findings. Furthermore, this indicated that there is a strong relationship between the top pay drivers and corporate performance.

To answer secondary research questions, different analyses were also conducted and reported on with respect to company annual reports, financial data and payroll data. The outcome confirmed the findings from the primary study to the effect that variable pay is the remuneration component that was increased the most during the last three years and which had a high positive impact on company performance. Significant revenue and profit growth were recorded in the past three years particularly after the short-term incentive scheme was implemented within the organisation.

The research confirmed that performance-related pay factors have a significant positive impact on corporate performance. It is recommended that the SOEGC should reconsider its recently adopted one-size-fits-all remuneration framework for Namibia's SOEs and respond to these findings by crafting a general and broad performance-influenced remuneration framework within which the various SOEs can craft their own remuneration policies and structures. The SOEGC should investigate each SOE to understand their varied mandates and sector they operate in as well as appreciate the macro-economic factors affecting each SOE separately. This will provide a more informed view of what pay drivers and remuneration components should be covered in a remuneration policy for each SOE in order to enhance efforts to retain employees and motivate them to perform at optimal levels.

6.3 Implications of this Research

The study was undertaken to provide insight on remuneration drivers, remuneration components and their relative impact on company performance within the Namibian SOE environment. The extent of the pay increases within Namport for the last three years as well as extent of the impact of remuneration components on company performance is now known. This provides practical discernments with respect to the factors and the remuneration components that ordinarily have the uppermost positive impact on corporate performance. This would enable the SOEGC, the SOEs and their Board of Directors to make educated and important remuneration decisions.

Limited previous research has been conducted on this matter within Namibia and the research results therefore add to the existing body of knowledge on this matter. Specifically, the study has generally been able to identify the top pay drivers with the greatest impact on corporate performance within an SOE environment. Although the study was based on a case approach, the research results is useful not only for other SOEs but for the SOEGC which is tasked with the responsibility to formulate a competitive remuneration framework for Namibia's SOEs.

The research concludes that a one-size-fits-all remuneration framework is not appropriate for SOEs and point to the need to have customised remuneration policies for each SOE, crafted within the broader remuneration framework, and integrating performance-related

and non-performance related components. The factor analysis produced the categorisation of pay drivers into performance-related and non-performance related components. Seeing that SOEs have different mandates and operate under varying operating and economic conditions, it is critical that each SOE's remuneration policy is informed by its own unique circumstances.

It is envisaged that the findings will positively impact remuneration policy for Namibian SOEs and will lead to the review of the current one-size-fits-all remuneration policy promulgated by the Namibian State owned Enterprises Governance Council. The single biggest contribution of the study is thus to improve remuneration decision-making for Namibia's SOEs.

Overall the contribution can be summarised as follows:

- Given that the findings confirmed a positive relationship between remuneration and corporate performance in Namport, this has helped us to disprove the perceptions that Namport's remuneration levels are not aligned to corporate performance
- The study make a significant contribution to the on-going debate in the country on the merits and de-merits of pay levels in Namibia's SOEs in that it has helped isolate those factors that ought to be seriously taken into consideration when making remuneration decisions. Given that SOEs operate in different sectors, have varied mandates and are categorised into economic and productive enterprises, regulatory enterprises and service rendering enterprises, the study makes a point that as a departure point, a one-size-fits-all remuneration framework for SOEs is a no-go and would require an urgent review. Failure to review the remuneration framework will result in the performance of many SOEs being seriously and negatively affected. This is premised on the fact that the SOEs will have serious challenges with respect to the attraction, motivation and retention of talent required to driver organisational performance.
- A general framework within which remuneration policies can be formulated has been provided with specific reference to key pay drivers, remuneration components and their relative impact on organisational performance.

- This study is of particular importance, as it is expected to assist both the SOEs Management, Boards, shareholder (government) and the general public to understand circumstances under which specific remuneration levels would be acceptable and not perceived to be outrageous. For instance, where remuneration levels are accompanied by commensurate corporate performance, this should be acceptable. These would enable SOEs to stand up and defend their remuneration levels on the basis of enterprise performance and success.
- More importantly, the study will assist Management and Boards within SOEs to respond to the challenges of attracting and retaining top talent without necessarily compromising the principles of corporate governance and organisational performance.

6.4 Limitations and Recommendations for Future Studies

The study adopted a case approach and looked at a single institution. Namibia SOEs have been classified into economic and productive enterprises, regulatory enterprises and service rendering enterprises, depended on their reason for existence. An SOE operating in a monopoly which is protected by legislation does not have the dynamism required by one which is operating in a competitive environment. These varying circumstances require different remuneration practices. This research is a case study and focuses only on one State Owned Enterprise company and not on all State owned Enterprises in Namibia and neither does it take into account the classification regime. Due to the research taking place in a single organisation, this limits broader generalisation to government and other SOEs, though findings should offer instructive insights and be useful to other organisations. Therefore, future research would have to look at a truly representative and heterogeneous sample comprising a number of SOEs from different categories and sectors.

