An Examination of Regional Council Remuneration Packages

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This thesis examines how remuneration packages have been implemented and developed in regional councils in New Zealand. Three research questions were investigated: How regional councils' remuneration systems have evolved, the purposes of the remuneration systems, and how successful these systems have been. The examination was conducted through an e-mail and fax-back survey questionnaire sent to all twelve regional councils in New Zealand, with a response rate of 75% being achieved. Three personal interviews were then conducted at one of the councils to supplement the survey findings.

It was found that reform of government organisations has taken place in New Zealand and as a result regional councils have changed the way they manage human resources. It is concluded that human resources personnel have aimed at implementing remuneration packages in accordance with the performance management system of their organisations.

It is suggested that remuneration packages should be set in a management control context, and hence management accounting and control and human resources management should be integrated. It was found that this integration is not happening. Thus, further research in this area is needed.
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Chapter One: Introduction

The Research Topic

Although remuneration packages have traditionally been the domain of human resources literature, several authors have recommended that human resources practices should be integrated with management accounting systems (Modell 2000; Otley 1999; Powell and Spicer 1994), and that examination of management control systems in public sector organisations needs further investigation (Lapsley 2000).

All action taken in an organisation can be regarded as a means of control as long as it influences members’ activities. The various elements of the organisational control process are linked in a complex set of interrelationships (Otley 1999; Dent and Ezzamel 1995) including performance and remuneration management processes (Otley 1999). Remuneration packages set in a management control context need to be investigated (Otley 1999), yet scant research exists in this area; hence, this accounting thesis analyses the implementation and development of remuneration packages of regional councils in New Zealand.

Recent efforts to reinvent the government in New Zealand have emphasised the important role performance management systems can play in improving the efficiency and effectiveness of government operations (Ittner and Larker 1998, Boston et al. 1996). Local government in New Zealand has been no exception to the restructuring that has taken place in public sector organisations. Human resources practices in regional councils have evolved and remuneration management techniques have been developed as a means of performance management (Rudman 1999). Thus, the
purpose of this thesis is to examine remuneration packages of regional councils in New Zealand.

The three research questions of this study are:

1) How have regional councils’ remuneration systems evolved?

2) What are the purposes of the remuneration systems?

3) How successful have these systems been?

Methods

Previous recommendations for the use of multiple research methods were followed (Atkinson et al. 1997; Creswell 1994; Yin 1994). A survey and personal interviews were undertaken. The findings of the interviews were used to complement the information gained through the survey.

Thesis Layout

Chapter Two presents a review of the public management reform in New Zealand. The analytical framework underpinning the employment relations’ changes is based on a number of theories with agency theory and the ‘new public management’ being particularly relevant to this analysis. The adoption of concepts of performance, and the need of management control systems for the improvement of human resources strategies in public sector organisations, are also reviewed.

Chapter Three discusses aspects of performance management and remuneration packages. A review of performance-based pay is presented as well as the links
between performance and remuneration management, including the approach to management control systems in an organisational context.

Chapter Four presents the methods used to gather the information for this research. An embedded e-mail and fax-back survey, followed by personal interviews were undertaken. This chapter also offers the weaknesses of the methods used and limitations of the research itself related to the response rate achieved.

Chapter Five examines the findings which are compared with the previous literature provided in Chapters Two and Three. The three research questions are addressed in this chapter.

In Chapter Six conclusions are offered and suggestions for future research are made.
Chapter Two: The New Approach to Public Management

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I. Introduction

Since the early to mid 1980s, efforts at governmental reinvention, restructuring and renewal around the world have shared similar goals: to improve the effectiveness and efficiency of the public sector (Stace and Norman 1997; Boston et al. 1996; Marlowe et al. 1994). Public sector organisations have aimed to improve their management control mechanisms (Eliassen and Kooiman 1987).

Management control is concerned with the overall organisation and the efficient and effective use of resources in the accomplishment of the organisation’s objectives (Anthony 1988). Management control is also of relevance to management accounting research and its scope and practice in contemporary organisations has created major opportunities for researchers in management control (Otley 1994). Previous research (Modell 2000; Otley 1999; Powel and Spicer 1994) suggests the integration of management accounting and control and human resource management. Moreover, there is a developing literature which links management control and human resources practices (Modell 2000; Indjejikian 1999; Otley 1999).

This chapter presents a review of New Zealand’s public management reform which has been aimed at improving the efficient and effective use of resources in public sector organisations. The first section briefly discusses the reform commencing in the mid 1980s that established the current environment. The influence of agency theory in the New Zealand model is then reviewed, as well as the influence of the ‘new public management’. Finally, the new approach to managing human resources is examined leading to a discussion of management control.
II. New Zealand’s Public Management Reform

"Since the election of the fourth Labour government in 1984, New Zealand public organisations have undergone significant reform" (Howarth and Shanahan 1998, 31).

Before the reform, New Zealand had a centrally controlled public sector. Government agencies had little authority in managing their resources or in carrying out assigned tasks. During the 1975-84 period, New Zealand’s economic performance deteriorated (OECD 1997).

"The government responded to the economic crisis by tightening controls, increasing subsidies and investing in [projects]... These ventures misfired... As confidence dropped, consensus emerged that strong measures were needed to reverse the decline" (OECD 1997, 77).

In 1984 New Zealand’s Labour government launched a program of economic reform, and the management of the public sector came under intense scrutiny (OECD 1997; Powell and Spicer 1994). Shortly after the election, the new Labour Government reinforced economic policies aimed at achieving sustainable growth (Scott et al. 1990). Two years later, state-owned enterprises were put on a business oriented basis (OECD 1997; Powell and Spicer 1994). Subsequently, major reforms contained by the context of the State Sector Act 1988 and the Public Finance Act 1989 were introduced (OECD 1997). These reforms were directed towards a new management of public sector organisations. In each case, the government’s primary objective was to

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1 A full discussion of the New Zealand Reform is beyond the scope of this thesis. This reform, including that directly related to public management has been described and analysed in New Zealand (OECD 1997), an article “Re-invented Government: The New Zealand experience” (Stace and Norman 1997), Public Management, the New Zealand Model (Boston et al. 1996), An Analysis of New Zealand’s System of Public-Sector Management (OECD 1996), an article “The transformation of Employment Relations in New Zealand State-Owned Enterprises: The Assertion of Management Control” (Powell and Spicer 1994), Reshaping the State New Zealand’s Bureaucratic Revolution (Boston et al. 1991), The Power to Manage (Spicer et al. 1991), and an article “Reform of the Core Public Sector: New Zealand Experience” (Scott et al. 1990).
improve the efficiency\(^2\) and effectiveness\(^3\) of activities carried out by these entities (Powell and Spicer 1994; Scott et al. 1990).

A. The State Sector Act 1988 and the Finance Act 1989

Within an overall framework a set of five interrelated elements of the management process were identified and are presented by Boston et al. (1996):

a. A clear specification of the objectives for which managers are responsible and the avoidance of multiple and conflicting objectives where possible.

b. Freedom to take resource allocation decisions to enable the most efficient attainment of objectives.

c. Accountability\(^4\), i.e. incentives and sanctions in place to change the behaviour of managers to ensure that they meet established objectives rather than pursuing personal goals.

d. Evaluation of performance\(^5\) so that managers could be held accountable. In particular, a distinction should be made between

\(^2\) "Efficiency is providing a specified volume and quantity of service with the lowest level of resources capable of meeting that specification" (Grant 1990).

\(^3\) "Effectiveness is providing the right services to enable the organisation to implement its policies and objectives" (Grant 1990).

\(^4\) Accountability is defined as: "Being held answerable for actions and performance to a controlling authority. It is this authority which direct that tasks and objectives be carried out by individuals, who received rewards or sanctions on the basis of their performance. Individuals may be directed by the controlling authority to be guided by someone else in the performance of their duties. This would occur only because they are directed to do so by their controlling authority" (Martin and Harper 1988).

