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An Experimental Analysis of the Impact of Pay for Performance on Employee Satisfaction

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ABSTRACT

A field experiment was carried out to find out if Singaporean employees would react positively to the use of pay-for-performance. 118 employees from the experimental group and another 123 employees from the control group responded to the study. The results showed that pay-for performance affected the employees' satisfaction with their pay and the organisation, while satisfaction with superior received weak support and satisfaction promotion and overall job satisfaction was not affected. Implications were drawn for human resource management practitioners.

INTRODUCTION

Individual work performance in work organisations is usually related to exchanges where motivational inducements are given in return for employee productivity (Schuler, 1998; Cascio, 1998). In this regard, the use of financial inducements has featured prominently on both the agendas of human resource researchers and practitioners (Lawler, 1984; Farnham, 1993). Research on four primary types of performance inducements – incentive payment, goal setting, job enrichment, and participation – found that incentive payment offers the greatest productive benefit (Locke, Feren, McCaleb, Shaw & Denny, 1980). More recent research supports the role of incentives in raising productivity (Banker et. al., 1996; Kaufman, 1992). Correspondingly, performance-contingent payment is often advocated as a means of inducing higher productivity (e.g., Fein, 1976; Lawler, 1971, 1981). However, there is also evidence that individual incentive plans can have unintended and negative consequences such as, the neglect of job aspects not covered in performance goals, reporting of invalid data on performance, and negative social sanctions for high performers (Lawler, 1973), and the encouragement of self-interest instead of organisational commitment (Beer, 1993).

Kohn (1993) has challenged the basis of the theory that employees at all levels can be motivated to perform better by some type of reward or incentive programme, arguing instead that people who expect external reward for performance do not perform as well as those who perform with no expectation of such reward. Beer (1993) argued that, at best, pay-for-performance program has a half-life of five years, after which companies usually toss it out. And Kohn (1993) mentioned that extrinsic rewards have never been shown to lead to long term improvement in the quality of performance.

Apart from this concern among some corners of the academia, which shows that the debate on the efficacy of money as a work motivator is far from being dead, it has also been noted that few systematic studies have examined the effects of merit pay on employee job attitudes (Schay, 1988). And, there has been little evidence of a relationship between performance-pay schemes and job satisfaction (Wood, 1993).

This study seeks to address this dearth through an experimental evaluation of the impact of an incentive scheme on various facets of job satisfaction. Through a longitudinal study of employees' job satisfaction, before and after the implementation of an incentive scheme, it explores the effect of an incentive pay scheme on the job satisfaction of a group of employees in a large firm in the telecommunication sector.

The motivation to re-examine employee satisfaction as an important dependent variable stemmed from the recent suggestion that it is a crucial factor for organisational success in the service sector. In what has been termed as the "service profit chain," Heskett et. al. (1994) pointed out that "profit and growth are primarily stimulated by customer loyalty. Loyalty is a direct result of customer satisfaction. Satisfaction is largely influenced by the value of services provided to customers. Value is created by satisfied, loyal, and productive

employees. Employee satisfaction in turn results from high quality support services and policies that enable employees to deliver results to customers" (p.164). This view is shared by Vallario (1997), Osterman (1995) and Taylor (1991) and supported by the findings of Lau and May (1998).

Choosing Singapore as the test site is more than a matter of convenience. As Singapore enters the lean economic times in the years ahead, more and more companies are turning to monetary incentives as a tool to improve their bottom line and increase productivity. A Singapore National Employers' Federation (SNEF) 1992 survey highlighted that 194 (29.4%) of the 660 companies surveyed had some form of performance-related pay scheme; 65 (15.5%) indicated that they were likely to adopt a performance-related pay scheme within two years. With the economic turmoil that is currently wreaking havoc in the region's economies, and with the call by local politicians to improve competitiveness, one can envisage more companies turning to some form of performance related pay system in order to cut labour cost and increase productivity. However, before this happens, it is important to know the reactions of employees to such a pay scheme.

