

PERFORMANCE RELATED PAY OF UNIVERSITY EMPLOYEES: A COMPARISON OF PUBLIC AND PRIVATE SECTOR UNIVERSITIES OF PAKISTAN

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Abstract

Performance related pay plays an important role in describing employee motivation towards work and their satisfaction from pay. The aim of the study was to explore performance related pay of employees of public and private sector universities of Pakistan. Our results indicate that performance related pay was positively correlated with motivation and job satisfaction ($r = .557$) was significantly higher than private sector employees. Simple linear regression demonstrated that demographic variables like young age, teaching experience, marital status, income, educational level and academic rank are predictors of performance related pay. Results also indicated that performance related pay (PRP) scale exhibit a high Cronbach Alpha.

Keywords: Performance related pay, Motivation, Job satisfaction

JEL Classification: Z 000

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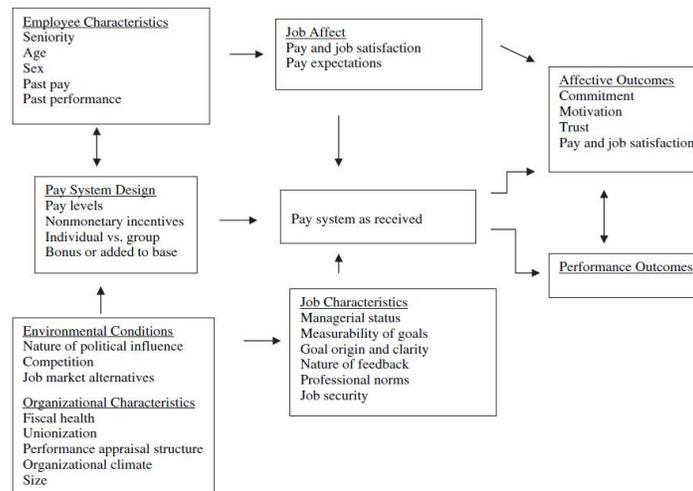
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Introduction

Salary or Pay plays an important role in motivating employees when they are given pay as per their performance, it will ultimately increase their level of satisfaction and ensure their contribution in the success of an organization. Performance related pay acts as a motivator. An organization tries to improve quality of work through performance related pay. According to Armstrong and Baron (1998) performance management (PM) did not become a familiar method till 1980; however, performance management was initially introduced in 1970. Murliss and Armstrong (1991) defined that performance related pay as the obvious relation with businesses and individuals performance in terms of monetary payments. According to Latt (2008) individuals may use salary to fulfill their desired requirements so the salary might be an important method to encourage motivation. Therefore, salary has a great impact in establishing employee diligence and commitment. Whitley (2002) explained that cash or salary may not increase performance and efficiency ranks at extended levels. Martinez (2001) stated the importance of performance management always changes. In 60s and 70s performance management often stayed associated with merit based performance and in 80s and 90s performance management was associated with some different management models like performance assessment, management by objectives, performance related pay and behavioral grading measures. Income data services study (1997) showed that it is important to recognize that performance related pay system requires that there is a performance management system in place. Armstrong (2006) defined the term performance as “the achievement of quantified objectives”.

Smith and Rupp (2003) elucidated that non monetary elements like performance responses, incentives and societal appreciation are motivational factors and organizations are applying these approaches to improve employee motivation and performance. They probed; “what kinds of employer motivate employee more or what kind of elements do you want for employer for motivation?” Wilms and Chapleau (1999)

took a negative view of performance related pay in education. According to them, performance related pay system was first introduced in 1970 in England which showed devastating outcomes with instructors who were given penalties and financial payments. A similar system was tried in 1876 in Canada. The notion came back as performance constricting in United States in 1969. The past researches showed that performance related pay reforms are just considerations of community frustration. Through figure Perry, Engbers and Yun (2009) highlighted an important relationship among key variables in performance related pay research.