\(^5\) A detailed discussion of performance is presented in Chapter Three.
results of management and results stemming from external factors over which managers have no control.

e. Enough information to make performance assessment possible.

Accordingly, the State Sector Act, which took effect in 1988, initiated the process of fundamental reform in the public sector. To complete the reform, a clearer definition of performance, together with a comprehensive overhaul of the financial management, were required and brought about through the Public Finance Act in 1989 (Boston et al. 1996).

Regarding human resource management in the public sector⁶, the State Sector Act made radical changes to employment practices. This act gave chief executives full managerial responsibility for their agencies, including authority to hire and compensate staff, as well as negotiate collective agreements. The managerial role of chief executives was further enhanced by the Public Finance Act 1989. Chief executives were then given broad discretion to define the inputs⁷ to be used in generating outputs⁸ (OECD 1997).

Concerning performance, the 1989 act requires the measurement of performance by distinguishing between outputs and outcomes⁹ (OECD 1997; Boston et al. 1996). The Public Finance Act conceives of the budget and ensuing appropriations as “contracts

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⁶ Managing human resources is discussed in more detail in a later section of this chapter.
⁷ Inputs are the resources, e.g. labour, materials, and electricity (Boston et al. 1996).
⁸ Outputs are the goods and services produced by the agency (Boston et al. 1996).
⁹ Outcomes are the results or impacts of government outputs in society (OECD 1997).
for performance” which specify the resources allocated for the supply of outputs (OECD 1997).

Despite the provisions prescribed by the State Sector and Public Finance Acts, the public sector improvements have continued in the 1990s, as the reforms were implemented. Improvements have been made to enhance the government’s capacity to define its strategic objectives and means of enforcing accountability (OECD 1997).

Lapsley and Pallot (2000, 214) suggest that:

“The legislation sought to impose on local government [(regional councils)] the same model of public management that had been adopted for the state sector”.

The above public management reforms have been drawn from various theoretical approaches.

III. The Theories Underpinning Public Management

Two theories in particular have influenced significantly the public management reform: agency theory and the ‘new public management’.

A. Agency Theory

Determining the influence of particular ideas and theories on a series of policy changes is not an easy task. However, Boston et al. (1996) offer a tentative judgement of the impact of agency theory on New Zealand’s public sector reforms. Agency theory played an important role in developing the basis for the corporatisation and privatisation programs. Agency theory also influenced thinking on matters related to
employment practices, incentive schemes, performance and remuneration management\(^\text{10}\) (Boston et al. 1996).

Agency theory refers to social life as a series of contracts. In a contract, one party is designated as the principal, and the other, the agent (Boston et al. 1996; Spicer 1992; Perrow 1986). The challenge becomes how to motivate agents to be productive as if they were the principals (Anthony and Govindarajan 1998). An effective contract will overcome the problems that arise from the assumed self-interest and conflicting goals of each party (McLean and Conlon 1995).

Because agency relationships are pervasive in economic activity, the economic modelling of agency relationships has been used extensively to gain insights into a variety of incentive contracting issues in economics, finance, financial accounting, auditing, and management accounting (Spicer 1992; Eisenhardt 1989). Agency models have allowed an exploration of the foundation of management accounting on the impact of incentives (Anthony 1989). Agency theory is useful in the design of remuneration systems and highlights the role of incentives in influencing the behaviour of agents; however, it provides designers of these systems with limited practical guidance (Boston et al. 1996).

(a) **Criticisms to Agency Theory**

Agency theory has had no discernible practical influence on the management control process, because managers are not even aware of this theory. However, it can be

\(^{10}\) Performance management is “the mission and strategy that align the organisation’s reward system and the productive capacity of its employees with the organisation’s vision and strategic business plan” (Stewart 1993). Remuneration is used to describe all the elements of financial and non-financial benefits which employees may receive (Rudman 1999). A detailed discussion of performance and remuneration management is presented in Chapter Three.
useful in designing incentive compensations to motivate agents (Anthony and Govindarajan 1998).

In addition, agency theory has been criticised for being excessively narrow (Perrow 1986). Agency theory uses simple agent-principal models; however, in the public sector, multiple-principal arrangements have been developed whereby public servants usually serve as the partial agents of various principals (Boston et al. 1996). Also, agency research is focused on a single reward, disregarding many situations in which there are multiple and mixed rewards, which present empirical difficulties, but they also mirror real life (Eisenhardt 1989).

Another dominant theme in the public management reform is managerialism, or what Hood (1990) referred to as the ‘new public management’.

B. The ‘New Public Management’

“The concepts of the New Public Management have found expression in a variety of areas on New Zealand’s reform including the new priority given to management skills and training in the public sector, the devolution of managerial control within agencies and the application of private sector techniques and practices to the public sector” (Boston et al. 1991, 11).

The essence of the ‘new public management’ lies in the assumption that there is something called management which is a generic activity, embodying a set of principles that can be applied to public organisations, as well as in private organisations (Painter 1988). This is because most of the management techniques are similar in both sectors (e.g. providing leadership, recruiting, managing and remunerating staff, selecting and deploying resources, managing organisation’s finances and monitoring performance) (Boston et al. 1996).
(a) Criticisms to the ‘New Public Management’

It is claimed that public management is simply a subset of general management, and the private sector management techniques are generally superior to, and hence provide a benchmark for, those in the public sector (Boston et al. 1996).

It is also argued that not all the tasks of public management are identical to those in the private sector, and the context in which public sector managers operate is usually very different from that in the private sector (Gunn 1987). Therefore, some of the managerialist principles and techniques applicable to the private sector are less appropriate to the public sector.

Nonetheless, New Zealand’s reform has brought significant changes in the style and mode of governance and the culture of the public service (Boston et al. 1996). The focus on management rather than the older concept of administration is evident.

“Management is now applied in many and varied forms – case management, change management, collective management, contract management, financial management, human resource management, performance management, risk management, strategic management and management development” (Boston et al. 1996, 6).

The ‘new public management’, as well as agency theory principles, have had an influence on the ways in which New Zealand local government agencies are structured for the purposes of human resource management.
IV. Managing Human Resources

The influence of the changed culture in local government\textsuperscript{11} is evident in councils’ employment practices (Boston et al. 1996). Managers in New Zealand’s public sector organisations have been trying to develop and implement a wide range of human resource management initiatives (Boston et al. 1996).

New remuneration schemes and systems of performance management\textsuperscript{12} have been developed (Boston et al. 1996). Ranges of rates and pay based on performance are key elements of the shift to a managerialist control strategy and represent a significant break with established practice in the public sector (Boston et al. 1991).

Furthermore, the development of human resources strategies for public sector organisations is a critical area, in which accountability and management control should be established (Powell and Spicer 1994).

A. Management Control

Management, whether in the public or private sector, aims to the optimal utilisation of resources towards desired results (Boston et al. 1996). Control includes all devices that managers use to ensure that the behaviours and decisions of people in the organisation are consistent with the organisation’s objectives and strategies (Merchant 1998).

\textsuperscript{11} Regional councils are the organisations, which are focus of this thesis. An achievement “of the reforms of local government in the late 1980s was the reduction on the number of local bodies. Essentially, local government now consists of regional councils and city and district councils. Since 1989 the number of regional councils has been reduced to twelve” (Boston et al. 1996).

\textsuperscript{12} A detailed discussion of remuneration schemes and systems of performance management is presented in Chapter Three.
Anthony and Govindarajan (1998, 6) define management control as:

"the process by which managers influence other members of the organization to implement the organization’s strategies”.

A wider definition of management control is that adopted by Lowe (1971):

“A system of organisational information seeking and gathering, accountability and feedback designed to ensure that the enterprise adapts to changes in its substantive environment and that the work behaviour of its employees is measured by reference to a set of operational sub-goals, which conform with overall objectives so that the discrepancy between the two can be reconciled and corrected for”.