The study was limited to exploring the impact of pay increase on corporate performance and did not venture into impacts of remuneration strategy on such variables as staff attraction, retention and motivation at an individual level. Motivation is a complex subject as employee motivation is influenced by a complex collective system of financial and non-financial intrinsic and extrinsic factors that are influenced by peers, management and or-

organisational factors. It would be useful to carry out a study focusing on understanding individual motivational drivers which could positively impact on organisational performance.

Additionally, due to the fact that a single SOE is not representative enough to make general conclusions and generalisations to other SOEs, it would be useful for future research to survey a number of SOEs and get a more wider opinion base for further inductive statistics.

Finally, given that corporate performance is a function of such many other factors as macro-economic factors, the market etc., it would be useful to carry out a study investigating and quantifying drivers of organisational performance, other than remuneration driven factors.

6.5 Conclusion

Although the literature abounds with empirical confirmation that performance related pay positively impact organisational performance, there has been no scientific study conducted in Namibian SOEs to comprehensively investigate pay drivers and the empirical relationship between organisational performance and remuneration levels. This made it difficult to determine the extent to which pay levels in SOEs have actually been justified. This study was able to close this void as it provided empirical answers to many of the questions that remuneration decision makers within the Namibian SOE environment have been grappling with.

It is thus envisaged that this study has been able to provide a foundation upon which remuneration policies for Namibian SOEs can be built upon in order to use talent to create shareholder value and wealth.

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APPENDIX A - RESEARCH QUESTIONNAIRE

Kindly complete the following short questionnaire aimed at establishing the factors that drive pay increases in Namport and the impact of these increases on individual and company (Namport) performance. There are no right or wrong answers to the questions. Your responses are confidential.

The questionnaire consists of the following Sections:

Section A: Background information

Section B: Factors driving pay increases in Namport and impact of the increases on performance

Section C: Components of pay package increased and impact of increases on performance

Please read the instructions provided for each section before answering the questions that follow.

SECTION A: BACKGROUND INFORMATION

(Using an X, please mark the box which represents your most appropriate answer)

1. Please select your age group by ticking the appropriate column:

Below 21 years	
21-30 years	
31-40 years	
41-50 years	
51-60 years	

2. Select your Peromnes job grading

1-4	
5-7	
8-11	
12-15	
16-19	

3. Select the number of uninterrupted years you have worked at Namport

Less than 5 years	
Between 5 years and 9 years	
Between 10 years and 19 years	
Between 20 years and 29 years	
More than 30 years	

4. How satisfied are you with your salary / remuneration package?

Very dissatisfied	
Somewhat dissatisfied	
Satisfied	
Very satisfied	

5. How satisfied are you with pay increases at Namport?

Very dissatisfied	
Somewhat dissatisfied	
Satisfied	
Very satisfied	

SECTION B: FACTORS DRIVING PAY INCREASES IN NAMPORT

For each factor in question 6 below, please circle or mark with a cross the number that best describe your view. Please answer all questions and use the scale of 1-5 as provided and explained below.

6. Please indicate the extent to which each of the following factors contributed to an increase in your pay over the last 3 years (i.e. since 2006).

Factors Driving Pay Increases		Extent of Increase				
		To no extent	To a small extent	To an average extent	To a large extent	To a very large extent
1	Skills based pay policy (increase based on acquisition of additional skills and competences)	1	2	3	4	5
2	Qualifications based pay policy (increase based on acquisition of additional qualifications)	1	2	3	4	5
3	Performance-based bonus (once-off bonus based on individual performance)	1	2	3	4	5
4	Merit based pay (increase based on individual performance)	1	2	3	4	5
5	Long service-based pay policy (increase based on long service and staff loyalty)	1	2	3	4	5
6	Time-Based Pay (overtime, standby and shift allowances)	1	2	3	4	5
7	Trade Unions (increase resulting from union demands and/or negotiations)	1	2	3	4	5
8	Promotions (advancement to a vacant higher level position)	1	2	3	4	5
9	Career path progression (increment based on advancement through the in-grade career path ladder)	1	2	3	4	5