Retrieved from (Perry, Engbers and Yun, 2009), p 41

The main objective of research is to realize that there is an association among job satisfaction, performance related pay and motivation. Job satisfaction can be defined as emotional state and/or sentimental reactions that are faced in different conditions (Smith et al., 1969). An organization can hope to increase its employee performance by linking pay to performance and employee performance is considered to be the product of motivation and job satisfaction. There are various motivational theories which examine the process of

motivation and they are also concerned with job satisfaction, i.e., impact on performance.

Literature Review

Herzberg et al (1957) described that intrinsic motivation is the element which affect individuals to change or perform in a specific trend. The elements comprise of accountability, autonomy, stimulating efforts and chances for progression, scope to improve expertise and capabilities. Whereas extrinsic motivation describes what is done for individuals so that they could be motivated. It comprises of compensations like better salary, withholding salary, upgradation and penalty like disciplinary action.

According to Buckman (2006) the following factors will result in employee better performance: (i) Commitment (ii) Recognition and Respect (iii) Growth (iv) Participative decision making (v) teamwork. Nelson (2006) exemplified that unsatisfied employees are less committed to organization and it will affect their performance and the performance of the organization. Bagozzi (1980) highlighted that empirical investigation does not fully endorse association among job performance and job satisfaction and organizational commitment. It also does not show if performance promotes job satisfaction or job satisfaction promotes performance. Kini and Hobson (2002) explained that content theories focus on the discovery of significant internal factors and their priority in people; the process theories are concerned with psychosomatic practices and pressure on the working of an individual's judgment organism. There is a strong link amongst job satisfaction and process and content motivation theories. The content theories are usually used with work satisfaction than process theories of motivation. Silva's (1998) findings showed that various organizations try to increase their effectiveness by salary increase, at the same time it also motivate employees and increase performance. Performance related pay is lower in the nations where there is a practice of unified mutual trading and great union density. Omar and Ogenyi

(2006) observed that all demographic variables do not decide satisfaction in employees but extra variations in salary increases satisfaction. Therefore, the most useful method to promote pay satisfaction is the introduction of performance related pay structure. Performance related pay shows a positive impact on job satisfaction of employees getting high salary (McCausland et al., 2005).

Lavy (2007) highlighted that developments to performance related pay systems are important for each and every kind of organization. Cacioppe and Mock (1984) indicated that the public sector officials have more job security as compared to the private sector. Private Sector employees have lesser value of financial and non financial remuneration than public sector employees. Chaudhry, Sabir, Rafi and Kalyar (2011) studied the pay satisfaction in several organizations in Pakistan and concluded that the element which increases job satisfaction is pay satisfaction. Another research discovered that salary structures are affected by increase in salary and bonuses which are related to performance based rewards. The performance related pay structures might be the best system to promote salary satisfaction (Oswald and Clark, 2002). Chaudhry, Sabir, Rafi, and Kalyar (2011) further illustrated that employees knowingly link pay related satisfaction with their job security and it can be seen very clearly that pay related satisfaction is greater in employees from public sector organizations. According to Pakistan's perspective the main reason of pleasure for employees is job satisfaction as Pakistani employees feel security in the public sector. In Pakistan's perspective, the Private sector is the originator of innovative learning culture and due to this reason job satisfaction is low in the private sector. However pay schemes are better in the private sector organizations yet it is lesser because of problems like job pressure, job insecurity and instability.

Leonard (1990) studied administrative salary arrangements for more than twenty thousand employees at various organizations. He examined the impact of long term incentive systems, bonus

schemes, promotions and pay equity on corporate performance. His findings showed that pay is hierarchically determined.

Rationale

Generally, in Pakistan the percentage of job stress is very high, most of the time, the jobs are very demanding. There are political conditions which are demotivating for highly educated people since they do not get the job according to their qualification. It is the major goal of any organization to recruit, retain and motivate its employees. It is believed that high quality workers are attracted to an organization and only good performers are valued, poor performers are not. The performance based salary is assumed to motivate employees to work harder and effectively.