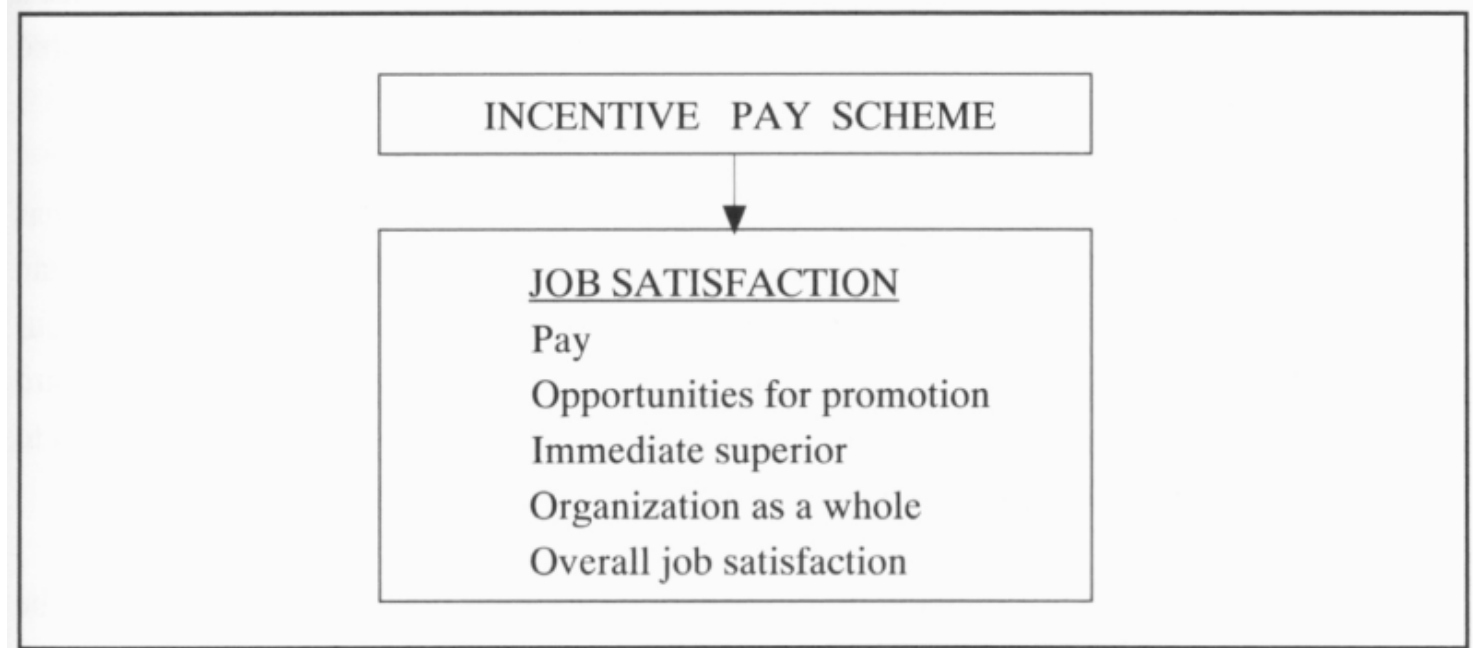
Given the rich body of findings on the relationships between job satisfaction, turnover (Mobley, et al., 1979) and absenteeism (Steel & Rentsch, 1995), and performance (Ostroff, 1992; Schofield, 1998), employers would be wise to have a clearer picture of the relationship between pay-for-performance scheme and various facets of job satisfaction before jumping head long into uncharted territories.

Hence, the testing of this relationship between pay-for-performance and job satisfaction in the Singapore context will provide an informed anchor for human resource practitioners to base their reward system on. Compensation scholar might be interested to see if people from this part of the world react positively to pay for performance after years of relying on pay for seniority.

FRAMEWORK FOR THIS RESEARCH

The framework (Figure 1) aims to capture the effect of an incentive plan across two groups of employees. There is evidence that individuals experience greater job satisfaction when they perceive their pay to be based on their performance (Lawler, 1981). Hence overall job satisfaction as well as various important facets of employee satisfaction would be critically examined in this research.