Management control is a planning and control activity that occurs in an organisation’s environment. Strategies get implemented through management control, organisation structures, human resource management and culture, and are linked to performance as shown in Figure 2-1.

**Figure 2-1: Framework for strategy implementation**

(Anthony and Govindarajan 1998, 8)

Organisational structure specifies the roles, reporting relationships, limits of authority and responsibilities that shape decision-making within organisations. Human
resources decisions should be consistent with the organisation’s strategy\textsuperscript{13} and structure so that the required knowledge and skills are developed. Culture refers to the organisation’s set of common beliefs, attitudes, and norms that explicitly or implicitly guide managerial actions (Anthony and Govindarajan 1998).

“The management control system is designed to assist managers in planning and controlling the activities and personnel of the organisation” (Widener and Selto 1999, 46).

The management control system may comprise the financial control system, the management accounting system, and the human resource system (Merchant 1998; Horngren and Foster 1991).

Many of the managerial processes (e.g. planning and control) are essentially similar between private and public sector (Anthony and Govindarajan 1998; Gunn 1987). It is within this context that government agencies can draw on private organisations experience and at the same time identify areas where they must innovate and learn from each other, rather than simply imitate private practices (Metcalf and Richards 1987).

Eliassen and Kooiman (1987) suggest that public sector organisations need improvement of two main aspects of management: control and culture\textsuperscript{14}. There is a need to develop more appropriate control mechanisms for managing public sector organisations and to a much larger extent culture. Metcalf and Richards (1987, 85) state that:

\textsuperscript{13} An organisations strategy is defined as the: “fundamental pattern of present and planned resources deployments and environmental interactions that indicates how the organisation will achieve its objectives” (Hofer and Schendel 1978, 25).

\textsuperscript{14} Organisational culture is defined as shared philosophies, ideologies, values, beliefs, assumptions, expectations, attitudes, and norms that shape the behaviour and expectations of each member of the organisation (Hellriegel et al. 1992; Stoner and Freeman 1992).
"The core values around which public management cultures should develop include: learning,... adaptability and flexibility".

The need to establish a continuing learning process is as important as carrying out predefined goals. In order to establish a functioning learning process in an organisation, one has to change the total organisational context and see cultural change as the basis for organisational flexibility (Metcalf and Richards 1987).

Furthermore, Otley (1994) suggests that the need for the study of practices within organisations has created a major opportunity for researchers in management accounting and management control systems. The scope of study should encompass control activities such as selection of personnel, management and organisational development practices, business process reengineering techniques, performance measurement and appraisal and performance-related rewards (Otley 1994). Modell (2000) also suggests an examination of the interrelationship between management control and human resource management as a means of fostering organisational learning.

V. Chapter Summary

In this chapter the public management reorganisation in New Zealand, and innovations to the management of human resources were presented. This review led to a discussion of the management control process. The New Zealand Public sector reform aimed at improving the efficiency and effectiveness of public sector organisations. To a great extent, the reorganisation was a consequence of efforts to achieve the policy objectives set down in the principal reforms legislation. In terms of management reforms, the two most important Acts were the State Sector Act 1988, and the Public Finance Act 1989.
Furthermore, as Boston et al. (1991) and Spicer et al. (1991) have noted, the program of public sector restructuring was not an ad hoc initiative but was informed and directed by a consistent analytical framework drawn from various theoretical approaches, including agency theory as well as the 'new public management'.

Management reform in the public sector has to take into consideration the particular characteristics of such organisations. Control and culture within the organisations need to be refined, in order to ensure that the strategies are followed. Furthermore, performance management in public sector can play an important role in pursing the organisations' objectives.

The new model of public management in New Zealand has been built largely around the notion of performance. The New Zealand system has a strong interest in employing systems, formal contracting and performance measurement. In this environment performance and remuneration management should be consistent with the organisation's objectives; therefore, they should be set in a management control context.

In subsequent chapters, this thesis examines performance and remuneration management implemented in New Zealand public sector organisations, namely regional councils.
Chapter Three: Performance and Remuneration Management

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V. CHAPTER SUMMARY ............................................................................................................ 37
I. Introduction

In the mid 1980s, New Zealand commenced a period of radical public sector reform\(^1\). Since then the New Zealand government has adopted a number of policies of public management (Boston et al. 1996). Concerning remuneration, public sector organisations should ensure that their remuneration package supports the organisation's objectives and the attainment of its goals (Watson Wyatt Worldwide 1998).

Performance management concepts have already been influential in the public sector because the culture of government organisations has changed and expectations of performance have been significantly increased (M'Baguley 1992). Otley (1997) suggests that management accountants' involvement has always been in measuring business (and other) organisations performance but they need to consider how to extend this role to include supporting all aspects of performance management. Most regional councils in New Zealand seem to include some aspect of performance appraisal in their review systems, sometimes with a link to rewards.

This chapter addresses various aspects of performance and remuneration management. The first section reviews performance concepts and performance management. A review of performance-based pay follows. Finally, the links between performance and remuneration management are discussed.

\(^1\) As discussed in the previous chapter.
II. Performance

Performance can be defined simply as focused behaviour (Auckland Regional Chamber of Commerce and Industry 1999; Rudman 1999). Performance is the term used to describe how desirable or effective those actions or activities are in the context of the objective of the job at the individual, departmental and organisational level (Rudman 1999). Otley (1999) proposes that at an organisational level of analysis, an entity that is performing well is one that is effectively attaining its objectives and implementing strategies.\footnote{2}

Furthermore, a management control system is a tool to aid management in motivating an organisation towards its strategic objectives (Anthony and Govindarajan 1998). An important aspect of managerial control in organisations is motivating managers and employees to pursue the organisation’s interests (Institute of Chartered Accountants of New Zealand 1997); therefore, any decision that attempts to link pay and performance is part of the overall organisational control system (Russell-Green 1997).

A. Definition of Performance Management

The definition of performance management starts with a description of the organisation’s mission, goals and values. Departmental and divisional objectives which support that business mission are then formulated and translated into goals for individual managers and their staff (Rudman 1999).

\footnote{2} Strategy is a guideline for deciding the appropriate actions for attaining the organisation’s goals (Anthony 1989).
Performance management can be seen as a total approach to managing people and performance (Auckland Regional Chamber of Commerce and Industry 1999, Rudman 1999). Further, performance management is defined as:

"The process of identifying, evaluating and developing the work performance of employees in the organisation, so that the organisational goals and objectives are more effectively achieved, while at the same time benefiting employees in terms of recognition, receiving feedback, catering for work needs and offering career guidance" (Landsbury 1988).

A major benefit a good performance management system delivers is a considerable increase in positive communication, encouragement, support and feedback amongst the staff (Pomeroy 1996). An element of a good performance management system is a performance agreement\(^3\) (Pomeroy 1996; Rowe 1992). In effective organisations, managers and employees have been practising good performance naturally, executing each key component process well (United States Office of Personnel Management 2000).

**B. Performance Management Components**

An effective performance management approach is defined by a logical structure of eight components that need to be viewed as an integrated whole (Bromwich 2000). Figure 3-1 (page 23) illustrates the eight interrelated performance management components:

(i) The organisation's strategy that should be controlled and achieved.

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\(^3\) Each person has an open and transparent written performance agreement, based on the profile, that specifies what performance and standards are expected for that person, over a particular period (Pomeroy 1996).
(ii) The type of measurement information that is required to support strategy realisation through the organisation's activities or processes.

(iii) Organisation/Structure well defined to ensure accountability.

(iv) A performance review process, which needs to be adopted to get people to respond positively.

(v) The implications of technology to ensure that the right information gets to the right person at the right time.