Another important objective is to make employees more aware and committed to an organization. When employee's specific behavior and certain skills are rewarded in performance based salary system, employees also learn what it is that their employer consider important. According to O'Donnell (1998) performance related pay is based on an underlying view of motivation which proposes that employee performance is improved through the establishment of a clear link between effort, targets and rewards. A primary goal of an organization is to retain and motivate employees. Teacher's pay levels can influence student's performance because teachers who get more incentives tend to be more facilitating students in academic research. This research is of great importance as it will help in finding whether demographic variables describe performance or is it only the pay. In the same way, we need to pinpoint the demographic variables to express the predictor of performance related pay.

The Following hypotheses were made to fulfill the study objectives:

- The higher the pay, the greater the performance of employees.

- The higher the pay, the lesser the chances of employee demotivation.
- The higher the pay, the lesser the chances of job dissatisfaction.
- There will be a difference in performance related pay in employees of public and private sector universities.
- There will be a positive relationship in motivation and satisfaction of university employees.
- There will be a positive relationship between job satisfaction and performance related pay of university employees.
- Demographic variables will be the predictors of pay related performance.

Method

Scale Development Process

The study was completed in two phases and the detail is as follows:

Phase I: During phase one, the items for performance related pay was generated. A detailed review of literature was done and items related to criterion variable (i.e, performance related pay) were extracted. All the items were enlisted and checked for their fidelity and redundant items were excluded. 94 items were finalized including questions related to demographic information, income, job satisfaction and motivation. Cronbach Alpha was used to establish the reliability of the questionnaire. The index of the Cronbach alpha (0.956) show that performance related pay scale is highly reliable and items possess inter-item consistency. Demographic variables includes age, education, marital status, years of job, place/organization, job status, income, no. of dependent, total family income etc.

Phase II: During phase two, data was collected from sample using self constructed performance related pay (PRP) questionnaire. A sample consisting of 300 university teaching employees (i.e, 150 public sector universities and 150 private sector universities) was taken from public and private sector universities of Pakistan. Mean age of the sample was 35.17 and standard deviation was 9.12.

The data was collected through Performance Related Pay scale from public and private sector universities of Pakistan. The sample was chosen via non probability purposive sampling technique. In the current study only teaching employees were included with minimum job experience of two years. The filled questionnaire was processed by using SPSS 17.0 version and the results were saved in tabulated form.

Data Analysis

The data was analyzed using frequency distribution, descriptive statistics and reliability analysis. Bivariate correlation was applied to find the relationship between Motivation, Job satisfaction, Income and performance related pay. T-test was also employed to find out performance related pay in public and private sector universities and to find out the relationship between Motivation and job satisfaction. Multiple linear regression was also applied to find the predictors of performance related pay.

Results

From the present study it was found that average educational level of employees was M.phil or MS ($M=17.99$ and $SD=1.72$). It ranges from Bachelor to PhD. 54% of employees were married and 46% were unmarried. The employees with Government job were 9, 11 tenure track employees, 240 were university employees, 36 were visiting faculty and only 5 participants were contractual staff. Employees were belonging to grade 17-21. Employees were having job experience from 2.5 years to 37 years ($M=10.18$ and $SD=8.21$). Out of 300 employees, only 23 employees stated that they are being paid on the basis of performance. Descriptive statistics and Demographic data of sample is shown below:

Table 1:
Demographic Features of N=300

Variables	Freq.	% age	M	S.D
University Status				
Public	150	50%		
Private	150	50%		
Age			35.1783	9.12771
Gender				
Male	70	23.3%		
Female	230	76.7%		
Teaching Experience			10.1833	8.21124
Marital Status				
Married	162	54%		
Unmarried	138	46%		
Income			50,000	40629
Education				
14	0	1.0%		
16	89	29.7%		
18	152	50.7%		
20	59	19.7%		
Academic Rank				
17	14	4.7%		
18	171	57.0%		
19	60	20.0%		
20	43	14.3%		
21	12	4.0%		
Nature of Job				
Pun jab Government	9	3.0%		
Tenure Track	11	3.7%		
University employee	240	80.0%		
Visiting Faculty	36	12.0%		
Contractual Staff	4	1.3%		
Currently are you being paid on the basis of your performance?				
Yes	23	7.7%		
No	277	92.3%		
Do you want to be paid on the basis of your performance?				
Yes	296	98.7%		
No	4	1.3%		