Figure 1
Framework for This Research



RESEARCH VARIABLES AND HYPOTHESES

Research has shown that many individuals prefer merit rather than seniority as a basis for pay increase allocations (Heneman, 1988, 1990). When pay is tied to performance, it not only motivates performance but also leads to high pay satisfaction (Lawler, 1971; Dyer & Therlault, 1976). Miceli and Near (1988) found that effort-reward consonance was associated with reactions to salary. Finally, Heneman et al. (1988) found that pay-for-performance perceptions among hospital employees were related to pay level satisfaction, even after the effects of salary increases, performance ratings, job tenure, job satisfaction, and promotions were controlled. The consistency of these findings suggests strongly that pay-for-performance perception contributes to pay level satisfaction. Hence,

Hypothesis 1: Following the implementation of an incentive scheme, employees exposed to pay-for-performance scheme should experience a significant increase in their level of pay satisfaction while those in the control group will not.

In relation to opportunities for promotion, Herzberg (1966) found that individual needs for advancement, responsibility, interesting and challenging work, security, vacations and money were all related to pay system preference. Individuals high in the first three needs, referred to as "motivator" needs, were found to favour a pay-for-performance system more than individuals low in these needs (Beer & Gery, 1970).

Congruent with Herzberg's (1966) "motivator" need for advancement, Lawler (1981) argues that the more entrepreneurial, achievement-oriented individuals will be more attracted to organisations where rewards are based on competency and performance. It may be deduced from this argument that individuals exposed to a performance-pay scheme will perceive better opportunities for promotion because competency and performance are recognised by the organisation. At the very least, the implied enhanced opportunities for promotion attending on good performance, will serve as motivator to individuals exposed to the scheme (Robbins, 1998). The above argument supports the proposition:

Hypothesis 2: Employees subject to the incentive pay scheme are likely to experience a significant increase in the level of satisfaction with opportunities for promotion compared to those not on the incentive scheme.

There has been considerable debate regarding the impact that supervisory behaviour has on the performance and satisfaction of employees (e.g., Salancik & Pfeffer, 1977). From an organisational perspective, supervision is a key element in all performance and behaviour management systems. Supervisors are essential components of compensation and reward systems, and effective supervisory behaviour is a necessary component in such systems to ensure employee performance and satisfaction (Hinkin et al., 1987).

Research from the reinforcement literature generally shows positive reinforcement to be related to subordinates' satisfaction and performance. That is, the more subordinates tend to see their supervisors as contingently rewarding them, the more satisfied and motivated they will be (Podsakoff & Todor, 1985; Yammarino & Bass, 1990; Yukl, Wall, & Lepsinger, 1990). On the other hand, supervisory non-contingent behaviour is not associated with either employee satisfaction or performance (Podsakoff & Schriesheim, 1985). Hence, for the present study, it is hypothesised that:

Hypothesis 3: employees exposed to the pay-for-performance experiment will report a significant increase in satisfaction with their superior compared with those in the control group.

Employee attitudes toward the company (or organisation) and its policies includes many of those aspects of the worker's immediate situation which are a function of organisational administration and policy (Cross, 1973). Winstanly (1982) argues that for a pay-for-performance concept to succeed, an important prerequisite is the element of trust and belief in management. The presence of trust and belief in management implies the existence of valid job evaluation, pre-agreed tasks and standards, accurate performance appraisals, objective trained managers and supervisors, good communication systems, and follow-up research. Milkovich and Wigdor (1991) further indicate that employees' confidence and trust in management is one of the factors that influence their motivation to perform as well as their assessment of pay-for-performance plans.

As the incentive pay scheme gives employees the opportunity to earn more money, and in turn better their economic position, we hypothesize that:

Hypothesis 4: employees exposed to the incentive pay scheme will experience a significant increase in their satisfaction with the organisation as a whole as compared with those not exposed to the scheme.

Cherrington et al. (1971), drawing from contributions of reinforcement theorists, propose that there is no inherent relationship between job satisfaction and productivity, and that relationships between the two variables are highly dependent upon performance-reward contingencies. The results of their experimental evaluation strongly support their theoretical propositions. Subjects who received reward reported significantly greater satisfaction than subjects who did not. Greene (1973) investigated the source and direction of causal influence in the relationships among merit pay, satisfaction and performance and found that merit pay causes satisfaction. The merit-pay-causes-satisfaction finding supports Cherrington et al.'s (1971) experimental results. Thus, it is proposed that:

Hypothesis 5: experiment subjects in this research exposed to the incentive pay system are likely to experience a significant increase in the level of overall job satisfaction compared to their counterparts who were not exposed to the system.