(vi) The need to develop new skills and competencies to control the new information.

(vii) The measures that need to be aligned to individual and team rewards and recognition, and

(viii) measures may influence in the behaviours and culture within the organisation, then communication⁴ and culture issues need to be addressed.

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⁴ Communication about rewards should be managed so that employees get the right message about the organisation’s values, standards and performance expectations (Rudman 1999).
Figure 3-1: Integrated Performance Management

(Adapted from Bromwich, 2000).

Performance management approaches address eight components...

- Skills and competencies
- Rewards and recognition

... as an interrelated organisational system
Furthermore, the following three steps are central to the performance management process: system development, appraisal process, and feedback processes (Gilliland and Langdon 1998; Millar and Dreyer 1996). The performance management process is summarised in Figure 3-2.

**Figure 3-2 Performance Management Process**

(Adapted from Gilliland and Langdon 1998).

The outermost circle of the figure emphasises that the three steps in the performance management process are embedded within the organisation’s culture.\(^5\)

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\(^5\) Organisational culture was defined in Chapter Two.
• “System development includes the creation or modification of performance appraisal instruments, the planning of procedures for assessing the performance and providing feedback... System development also includes communicating [the organisation’s] objectives to employees.

• Appraisal processes includes observing and collecting information on work-related behaviour, evaluating performance, and completing the appraisal form. Decisions regarding rewards and promotions are also part of the appraisal process.

• [Provision of] feedback is the final step in the performance management process and involves the communication of appraisal and rewards” (Gilliland and Langdon 1998, 218-219).

C. Performance Appraisal

Performance management involves more than the traditional assessment process, in which once each year, supervisors fill out an assessment form and then, in a meeting, review it with the employee (Flannery et al. 1996).

“Such an approach – which subjectively measures individual skills, objectives, goals, or even personality traits, ... – is neither a fair nor adequate measure of performance” (Flannery et al. 1996, 216).

To be effective, a process should be developed in such a way that expectations are linked to the organisation’s objectives, performance is planned, people are motivated, and individual and team results, along with competencies, are rewarded. The process should be managed not only by the human resources’ department, yet should include a full range of evaluators (Flannery et al. 1996).

Furthermore, a growing number of organisations are creating a balanced approach to performance management, commonly known as the 360-degree assessment process⁶ (Parmenter 2000).

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⁶ A full discussion of 360-degree assessment process is beyond the scope of this thesis. This process has been described and analysed in an article “Implementing 360-Degree Feedback” (Parmenter 2000), Human Resources Management (Byara and Rue 1997), and People, Performance and Pay (Flannery 1996).
Anyone who is impacted by a person's performance may be involved in the assessment process. These usually include supervisors, but also peers, subordinates, the employees themselves, and internal and external customers, who might include people in other departments, suppliers, and contractors (Byars and Rue 1997, Flannery et al. 1996). A 360-degree appraisal process should be designed for ease of use. This process needs to be clearly communicated to employees and it also can play an important role in helping the organisation change its culture (Flannery et al. 1996).

Most New Zealand organisations seem to include some aspect of performance appraisal in their review systems, sometimes with a direct or indirect link to rewards. With emphasis on performance-based pay, there is inevitably attention on the link between performance reviews and remuneration decisions. If the organisation has the objective to pay for performance, then it ought to seek to relate pay and performance (Rudman 1999).

III. Performance-based Pay

A system of remuneration based fully or partially on the measurement of performance should be designed to ensure goal congruence with the objectives of the organisation and motivate the organisation's employees (Williams 1998; Russell-Green 1997).

Performance-based pay has been increasingly adopted by public sector organisations (Benett 1992, Fowler 1988). In this context, relationships of efficiency and effectiveness at the individual, work group, and organisational level, have begun to be examined, and discussions of inputs, processes, outputs and outcomes result in the definition of concepts and contribute to corporate planning.
Furthermore, performance-based pay was applied to executives and top management. This is gradually being extended to a larger group of an organisation’s employees, and in some organisations to the entire workforce (Geske 1989) However, Milkovich (1988, 266) believes that:

“certain employee groups may be more (or less) critical to the success of the organisation than others, it follows that their reward systems become an important part of implementing the organisations business strategy”.

Nonetheless, Fowler (1988) argues that organisations may adopt pay for performance and push the schemes into the lower levels of the organisation. Performance-based pay is seen as one of the means of changing all employees’ attitudes toward a change of organisational culture (Fowler 1988).

A. Definition of Performance-based Pay

Many jobs are solely or largely remunerated on a performance basis (Russell-Green 1997). Geske (1989, 27) defines performance-based pay as:

“a method of setting very specific performance objectives for individual employees... and tying a substantial portion of an employee’s compensation to the successful achievement of those objectives”.

Annesley (1992, 135) believes performance-based pay:

“is essentially a system of remuneration based fully or partially on the assessment and measurement of an employee’s productivity, performance or skills”.

Schuler and Youngblood (1986, 327) simply state that performance-based pay systems:

“relate pay to performance”.

Performance-based pay is likely to become more prevalent in New Zealand (MacAlister 1994). Furthermore, most public sector organisations in New Zealand
have some performance assessment component in their remuneration structure (O’Callaghan 1999; Russell-Green 1997).

B. Performance-based Pay in New Zealand’s Public Sector

The introduction of performance-based pay into public sector organisations could not have occurred without a radical change in the mindset of the affected organisation (Fowler 1988).

The New Zealand model of public management adopted a number of policies concerning performance. The following policies are an example of those related to performance and illustrate the change in the mindset the public sector needed to introduce performance-based pay:

- “A strong emphasis on the use of incentives to enhance performance, at both the institutional and individual level (e.g. short-term employment contracts, performance-based remuneration systems, promotion systems, etc.).

- The development of integrated and relatively sophisticated strategic planning and performance management systems through the public sector. Key elements include the specification by ministers of strategic result areas and key result areas and the integration of these into Chief Executives’ performance agreements and departmental purchase agreements” (Boston et al. 1996, 5).

Numerous New Zealand organisations have gone through a careful analysis of their reward strategies to ensure that their remuneration system supports the organisation’s objectives, and the attainment of its goals (Watson Wyatt Worldwide 1998). These organisations have moved towards performance-based pay (Watson Wyatt Worldwide 1998).

---

7 Tang et al. (1987) argues that an incentive plan is part of the corporate management control system; therefore, it promotes goal congruence, and also encourages outstanding corporate performance. Management accountants have the knowledge and expertise in this area and can help to design incentive plans. This issue is discussed in Chapter Six.
C. Performance-based Pay: an Organisational Perspective

For performance-based pay to be accepted as a valid expression of an organisation’s judgement of a person’s (or unit’s) performance, it must sit within a web of management structures. Rowe (1992) suggests a schematic form for this relationship of performance-based pay within an organisational context, as shown in Figure 3-3.

**Figure 3-3: Performance-based Pay Framework**

(Adapted from Rowe 1992)

```
Mission Statement
          ↓
Values
          ↓
Desirable Behaviour (How)
          ↓
Corporate Plan (What)
          ↓
Performance Management System
          ↓
Performance-based Pay
```

Pay for performance must be an integral part of the entire management process. Rowe (1992) argues that if any of the management structures are missing, the validity of performance pay can be a challenge. Values must be clearly derived from the organisation’s mission, and then behaviours should flow from the values the organisation espouses and be tied to corporate goals (Rowe 1992). The process of performance management then begins as a continuing cycle that links organisational goals and individual needs and determines performance pay and other rewards (Rudman 1999; Gilliland and Langdon 1998; Rowe 1992).
IV. Performance and Remuneration Management

More distinct links between effort, results and rewards are needed in public sector organisations to improve performance (Papalexandris 1995).