The self constructed PRP scale has 94 items and it shows high alpha reliability $\alpha = 0.956$ ($M=43.04$ and $SD=2.65$).

The results indicated when employees will have higher pay then their performance will increase as $r = .564, p < 0.01$ and there will

be less demotivation when employees will be paid higher as $r = .388$, $p < 0.01$. The findings of the present study also showed positive correlation between Income and Job satisfaction, motivation and Job satisfaction, job satisfaction and Performance Related Pay as $r = .313$, $p < 0.01$; $r = .557$, $p < 0.01$; $r = .493$, $p < 0.01$.

Table 2*Correlations*

Bivariate correlation among motivation, job satisfaction and performance related pay

Subscale	1	2	3	4
1. Income	-	.388*	.313*	.564*
2. Motivation		-	.557*	.633*
3. Job Satisfaction			-	.493*
4. Performance related pay	.564*	.633*	.493*	-

Note: Correlations marked with an asterisk (*) were significant at $p < .01$

The change between Performance Related Pay in employees of public and private sector universities was identified through T-test. It was found that PRP in public sector employees was significantly higher ($M=2.32$, $SD=41.61$) than private sector employees ($M=2.25$, $SD=32.38$). The differences were significant, $t = 1.688$, $p < .01$.

Table 3*Performance related pay predictors from linear regression**Analysis*

PRP Predictors	<i>B</i>	<i>S.E</i>	β	<i>p</i>
Age	-.583	.532	-.142	.274
Teaching experience	-.162	.567	-.036	.066
Marital status	-7.929	4.300	-1.06	.050*
Income	.000	.000	.522	.000*
Educational Level	-.066	1.295	-.003	.960
Academic Rank	7.971	4.218	.199	.050*

$R = .339$, $R^2 = .326$, $p < 0.01$

Multiple linear regression was administered to identify the predictors of pay related performance. Results indicated that age, teaching experience and educational level are non significant predictors of pay related performance. However, beta value indicated that being a married employee, high income and high academic rank are the significant predictors of performance related pay (see table 3).

Table 4

Independent Sample t-test Comparing PRP in public and private sector university employees (N=300)

Independent Sample t-test Comparing PRP in public and private sector university employees (N=300)

Variables	Public (n =150)		Private (n = 150)		t	p	95% CI	
	M	SD	M	SD			LL	UL
PRP	2.32	41.61	2.25	32.38	1.688	.003*	-1.206	15.739

*p< .01

Discussion

The present study examined the performance related pay in public and private sector university employees. The findings of the current study show that frequency of performance related pay is high in public sector university employees than private sector university employees.

The first hypothesis explained that the higher the pay; the greater the performance of the employees ($r = .564, p < 0.01$). This hypothesis is supported by Armstrong and Murliss (1991) that pay plays an important role in motivating employees. When employees are given pay as per their performance then employee satisfaction will increase and it will ultimately result in an organization's success. On the same lines, Silva (1998) highlighted that many employees seek to sustain competitiveness through pay increase which is more related to performance and at the same time it will also motivate employees since it is a healthy competition. Launching a pay for performance

salary system may be the greatest effective technique to encourage salary level satisfaction.

The second hypothesis describes that the higher the pay, the lesser the chances of employees being demotivated ($r = .388$, $p < 0.01$). The existing literature is consistent with these findings as Ariely, Gneezy, Loewenstein and Mazar (2011) identified that increasing performance incentives will increase employee motivation and this increase in motivation will ultimately result in a better performance. Oshagbeni (2000) emphasized pay as a significant reward to motivate the employees towards the goals of the employer. Mardsen and Richardson (1992) also supported the findings of hypothesis by highlighting that Performance Related Pay acts as a motivator.