The experiment compared a group of technicians that was covered by the incentive scheme and a control group that was not covered by the incentive scheme. The control group was selected because of its similarity to the experimental group in terms of the nature of work performed. By holding this condition constant the researcher controls for potential sources of error in the experiment (Zikmund, 1994).

The experimental design adopted for this study was a pre- and post-test control group design. This classic experimental design is statistically sound and efficient (Zikmund, 1994). The experimental group was tested before and after the subjects were exposed to the treatment. The control group was also tested twice, at the same time as the experimental group, though without the treatment. This design includes pre-test information about the existing group base-line levels, and it allows comparison of the two groups. As a means of assessment, it is therefore far superior to static-group comparison or the one-group pre- and post-test experimental design (Kidder et al. 1986; Zikmund, 1994).

Data analyses would be carried in the following sequence. We will first establish the equivalence of the two groups prior to the experiment by a simple t-test to ascertain the pre-experimental levels of the employees' satisfaction with regards to pay, promotion, the organisation, and supervisor. Following that, a MANOVA (repeated design) analysis would be carried out to see if the experimental and control groups differ in their satisfaction levels after the experiment. As we wish to test for differences in the two groups for multiple dependent variables, MANOVA is superior to individual ANOVA tests in that it reduces Type 1 error rate by providing a single overall test of group differences at a specified level of significance (Hair et. al., 1998). Once the omnibus test is conducted and significance differences are detected, univariate tests would then be conducted to see which of these dependent variables brought about those differences. This is the procedure suggested by Hair et. al., (1998) and Tabachnick and Fidell (1996).

The sampling frame consisted of full-time technicians of varied job grades. Only employees who had worked for more than a year in the organisation were included in the study. A total of five hundred and thirty-eight names were furnished. Two hundred subjects were randomly selected from each list. A total of four hundred specially coded questionnaires were distributed to the respondents. This procedure was recorded and repeated meticulously in administering phase 2 of the survey.

The survey method was chosen as the research instrument for this study. Two sets of questionnaires were developed for distribution at two points in time: July 1996 (phase 1) and January 1997 (phase 2). Distribution of the questionnaires to the technicians and supervisors was carried out with the assistance of the respective line management offices. Care was taken not to sensitise subjects to the intent of the research. Ample lead time between the administration of the survey and the implementation of the incentive scheme was ensured to allow the experiment to take effect on employee work satisfaction.

The first phase was conducted in July 1996 on both the experimental and the control groups. The incentive scheme was implemented one month later, in August 1996, in the experimental group. Prior to this, technicians from both groups were paid based on their educational level and seniority. In August 1996, technicians from the experimental had varied facets of their job measured and a composite index of productivity was derived using an in-house formula developed by the company. And from the following month, technicians from this group had a portion of their total pay based on performance and the rest on seniority. In the control group, total salary was still contingent on seniority.

Approximately five months after the implementation, in January 1997, the second survey was administered to the experimental group as well as the control group. This time lapse of five months between the implementation of the treatment and the administration of the second survey was allowed so as to increase the probability that the effect of the treatment would have taken place (Kidder et al., 1986).

Measures were taken to improve both response rates and accuracy, and to minimise possible response bias. Management support and endorsement were obtained to ensure cooperation and smooth survey administration. Personal interviews were conducted with personnel who devised and implemented the incentive scheme and also with the supervisors who oversaw the technicians. Feedback from these sessions was used to reduce ambiguity in the questions and to ensure the correct direction of the questionnaires to the specific individuals. A covering letter accompanied the questionnaire to induce respondents to complete and return the questionnaire attached. Last but not least, respondents were assured of strict confidentiality and no specific identifying information was sought from them.

Most of the measures used in this study are established scales used in job satisfaction research. To accommodate the basic level of English proficiency among the subjects and in view of the American context of the established scales utilised, some complex terms were replaced with simpler words. All due precaution was taken not to alter the intended meaning of the original terms.

Work facets satisfaction were assessed by the Worker Opinion Survey developed by Cross (1973). Cross (1973) reported high internal reliability values of .79, .86, .78, and .78, for the sub-scales of firm, pay, promotion and

superior respectively. These figures are from a sample of 431 males and females. Response items are ' yes' , ' no' , and ' not sure' with scores of 3, 0, and 1 respectively. A total score is calculated for each of the six sub-scales. A higher score signified a more satisfied worker in that particular sub-scale. Nicholson et al. (1977) used this measure in the prediction of causal absence and propensity to leave. Lischeron and Wall (1975a,b) employed the measure in an experimental field study of employee participation.