Smith and Cranny (1968) propose a simple relationship between three factors: effort, satisfaction and reward. Each of these has an effect on the others. As shown in Figure 3-4, performance is the heart of the model and this approach demonstrates that the task of management is the skilful administration of positive rewards\(^8\) to induce performance.

Figure 3-4: Rewards and Performance Factors

(Adapted from Smith and Cranny 1968)

An important element of the management control process is concerned with effective motivation to induce individuals to behave in ways which contribute to overall organisational performance. Linking performance with rewards is therefore central to effective motivation (Emmanuel et al. 1990).

---

\(^8\) Rewarding means recognizing employees, individually and as members of groups, for their performance and acknowledging their contributions to the organisation’s mission (United States Office of Personnel Management 2000).
A. Motivation

An understanding of the factors that influence individual motivation is important in designing and evaluating systems of incentives which are intended to lead to better performance.

Emmanuel et al. (1999) and Rudman (1999) present Maslow’s theory of human motivation as a relevant theory to the design of rewards. Maslow (1954) characterises human beings as wanting animals having a hierarchy of needs ranging from basic physiological needs (food, drink, shelter, etc.), through security and safety needs, social needs, needs for esteem, to needs for self-expression and fulfilment by the exercise of one’s own abilities.

Herzberg et al. (1959) have developed an approach that can be seen as a more specific application of Maslow’s general theory in the context of US employees. There is a close connection between Herzberg’s approach and Maslow’s theory. In modern western society most basic needs are well satisfied, and Herzber’s hygiene factors (competent supervision, policy and administration, working conditions, and money) generally refer to these basic needs and their absence can thus cause dissatisfaction (Emmanuel et al. 1999).

In Maslow’s hierarchy, money is probably essential for people to satisfy lower level needs, but it is only one means of achieving satisfaction at higher levels. For Herzberg, wages and salaries are a hygiene factor, which cause dissatisfaction when

---

9 It should be considered that “US-based work ... may not transfer easily across cultures. For example, the contrast between the openness about pay in the U.S. and the secrecy which exists in the U.K., may cause significantly different reactions to performance-related rewards” (Otley 1999).
they are not well regarded (Rudman 1999). Taylor (1992) does not believe that money
is the prime motivator to support performance pay. He believes that a performance-
based pay system’s primary aim is to signal performance expectations.

Keen\(^{10}\), believes that there are other factors: moral, environmental and ethical, which
drive people, yet he also argues that money is the prime motivator, and states: “I’m
yet to come across somebody who, while money isn’t her or his motivation, doesn’t
enjoy being paid”.

Otley (1997) argues that incentive schemes are often developed in isolation from
other performance management techniques, although they are frequently based on
budget standards and other financial measures of performance. Then, the
inappropriate use of incentives concentrates on short-term success and neglects the
long-term foundations for future performance.

A major aim of a management control system is to induce individuals to behave in
ways which contribute to overall organisational performance (Emmanuel et al. 1990).
Organisations should develop a complete framework for managing organisational
performance. An issue that needs to be addressed is to recognise the interconnections
between management control and human resource management functions. Moreover,
in practice the measurement of individual performance and the design of remuneration
packages are the province and functions of human resource management in most
organisations (Otley 1999).

\(^{10}\) Cited in MacAlister (1994), not referenced.
B. Remuneration Management

Remuneration management will contribute to the overall strategic management of an organisation, because it can be used as an active tool of performance management which recognises the importance of both financial and non-financial rewards. With the move towards performance-based pay systems, remuneration management becomes important for all the organisation’s employees, not just managers (Rudman 1999).

In the past decade, organisations had slowly been coming to the realization that traditional remuneration programs had been eclipsed by their new organisational structures, strategies, and work processes (Flannery et al. 1996). In general, the change has been towards performance-based pay\textsuperscript{11} strategies. Such strategies, which include a variety of incentive programs, reward both individual and group performance (Flannery et al. 1996).

Typical remuneration philosophy focused on the goals of attracting, retaining and motivating employees (Cameron and Simon 1995). Many organisations are currently re-visiting their remuneration philosophies and designing strategies to reward results and behaviours that are consistent with the organisation’s objectives (Rudman 1999; Cameron and Simon 1995).

Furthermore, there are many factors to consider before deciding how, and how much, to reward an employee. Job analysis and job evaluation should be completed, and decisions made about the structure of the remuneration package (Rudman 1999).

\textsuperscript{11} A detailed discussion of performance-based pay was presented in a previous section of this chapter.
(i) Determining Remuneration Levels

Job analysis defines what the job is, and how it should be done. It can be used in conjunction with job evaluation to determine what is a fair reward. Job evaluation is a systematic method of comparing different jobs, and determining the relative worth of these jobs (Boxall et al. 1986; Schuler et al. 1992). It provides management with key information for identifying, establishing and maintaining organisational structures and management hierarchies. It also provides a link to meaningful and dependable pay relationships between jobs, either internally, or market related (Millar and Dreyer 1996; Schuler et al. 1992; The State Services Commission 1988).

The most basic concept in job evaluation is that the job, and not the jobholder, must be evaluated (Anonymous 1993). This concept presupposes that it is possible to distinguish clearly between the job and the jobholder's performance (Boxall et al. 1986; Schuler et al. 1992). In any total approach to designing a rational salary structure, it is necessary to have, in addition to job evaluation, some systematic method of measuring or assessing the employee's performance. Thus, job evaluation leads to the establishment of the basic salary whilst the appraisal system leads to the determination of the reward for performance (Moore 1983).

Having established the internal organisational structure through job evaluation, ranges of pay are established with the help of market surveys (Millar and Dreyer 1996; Schuler et al. 1992; The State Services Commission 1988). Data from surveys enables the organisation to compare its remuneration levels and practices with those prevailing in the market place (Rudman 1999).
Every organisation needs to decide on the mix of remuneration items it will offer to employees. Most of them will receive a basic salary\textsuperscript{12} or wages\textsuperscript{13}, some variable pay and some employee benefits (Rudman 1999).

(ii) Determining the Remuneration Mix

Organisations have different choices to make, and various types of pay to consider in relation to the organisation’s values and culture and its overall goals and strategies (Rudman 1999).

Essentially, a basic salary or wage is the fixed pay which constitutes the rate for the job. It may be the only financial remuneration an employee receives. It may be the basis for calculating additional and variable payments related to performance or skills, and for the entitlement to employee benefits such as additional holidays or superannuation (Rudman 1999).

A number of different pay and performance plans exist (Heneman and Gresham 1998). Some of the most common types of remuneration are outlined below.

(a) Merit pay

This is the most widespread form of performance pay and can be defined as the part of a person’s remuneration which the organisation determines with regard only to the

\textsuperscript{12} Salaries are usually set as an annual rate and remain unchanged from one pay period to the next, regardless the number of hours the employee might work (Rudman 1999).

\textsuperscript{13} Wages are normally calculated on an hourly, daily or weekly basis –depending on whether the employment is permanent, temporary or casual, full-time or part-time, or according to the requirements of the applicable employment contract (Rudman 1999).
individual’s performance or behaviour, using criteria selected by the organisation itself (Rudman 1999).

However, the current emphasis on performance related pay\textsuperscript{14} may be in some cases, inappropriate. Most often this scheme focuses on performance increases rather than performance improvements. There are other forms of pay schemes, such as pay for skills or competencies, which may be more appropriate (Rudman 1999).

(b) Skill-based pay

Skill-based pay rewards people for the abilities, skills and knowledge they are required to perform rather than for a specified job (Heneman and Gresham 1998; Flannery et al. 1996). Armstrong (1996) believes that skills-based pay:

“provides employees with a direct link between their pay progression and the skills they have acquired and can use effectively. It focuses on what skills the business wants to pay for and what employees must do to demonstrate them. It is, therefore, a people-based pay rather than a job-based approach to pay. Rewards are related to the employee’s ability to apply a wider range or higher level of skills to different jobs or tasks. It is not linked simply with the scope of a defined job or a described set of tasks”.