10	Job re-evaluation / job re-grading (pay increase resulting from a re-evaluation of a job due to content change)	1	2	3	4	5
11	Share schemes policy (granting of shares by a company to an employee without any payment by the employee or for a nominal payment)	1	2	3	4	5
12	Company financial performance (once-off performance bonuses based on excellent company financial results)	1	2	3	4	5
13	Productivity (salary increase or bonus based on meeting set production targets)	1	2	3	4	5
14	Fixed-term contract (salary premium paid to staff for being on contract and/or attaining contract targets)	1	2	3	4	5
15	Commission Schemes (commission payable on meeting or exceeding set performance targets)	1	2	3	4	5
16	Market benchmark / survey policy (increment based on need to match or exceed salaries payable in the market)	1	2	3	4	5
17	Skills retention and attraction policy (payment of higher salaries to attract and keep staff)	1	2	3	4	5
18	Skills Scarcity (higher salaries paid to staff with scarce skills)	1	2	3	4	5
18	Technological changes (premium paid for new skills sets dictated by a change in technology)	1	2	3	4	5
20	Inflationary Pressures (increase based on inflation)	1	2	3	4	5
21	Competitors (increase based on need to match or exceed salaries payable by competitors)	1	2	3	4	5
22	Legal compliance (adjustments brought about by requirements or changes in law)	1	2	3	4	5
23	Regulator / Government (pay directives from government or regulator)	1	2	3	4	5

**SECTION C: EXTENT TO WHICH PAY COMPONENTS HAVE INCREASED
AND IMPACT OF SUCH INCREASE ON COMPANY PERFORMANCE**

For each pay component in questions 7 and 8 below, please circle or mark with a cross the number that best describe your view. Please answer all questions and use the scale of 1-5 as provided and explained below.

7. Please indicate the extent to which each of the following components of your pay package has increased in the last 3 years i.e. since 2006?

Pay Package Components / Elements		Extent to which component increased in the last 3 years				
		To no extent	To a small extent	To an average extent	To a large extent	To a very large extent
1	Basic Salary	1	2	3	4	5
2	Total Package	1	2	3	4	5
3	Fringe Benefits (e.g. Housing, Transport, Medical, Pension Fund, Allowances etc.)	1	2	3	4	5
4	Short Term Incentive (once-off performance bonuses, paid out in a period not more than a year)	1	2	3	4	5
5	Long Term Incentive (once-off performance bonuses paid out after a period longer than 1 year)	1	2	3	4	5

8. Please indicate the impact that such increase had on company performance over the last 3 years (i.e. since 2006)?

Pay Package Components / Elements		Impact of Increase on Company Performance				
		High negative impact	Negative impact	No impact	Positive impact	High positive impact
1	Basic Salary	1	2	3	4	5
2	Total Package	1	2	3	4	5
3	Fringe Benefits (e.g. Housing, Transport, Medical, Pension Fund, Allowances etc.)	1	2	3	4	5
4	Short Term Incentive (once-off performance bonuses, paid out in a period not more than a year)	1	2	3	4	5
5	Long Term Incentive (once-off performance bonuses paid out after a period longer than 1 year)	1	2	3	4	5

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

APPENDIX B – RESPONDENTS COVER LETTER

**UNIVERSITY OF KWAZULU-NATAL
GRADUATE SCHOOL OF BUSINESS**

MBA Research Project

Researcher: Andreas Kanime (+264 60 100 0001)

Supervisor: Mr. Loganathan N. Govender (+27 31 260 7048)

Research Office: Ms. P Ximba (+27 31 260 3587)

Dear Respondent,

I, **ANDREAS KANIME**, an MBA student, at the Graduate School of Business of the University of KwaZulu Natal, am conducting research on **Factors Driving Pay Changes and their Impact on Corporate Performance: Namibian Ports Authority Case Study**

The purpose of the research project is to establish factors driving pay changes, to establish if a relationship exist between company performance and pay increases as well as the extent of such a relationship. Through your participation I hope to contribute to the on-going debate in the country on the merits and de-merits of pay levels in Namibia's State Owned Enterprises (SOEs).

It is intended that the results of the research could be used to recommend a remuneration policy framework for Namibia's SOEs that can address current concerns round the perceived excessive compensation levels in Namibia's SOEs and enable these entities to respond to the challenges of attracting and retaining talent without necessarily compromising the principles of corporate governance and organisational performance.

You are therefore herewith humbly invited to participate in the research project. Your participation in this project is voluntary, anonymous and confidentiality of your responses is guaranteed. Your responses will be used solely for the purpose of this research project and

will be maintained by the Graduate School of Business at the University of KwaZulu Natal. You may refuse to participate or withdraw from the project at any time with no negative consequence. There will be no monetary gain from participating in this project.

The questionnaire is available online and should you be willing to participate in the survey, it shall be appreciated if you will complete the online questionnaire by Sunday the 24th October 2010. Completion of the questionnaire should not take longer than 20 minutes to complete.

If you have any questions or concerns about completing the questionnaire or about participating in this study, you may contact me or my supervisor at the numbers listed above.

Thanking you in anticipation for taking the time to complete the questionnaire.

Andreas Kanime

Date

This page is to be retained by participant