RESULTS

Four hundred questionnaires were distributed twice to the two groups in July 1996 and January 1997. Respondents who completed both phases of the surveys numbered two hundred and forty-one, yielding an effective response rate of 60%. Of these, one hundred and eighteen were from the experimental group and the balance of one hundred and twenty-three were from the control group. The overall sample consisted of 98.3% male employees who were predominantly married (81.7%), Chinese (51.5%), and were 41 years and above (61.1%). More than half of them received ' 0' levels and below educational qualification (63.7%), followed by 31.7% of them having attained technical qualifications such as NTC-2, NTC-3 and ITC. 45.1% of them had 2 to 3 dependants and for 48.8% their income from this job contributes 81% and above to household expenses.

With reference to their on-the-job characteristics, 48.1% had worked for the organisation for more than 21 years. The average length of service was 20.1 years. Most of the respondents fell in the \$1000-1499 gross salary bracket (44.7%).

Evidence for reliable measurement was provided by the demonstration of high alpha value using Cronbach' s reliability test. All reliabilities were favourable, with Cronbach' s alpha coefficients all above .66 (refer to Tables 1 and 2). The means, standard deviations and Pearson product moment correlations of the variables in this study are presented in Tables 2 and 3.

TABLE 1
Means, Standard Deviations, Reliabilities and Correlations^a
(for variables tested at Time T1)

VARIABLE	MEAN	S.D.	1	2	3	4	5	6	7	8	9
Dependent											
1. T1Pay	5.57	5.27	(.73)								
2. T1Promo	5.40	4.76	.46**	(.76)							
3. T1Sup	10.01	6.25	.30**	.37**	(.77)						
5. T1Org	7.72	5.43	.32**	.46**	.40**	(.69)					
6. T1Jobsat	2.77	.69	.27**	.29**	.28**	.46**	(.69)				
Demographics											
7. Age			.13*	.09	.05	-.00	.07	---			
8. Education			-.18*	-.05	-.04	.06	.19**	-.11	---		
9. Grade of staff			.17*	-.10	.14*	-.04	-.01	-.06	-.06	---	

Note: N=225 ***p<.01 *p<.05

^aAlpha coefficient reliability estimates are in parentheses and shown on the diagonal.

TABLE 2
Means, Standard Deviations, Reliabilities and Correlations^a
(for variables tested at Time T2)

VARIABLE	MEAN	S.D.	1	2	3	4	5	6	7	8	9
Dependent											
1. T2Pay	6.76	5.59	(.74)								
2. T2Promo	5.03	5.44	.506**	(.75)							
3. T2Sup	11.79	7.76	.26**	.43**	(.85)						
4. T2Org	9.21	5.85	.40**	.62**	.45**	(.73)					
5. T2Jobsat	2.63	.80	.41**	.45**	.32**	.50**	(.75)				
Demographics											
7. Age			.16*	.14*	.06	.04	-.01	---			
8. Education			-.14*	-.03	.03	.08	.06	-.11	---		
9. Grade of staff			.01	-.05	.01	-.11	.08	-.06	-.06	---	

Note: N=225 ***p<.01 *p<.05

^aAlpha coefficient reliability estimates are in parentheses and shown on the diagonal.

The t-tests for independent samples results showed that the two samples did not differ significantly in any of the important dependent variables at time T1, hence confirming our earlier contention that the two groups are equivalent.

Paired Comparison of Means Across Experimental and Control Groups

The paired samples t-test scores for both the experimental and control group are presented in Tables 3 and 4.