Skill-based pay is more common in industries where tasks and skills can be clearly defined and measured, such as manufacturing (Millar and Dreyer 1996) and it has been extended to competency-based pay.

(c) Competency-based pay

In addition to rewarding people for abilities, skills, and knowledge as with skill-based

\textsuperscript{14} Performance related pay is equivalent to performance based pay.
pay, competency-based pay also rewards other attributes of performance including motivation, and behavioural characteristics (Heneman and Gresham 1998).

Typically competency-based structures are used in managerial, professional, and technical work where accomplishments are less easy to identify and define (Mil-kovich and Newman 1996).

Competency and skill-based pay certainly are not for every organisation. Yet, they offer a better, more clearly defined process for tying the process of merit increases to the development of specific skills and competencies (Flannery et al. 1996).

V. Chapter Summary

In this chapter the relationship between performance management and remuneration packages has been presented. There must be congruence among the objectives that organisations seek, the strategies that are most likely to attain these objectives, the cultures that support these strategies, and the reward systems that draw and maintain desirable behaviours. Therefore, a performance-based pay system needs to be developed in the context of the organisation’s objectives, culture and management control system.

While there might be a primary emphasis on performance, remuneration management is not confined to performance-based pay. A number of different pay and performance plans exist. Managers should tailor their pay systems considering the complexities of the organisation’s overall context and objectives.
There have been moves in the public sector towards performance-based pay. Regional councils' pay systems in New Zealand have some performance-measuring component to them.

In the next chapter, the methods used for this research are presented leading to the examination of regional councils' remuneration packages.
Chapter Four: Methods

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I. Introduction

Research design can be classified by the approach used to gather primary data. Researchers can observe conditions, behaviour, events, people or processes. They can communicate with people about various topics (Cooper and Schindler 1998). This research follows the communication approach, which is questioning or surveying people and recording their responses for analysis (Cooper and Schindler 1998).

This chapter presents an overview of research in management accounting followed by a discussion of the methods used in this research and the limitations associated with these methods. A profile of the respondents is also presented. This study was conducted using a survey of New Zealand Regional Councils' Human Resources personnel, followed by personal interviews. The two methods are first explained generally and precede a detailed description of the data collection instruments applied.

II. Research in Management Accounting

"New directions and advances in management accounting research depend on researchers actively seeking synergy among differing research methods and disciplines" (Atkinson et al. 1997, 98).

In the late 1970s and early 1980s the gap between the theory and practice of management accounting came to be recognised by management accounting researchers (Ryan et al. 1992). It was also understood that managerial accounting must be viewed in the organisational context in which it operated (Flamholtz 1992). Since then, there has been an increasing interest in studies which explore the nature of management accounting practice, and changes have taken place in the methodology of management accounting research (Ryan et al 1992). Moreover the importance of using multiple methods has been emphasised by Atkinson et al. (1997).
Previous research\(^1\) has suggested that management accounting researchers should extend their work and contribute to the practice of performance and remuneration management in public sector organisations.

The first step in any research is to choose an interesting research question. Once the research question is determined, the method becomes apparent (Abernethy et. al. 1999).

**III. The Research Question**

At the core of any research project is a good research question. One of the hardest things in research is asking the right question, a question whose answer is important (Stacks and Hocking 1999).

Whether a research question deserves attention and hence, investigation, is determined by “the state of the art at a particular point in time” (Abernethy et. al. 1999). The researcher should consider the amount of previous research on the intended topic, the interest of other accounting researchers and practitioners on the issue, and the possible contribution to changing misconceptions either of our past or of the efficacy of present accounting knowledge (Abernethy et. al. 1999; Brannick et al. 1997).

The process of developing the research question begins with the identification of the broad research area and this is followed by the formulation and definition of the research question (Brannick et al. 1997). A research question states the objective of the research study. On occasion, it might be more than one question (Cooper and Emory 1995).

---

\(^1\) As discussed in Chapters Two and Three.
The aim of this research is to describe the remuneration systems used by regional councils, in a management control context. Three research questions were investigated: 1. How the remuneration systems of regional councils in New Zealand have evolved. 2. The purposes of these systems. 3. How successful these systems have been.

A survey, followed by personal interviews, were used to collect the data for this research. These two methods are discussed in the next section.

**IV. The Methods**

Methods are meant to be means to ends and not ends in themselves. Hence logically, one should determine appropriate means once ends are clearly specified (Abernethy et. al. 1999).

**A. Survey**

A survey is defined as: A method of gathering information from a number of individuals, a ‘sample’, in order to learn something about the population from which the sample is drawn (Ferber et al. 1980). The optimal survey method answers a research question and deals with the constraints imposed by time, budget, and human resources. (Cooper and Schindler 1998).

Traditionally, there are three ways of getting information from people in a survey: in person, by mail, or by telephone².

---

² A full discussion of the three types of survey questionnaires is beyond the scope of this thesis. A review of mail, telephone and interview surveys has been presented in Research methods for business: a skill-building approach (Sekaran 2000), Communication Research (Stacks and Hocking 1999), Business Research Methods (Cooper and Schindler 1998), and Social Research: Issues, Methods and Process (May 1997).
In addition technology has provided new techniques for information gathering (Stacks and Hocking 1999, and May 1997). E-mail and fax-back surveys were chosen as the methods for data collection for this research.

(i) E-mail and Fax-back survey

E-mail has been characterized as a "promising means for conducting future surveys" (Schaefer and Dillman, 1998), and numerous researchers have recognized the benefits that e-mail provides. These benefits include cost savings from elimination or reduction of paper costs and mailing costs (Parker, 1992), high response rates, and the rapid speed of response (Sheehan and McMillan 1999; Bachmann et al. 1996; Mehta and Sivadas, 1995). This research was conducted using an embedded e-mail survey. The embedded e-mail questionnaire, despite its formatting limitations, has an advantage over the attached email: it can be answered by the most unsophisticated email users.\(^3\)

Along this same line, fax-back surveys have been employed. A fax-back survey may be either mailed out and the completed questionnaire faxed back to the researcher or faxed to the respondent and returned by either mail or fax (Stacks and Hocking 1999).

A fax-back questionnaire was used for one respondent in this investigation. The questionnaire was sent and returned by fax. The reason was that when the participant

---

\(^3\) On the other hand, anyone responding to an attached e-mail survey must have the following characteristics: a strong interest in responding, the hardware and software that will enable him/her to download, read and upload a foreign file, the knowledge of how to execute the various response steps and a low fear of computer viruses. Failure to have any one of these factors could result in a non-response. (Dommeyer and Moriarty 1999/2000).
was contacted by e-mail, he replied: *I note that you are trying to e-mail me, but there is no message coming through. Please use the fax instead...*

Questionnaires that are electronically administered become an increasingly important data collection method (Sekaran 2000). How data can be gathered through questionnaires is examined in the next section.

(a) The questionnaire

"Questionnaires are an efficient data collection mechanism when the researcher knows exactly what is required and how to measure the variables of interest" (Sekaran 2000, 233).

A questionnaire is a written set of questions to which respondents record their answers (Sekaran 2000). It is useful, if possible, to pilot the questionnaire\(^4\). Piloting aims to see how the survey works and whether changes are necessary (Judd et al. 1991; May 1997).

Questions can be open or closed. Open questions give respondents a greater freedom to answer the question because they answer in a way that suits their interpretation (May 1997). The interviewer then records as much as possible of the answer, which is analysed after the interview. While closed questions limit the number of possible answers to be given, their analysis is quicker and cheaper (May 1997).

Open questions were used for this research to obtain an in-depth understanding (May 1997). In addition to the survey questionnaire, and in order to obtain deeper and more

\(^4\) The questionnaire for this research was piloted. This issue is discussed later in this chapter.
detailed information\textsuperscript{5}, interviews were undertaken (Sekaran 2000) at one of the Regional Councils\textsuperscript{6}.