The third hypothesis that higher the pay, lesser the chances of job dissatisfaction ($r = .313$, $p < 0.01$) can be supported by Omer and Ogenyi (2006) findings that additional changes in pay will increase job satisfaction. Research suggests that higher job satisfaction reduces employee turnover intentions and may lead to performance gains for organizations (Rainey, 2003; Kim, 2005).

The fourth and fifth hypothesis was confirmed that there will be a relationship between motivation, job satisfaction and Performance Related Pay of university employees ($r = .557$, $p < 0.01$ and $r = .493$, $p < 0.01$). Similarly, Mishra's (2009) findings support the present hypothesis that Performance Related Pay is expected to produce positive changes in government culture which in turn will reduce corruption and increase motivation and job satisfaction in employees. Judge, Cable, and Higgins' (2000) research conducted by the evidence that pay satisfaction positively influences overall job satisfaction, motivation, performance and leads to less absenteeism and turnover behaviors of employees. Prendergast (1999) findings resulted that performance is considered as a product of motivation and job satisfaction. Igalens and Roussel (1999) stressed that reasonable salary may have a positive

impact on job satisfaction without having any effect on work motivation.

The sixth hypothesis was also confirmed that there will be a difference in Performance Related Pay in employees of public and private sector universities ($t = 1.688, p < 0.01$). This hypothesis is also supported by Pakistani research. Chaudhry, Sabir, Rafi and Kalyar (2011) elaborated that pay related satisfaction in Pakistan is high in public sector organizations as compared to private sector organizations as the present study is conducted in Pakistan so it is clear that Pakistani employees feel more security in the public sector. However, pay structure is better in private sector organizations. So it is evident that Performance Related Pay is high in public sector organizations. Similarly, Cacioppe and Mock (1984) also supported the present research that public sector employees have more job safety as compare to private sector. Smith and Simpson (1994) explained that moving towards Performance Related Pay showed that public sector employee pay would be more closely related to performance.

The seventh hypothesis that demographic variables will be the predictors of Performance Related Pay was also supported Omar and Ogenyi (2006) that high salary is considered as the most important predictor of job satisfaction and motivation than any other demographic variable. Prendergast (1999) also highlighted that rewards and incentives increase employee motivation for the job. The findings of the current study showed that demographic variables like young age, less teaching experience, married employees, high salary, more educational level and high academic rank are the predictors of performance related pay. The overall regression model yielded $R = .339, R^2 = .326, p < 0.01$

Limitations and Recommendations

In spite of the strengths of the present study in Pakistani workplaces, this study seems to have some shortcomings. It was

very difficult to collect data from all public and private sector universities. So the results cannot be generalized on all universities of Pakistan. The problem which was faced again and again was lack of cooperation by authorities of workplaces. Due to lack of research culture, they were reluctant to provide information regarding their pay and other related information. Purposive sampling was used in this research as the results cannot be generalized to all working men and women and workplaces. It was difficult to collect data from working men and women, because they were not willing to respond.

It is recommended that management of organizations must plan their organizational systems to analyze the rules and regulations so that the employees could be rewarded according to their performance. It will ultimately increase their job commitment and effectiveness for the organization.

Conclusion

It can be concluded from all the above findings that performance related pay is the key element to motivate employees and the pay illustrates a significant role in determining job motivation and job satisfaction. The current research demonstrates positive attitudes of the public sector university employees towards performance related pay. Pay must be in accordance to performance and employees must be rewarded to promote the success of an organization. In the Pakistani context, it can be determined that Performance Related Pay is high in public sector employees. No doubt, that the pay structure is better in private sector organizations but employees have more job security in public sector organizations and demographic variables have a strong relationship with Performance Related Pay.

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