TABLE 3
Paired samples t-tests of dependent variables for the experimental group before (T1) and after experiment (T2)

Variable	T1	T2	t-value
Job satisfaction dimensions			
Satisfaction with Pay ^a	5.57	6.76	-2.01*
Satisfaction with Opportunities for Promotion ^a	5.36	5.03	.51
Satisfaction with Immediate Superior ^a	10.01	11.79	-2.27*
Satisfaction with Organisation ^b	7.72	9.21	-2.59***
Overall Job Satisfaction ^c	2.77	2.63	-1.95

Note: ^aN=118, ^bN=117, ^cN=114;
***p<.001 **p<.01 *p<.05

TABLE 4
Paired samples t-tests of dependent variables for the control group before (T1) and after experiment (T2)

Variable	T1	T2	t-value
Job satisfaction dimensions			
Satisfaction with Pay ^a	6.17	5.71	.77
Satisfaction with Opportunities for Promotion ^a	4.93	4.39	1.0
Satisfaction with Immediate Superior ^a	10.64	11.23	-.85
Satisfaction with Organisation ^b	7.04	6.78	.49
Overall Job Satisfaction ^c	2.85	2.74	1.42

Note. ^aN=118, ^bN=117, ^cN=114;

Table 3 shows that the experimental group expressed significant increase in satisfaction with pay (t=-2.01, p<.001), immediate superior (t=-2.27, p<.05) and with the organisation (t=-2.59, p<.01). On the other hand, Table 4 shows that the control group experienced expressed lower level of satisfaction with four out of the five facet satisfaction, although these declines were not significant.

In summary, these initial T-tests showed that the experimental group does display more positive reactions to the incentive scheme while the job satisfaction level of technicians the control group remained relatively unchanged. These results support Hypotheses 1, 3, and 4. Before MANOVA was carried out, data were tested to see if they meet key assumptions. Procedure from Hair, et al., (1998) and Tabachnick and Fidell (1996) was used. As the respondents were given the questionnaires individually, and allowed to bring it home for filling, there is no reason to suspect that there is a lack of independence among the observation. Secondly, as the groups were of relatively equal size, equality of variance matrix becomes a non-issue (Hair, et al., 1998).

Assessments of normality of the data were done separately for the experimental and control groups. The findings showed that although there were moderate amounts of skewness in the dependent variables, the skewness were in the same direction and of approximate same magnitude for both samples for all the variables. This, coupled with the fact that the sample sizes for both groups were much larger than 20, lead us to conclude that the deviation from normality will not cause much problem in the subsequent data analyses (Tabachnick & Fidell, 1996).

Testing the Hypotheses using MANOVA

The results of the multivariate analysis of variance in Table 5 show that the main effect of group (whether you belong to the experimental group or control group) was significant ($\lambda=.96$; $F=2.98$; $p<.05$). The main variable of interest, the interaction effect term between time and experiment, suggest that the pay for performance did indeed bring about significant differences in some of the dependent variables ($\lambda=.97$; $F=2.16$, $p<.10$), although

the level of significance is not very high.

Table 5: MANOVA Analyses

Effects	Df	Wilk' s Λ	F Value	Sig
Group	3,221	.96	2.98	.03
Time	3,221	.98	1.90	.13
Group \times Time	3,221	.97	2.16	.09

Table 6: Univariate Analyses

Dependent Variable	Group		Time		Group \times Time	
	F Ratio	Sig F	F Ratio	Sig F	F Ratio	Sig F
Org	6.88	.00	2.38	.13	4.88	.03
Sup	.00	.97	5.13	.02	1.29	.26
Pay	.15	.70	.75	.39	3.84	.05

The univariate analysis in Table 6 revealed why is this so. This is because the experiment only explained the variances in satisfaction with pay ($F=3.84$, $p<.05$) and satisfaction with the organisation ($F=4.88$, $p<.05$) and not satisfaction with immediate superior ($F=1.29$, $p>.10$).

In summary, the incentive scheme does have a differential effect on satisfaction with pay, satisfaction with immediate superior, and satisfaction with the organisation. Stronger and more significant impact were felt on pay satisfaction and satisfaction with the organisation.

DISCUSSION

Consistent with previous research, the correlations between most of the variables were significant and in the hypothesised direction. The t-tests and multivariate analysis of variance also showed support for two of the hypothesised relationships.

The hypothesis that the experimental group will be more satisfied with their pay as compared to the control group, was supported by both the t-test and MANOVA results. This indicates that the incentive scheme did indeed have a direct and salient impact on this variable.