**B. Personal Interview**

There are real advantages and clear limitations\textsuperscript{7} to personal interviewing. The greatest value lies in the depth of information and detail that can be secured (Cooper and Schindler 1998).

The methods of maintaining and generating conversations with people on a specific topic or range of topics, and the interpretation which social researchers make of the resultant data, constitute the fundamentals of interviews and interviewing. Interviews yield rich insights into people's experiences, opinions, aspirations, attitudes and feelings (May 1997).

Three broad conditions must be met to have a successful personal interview (Cooper and Schindler 1998, and Moser and Kalton 1971). The first necessary condition is that of accessibility. This refers to whether or not the person answering the questions has access to the information. The second necessary condition is cognition, or an understanding by the person being interviewed of what is required of her or him in the role of interviewee. Third, and related to the above, is the issue of motivation. The interviewer must make the subjects feel that their participation and answers are valued, for their co-operation is fundamental to the conduct of the research (Cooper

\textsuperscript{5} These issues are discussed in the next section.

\textsuperscript{6} Anonymity was offered to all participants in this research, therefore, the organisations' names are not provided.

\textsuperscript{7} These limitations are discussed further in this chapter.
and Schindler 1998; Moser and Kalton 1971).

The interviews used to pilot the questionnaire allowed the researcher to determine issues for further investigation. More in-depth and detailed information on specific subjects was obtained in subsequent interviews after the survey. The findings of the interviews were used to triangulate\(^8\) and supplement the survey results. One of the interviewees who had responded to the questionnaire was asked to elaborate on her survey responses and to provide reasons for her opinions. Another two interviewees who had not answered the questionnaire provided information to supplement the results of this study and enhance further research on this topic. The purpose of the interviews was not to make generalisations about the regional councils’ population, rather it was to obtain further information to complement the insight gained through the e-mail survey. A detailed discussion of how the survey and interviews were carried out is presented in the next section.

C. Gaining Access to Regional Councils

For this study the period of interaction with New Zealand’s Regional Councils lasted for six months, from November 1999 to April 2000. Initial contact with the Human Resources Manager of one of the Regional Councils was made. A personal interview was undertaken, where the researcher was introduced\(^9\) and the proposed research was

---

\(^8\) The term triangulation is used to argue for the combination of methodologies in the study of the same phenomena. The researcher might use multiple methods of data collection, e.g., a survey and in-depth interviews (Creswell 1994). Yin (1994, 91) defines triangulation as the “rationale for using multiple sources of evidence”.

\(^9\) The researcher is the friend of a member of the staff in this Regional Council. Buchanan et al. (1988) suggest that a successful way to approach an organisation to ask for research access is having a friend working in the organisation.
suggested. Following this interview contacts were provided to the researcher by the interviewee.

Subsequently, an e-mail\textsuperscript{10} message was sent to the human resources personnel\textsuperscript{11} of the twelve regional councils in New Zealand, introducing the proposed study and requesting their participation. In addition, the Human Resources Manager of the regional council which was initially contacted, emailed the human resources personnel to introduce the researcher. Eleven of the requests for participation were received positively. Future contact via e-mail was established with ten of the participants and via fax with one.

D. Collecting Data from Regional Councils

During the second month of interaction, personal interviews with the Human Resources personnel were executed at two regional councils to pilot the questionnaire prior to the full study. In the next month, ten emails and one fax\textsuperscript{12} were sent to advise the participants of an expected date for the questionnaire. Two months later, the questionnaire\textsuperscript{13} was administered by email and in one case by fax. Two follow-up emails were sent two weeks later to two of the original ten participants who had not responded to the previous e-mail, however no response was received. A total of nine questionnaires were completed and returned.

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\textsuperscript{10} See Appendix One.

\textsuperscript{11} The number of respondents of the survey questionnaire was nine. The respondents comprise one Administration Manager, two Human Resources Advisers, two Human Resources Managers, one Human Resources Officer, one Administration and Human Resources Manager, one Personnel and Administration Manager and one Personnel Officer.

\textsuperscript{12} See Appendix Two.

\textsuperscript{13} See Appendix Three.
In the last month of interaction, personal interviews were undertaken at one of the Regional Councils. Interviews were held with the Human Resources Officer\textsuperscript{14}, management accountant\textsuperscript{15} and administration officer\textsuperscript{16} of the organisation. A summary of the data-collection methods used is presented in Table 4-1. An assessment of these methods follows in the next section.

Table 4-1: Data-Collection Methods Summary

<table>
<thead>
<tr>
<th>Data-Collection Method</th>
<th>December 1999</th>
<th>March 2000</th>
<th>April 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal interviews to pilot the questionnaire</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E-mail questionnaires</td>
<td></td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Follow up e-mails</td>
<td></td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>E-mail responses</td>
<td></td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Fax questionnaires</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Fax responses</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Personal interviews to triangulate and supplement survey data</td>
<td></td>
<td></td>
<td>3</td>
</tr>
</tbody>
</table>

\textsuperscript{14} See Appendix Four.

\textsuperscript{15} See Appendix Five.

\textsuperscript{16} See Appendix Six.
C. Assessing the Research Methods

A research method can be assessed according to three criteria, namely, construct validity, internal validity\textsuperscript{17} and external validity.

(i) Construct Validity

Construct validity is defined as the extent to which the constructs of theoretical interest are successfully operationalised in the research (Abernethy et. al. 1999). Managerial accounting researchers, particularly those using survey methods, recognise the need to establish construct validity (Abernethy et. al. 1999). Construct validity questions whether data collection methods are appropriate and support the constructs within the research (Yin 1994). Collection of multiple sources of data will provide triangulation for findings and strengthen the construct validity of the research. Yin (1994) suggests that the multiple sources if evidence provide multiple sources of the same phenomenon. For this investigation the researcher collected evidence from multiple sites and by different means. In this way, support for the construct validity of this study was provided.

(ii) External Validity

Assessment of the external validity requires the researcher to establish whether the results can be generalised from the research sample and setting to a wider population, settings or times (Abernethy et. al. 1999). In managerial accounting, the expectations

\textsuperscript{17} Internal validity refers to the extent to which the research design permits us to reach causal conclusions about the effect of the independent variable (Abernethy et. al. 1999). This would require the researcher to provide sufficient evidence that the data make sense. If such evidence were provided then the critical reader would have a higher degree of confidence in the causal explanation provided. Causality is not an issue in this research; therefore, the criteria of internal validity is not considered.
are that the findings of empirical research have some relevance to organisational practice. High external validity is one of the main arguments for doing survey-based research in managerial accounting (Abernethy et al. 1999).

This research's sample was drawn from a population of interest and a 75% response rate was received. The findings of the survey, therefore, can be generalised to the target population. However, due to the small number of interviews, the findings from the interview cannot be taken as representative of the entire population. This limitation is discussed in the next section.

V. Limitations

The major weakness of conducting a survey is that the quality and quantity of information secured depends heavily on the ability and willingness of respondents to cooperate (Cooper and Schindler 1998). A limitation of this research was data quality, which depends on the response rate, the accuracy and completeness of responses (Judd et al. 1991).

VI. Respondents

A. Response Rate

A request for participation was made to the human resources departments of all Regional Councils. Communication was established with all of them, yet nine of the twelve responded therefore a response rate of 75% was achieved. Bachmann et al. (1996) argue that subjects are more likely to respond to surveys concerning topics in which they have interest. Some answers to the request for participation of this research follow:
We have recently introduced a new remuneration system and I would be happy to help you with your research.

I would certainly appreciate a copy of the results.

Your study sounds interesting.