The experimental group's extra effort was rewarded. Post experiment interview with the managers showed that the incentive pay contributed approximately 10% to their total pay package. Most of the respondents (46.8%) earned less than \$1500 per month and 45.1% had two to three dependants. Given the high cost of living in Singapore, the pay incentives could be viewed as a means to improve standard of living as well as to cope with changes in the cost of living. The statistically significant increase in pay satisfaction of the experimental group suggests that employees prefer a pay-for-performance scheme over a fixed base pay.

Results of both the t-test and MANOVA also showed that technicians from both groups did not experience any significant increase in satisfaction with promotion. This indicates that the introduction of the incentive scheme did not affect employees' perception of their opportunity for promotion. Perhaps the spillover effect onto employees' perceived opportunity for promotion will come if this hypothesis is tested again over a longer period of time. This is because management's decision to promote employees was based on the yearly performance appraisals. As the post experimental data were collected 5 months after the experiment, it could be too early to realise the effect of the incentive scheme on this variable.

The supervisors played an integral role in the technician's performance level and the experimental group's adoption of the incentive scheme. They supported the scheme and made it possible for high performing teams to get justified rewards. The finding, from the t-test, that the experimental group showed a significant increase in satisfaction with their immediate superior is in line with Hinkin et al.'s (1987) study. More satisfied and high-performing subordinates tend to see their supervisors as contingently rewarding them. The results also emphasised the importance of supervisors instructing subordinates adequately on what they want performed, how it is to be performed and all other important details.

Satisfaction with the organisation improved significantly in the experimental group whilst it remained relatively the same in the control group, as shown by the t-tests and MANOVA analyses. This shows that employees are appreciative of the organisation's effort to improve their pay and also indirectly reflects upon the effectiveness of the way the incentive scheme was implemented. This finding is particularly noteworthy in the light of the study by Rucci, Kim, and Quinn (1998) which shows that employee attitude toward the organisation has significant impact on employee loyalty toward the firm and behavior toward customers.

Finally, both the t-tests and MANOVA showed that overall job satisfaction was not affected by the experiment. Overall job satisfaction is a global measure of workers' satisfaction with different aspects of their employment

(Smith et al., 1969). This attitude is a combination of his satisfaction with pay, his immediate superior, work mates, organisation, opportunity for promotion, and the work itself (Cross, 1973). The incentive pay did not have an effect on this variable because many other aspects of a worker's attitude towards work were not affected by the incentive scheme.

In summary, the findings from this study suggest that if effectively managed, incentive schemes can be a useful mechanism to enhance employee satisfaction, even if the impact is restricted to their satisfaction with their pay and with the organisation itself. Human resource practitioners and managers should therefore not be too concerned about backlash from employees if such a system is implemented.

What is important about this research is the qualitative information not seen in the tables. That for performance-based pay to be effective, the effective implementation of the scheme is absolutely important. In this case, the employees have reacted positively because the management interviews conducted after the research shows that management took a very careful approach in its implementation, thus confirming advice of experts in this area (Podsakoff et al., 1988; Nulty, 1995). For instance, many employees were consulted before the actual implementation of the scheme.

This study also showed that pay-for-performance did not have a positive impact on employees' satisfaction with promotion, and their overall job satisfaction. Although pay satisfaction and work motivation is not quite the same thing, the findings indirectly supports the contention that one should not assume pay to be the pre-eminent motivator capable of solving all motivational problems (Kohn, 1993). In essence, pay alone will not lead to achievement of high performance expectations.

This leads to the second point. If pay is to assume a role as motivator of performance, other detractors from this goal must be eliminated. This means an organisation must develop sound human resources systems (e.g. selection, planning, performance evaluation, training) to complement the wage and salary system. Supervisors must be trained to interact with subordinates with job expectations and provide feedback about job performance. Even well-designed compensation system will falter when other human resource systems are inadequately designed to meet employee needs (Farnham, 1993). More importantly, others aspects of the work such as the work itself, relationship with co-workers, and fringe benefits must also be properly managed in order to get maximum performance from employees.

The results of this study must be treated cautiously when generalising to other occupations or organisations because the sample was drawn from one company. Incentive plans ought to be customised to an organisation's needs, culture and objectives to be effective (Appelbaum & Shapiro, 1991), and hence every organisation must create its own incentive package to motivate employees and to improve productivity. However, organisations and practitioners can take note of the strengths and pitfalls of this incentive scheme examined and benefit from them through application in their work settings.

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