The speed of response ranged from one to eight days. A number of researchers Bachmann et al., (1996), Chisholm (1995) and Mehta and Sivadas (1995) have recognised that e-mail reduces the time it takes to get the survey results. The fax-back questionnaire was also returned quickly.

Two of the non-respondents agreed to participate when the first contact was established, however they did not complete the questionnaire when it was sent out, and a reason given was that some people indicated they were too busy to fill in a survey.

B. Non-response Bias

Buchanan et al. (1988) argue that if, when setting up a study, you contact someone who can give you information immediately, you cannot reply, “sorry, but I need a month to review the literature and pilot my questionnaire”. One possible reason for the non-response, in two cases, could be related to the delay in sending the questionnaire, three months after the request for participation. Another reason for non-response was that the recipient had just returned from leave and did not have time to participate. In this case a second request for participation was made later but no answer was obtained. The non-respondents, with one exception, tended to be smaller organisations, in terms of staff numbers. The non-respondents advised:

We are quite a small organisation, [the information I can provide] may not be terribly helpful to you.

We are a very small council and I have the responsibility for the payroll... my work timetable is tight.
Despite the non-responses, a response rate of 75% suggests that the results\(^{18}\) of this survey are generalisable to the population under study, that is New Zealand Regional Councils. However, two non-respondent organisations were small councils. This may mean the results may not be applicable to small councils.

Data quality has another aspect besides response rate: the accuracy and completeness of responses to questions. Respondents gave full\(^{19}\) answers. Answers were comparable to each other. It is believed that the perspective from which the questions were interpreted was consistent (Ferber and Verdoorn 1962); thus, answers provided were constructive and the results make a contribution to research of performance and remuneration management in the public sector, which can be built upon and further researched\(^{20}\) by others.

Disadvantages of personal interviews are their cost, and the time needed for collecting data (Cooper and Emory 1995). Budget and time constraints were also a reason that limited this research. One more limitation of interviews is the existence of human bias in interpreting the responses (Cooper and Emory 1995). The effects of human bias can be managed but not eliminated (McKinnon, 1988). This limitation must be considered when contemplating the results.

\(^{18}\) The results are discussed in Chapter Five.

\(^{19}\) Four respondents did not answer one question; they were unsure about the remuneration system that was previously in use at the organisation.

\(^{20}\) Further research is suggested in Chapter Six.
VII. Chapter Summary

In this chapter the methods used for this research were discussed. Personal interviews with the Human Resources Manager at two regional councils were undertaken to pilot the questionnaire prior to the full study. After that the study was carried out through an embedded email and fax-back survey of regional councils’ Human Resources personnel, followed by personal interviews at one of the regional councils. One of the interviewees was the management accountant of the council in order to set the research in a management control context, as Modell (2000) and Otley (1999) have suggested.

The extents to which the methods chosen allow for the criteria of construct validity and external validity to be satisfied were demonstrated. Also, the strengths and weaknesses associated with these methods were identified.

The researcher obtained willing participants for the project. In addition, the use of new techniques for information gathering via email and fax survey resulted in a rapid response and a response rate of 75% was achieved.

In the next chapter the findings of this research and their analysis are presented, with the interview findings being used to supplement and triangulate the results of the survey.
Chapter Five: Results and Discussion

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I. Introduction

"Local government in New Zealand went through a major reorganisation in 1989... following that, regional councils came into existence". A number of new styles of human resource management have been introduced in New Zealand's public sector organisations, including initiatives in the areas of performance and remuneration (Boston et al. 1996).

This research examined how remuneration systems have developed in regional councils. The following three research questions were investigated and analysed: 1) How regional councils' remuneration systems have evolved, 2) the purposes of the remuneration systems, and 3) how successful these systems have been. In this chapter, the findings of the survey and interviews are compared with previous literature.

II. How Remuneration Systems Have Evolved in Regional Councils

The public sector reform in New Zealand brought a new model of public sector management with a strong emphasis on both institutional and individual performance (Boston et al. 1996). The definition of performance stated in the State Sector Act 1988

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1 All statements quoted in italics are comments made by interviewees who also completed the questionnaire. All statements in italics that are not quoted are answers to the questionnaire. All statements quoted in bold italics are comments made by interviewees who did not complete the questionnaire.

2 The term "remuneration system" will be substituted for other terms throughout this chapter. "Remuneration packages" and remuneration schemes refer to "remuneration systems".

Boston et al. (1996) stated that public sector managers in New Zealand have developed and implemented new remuneration schemes, and responses from human resources personnel support this view. Regional Council’s have adopted a variety of remuneration packages over the last decade which are shown in Table 5-1.

**Table 5-1: Current Remuneration Systems**

- Bonus payment for extraordinary effort
- Competency-based remuneration system
- Job evaluation system
- Market-based system
- Performance-based pay system

New remuneration systems have been in place since the years indicated in Table 5-2.

**Table 5-2: Adoption of Current Remuneration Systems**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Number of regional councils</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

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3 In some cases the total remuneration package combines two or more systems. This issue is discussed in more detail in a later section of this chapter.
Traditionally, many public sector organisations paid staff according to their length of service (Millar and Dreyer 1996); *The more years of service you had the more you were paid*. Remuneration systems previously used in regional councils included: service based systems, job evaluation systems, no formal systems and haphazard methods. These systems have been replaced by new systems because:

...[the old remuneration package] restricted managers to a system that didn’t necessarily fit within our culture and what we were trying to achieve. Also it... had some serious inequities that were not related to performance.

*We wanted to move from a service based remuneration system to a performance based remuneration system.*

*To get a ‘fair and equitable’ system.*

*[The] old system [was] cumbersome and subjective...Annual wage rise [was] based on length of service not performance.*

*There was quite widespread dissatisfaction about the previous system, particularly around inequity of remuneration reward... performance management was more subjective than objective.*

Organisations are redesigning remuneration packages to account for good performance (Bennett 1992), often building in performance bonuses for exceptional work (Millar and Dreyer 1996).

"*We have a bonus system that is mostly used as a means of rewarding people for special events*”.

"*The council rewards people for extraordinary effort*”.

In Chapter Three, performance and competency payment systems were defined. Both systems of remuneration are based either fully or partially on the measurement of performance, and should ensure goal congruence with the objectives of the organisation and motivate the organisation’s employees (Williams 1998; Russell-Green 1997). In addition competency-based pay rewards people for their abilities, skills and knowledge (Heneman and Gresham 1998). One of the councils has implemented a competency-based remuneration system:
The system enables the staff to see exactly how they contribute and [what they] need to do to contribute [to the organisation] ... in another form other than just performance.

In Chapter Three it was shown that there are different factors to consider about the structure of a remuneration package. Job evaluation and market surveys will help to define the remuneration structure of an organisation.

(a) Job evaluation

Job evaluation is concerned with classifying positions and determining the relative worth of jobs (Schuler et al. 1992; The State Services Commission 1988; Boxall et al. 1986).

There are numerous job evaluation systems currently available in New Zealand, which have been developed both locally and internationally (The State Services Commission 1988). All councils use an evaluation scheme. Table 5-3 shows the job evaluation systems in use in regional councils.

<table>
<thead>
<tr>
<th>Job Evaluation System</th>
<th>Number of Councils</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compers grading (Watson Wyatt)(^4)</td>
<td>3</td>
</tr>
<tr>
<td>In house system</td>
<td>3</td>
</tr>
<tr>
<td>JE Leader (PA Consulting)</td>
<td>2</td>
</tr>
<tr>
<td>Price Waterhouse system</td>
<td>1</td>
</tr>
</tbody>
</table>

\(^4\) One of the organisations is "still loosely following the Compers grading system". Its pay system is based primarily on market information, "we have a very strong philosophy on paying what the market demands". Also performance bonuses for extraordinary effort are used.
Internal organisational structure is established through job evaluation (Moore 1983) and ranges of pay are established with the help of market surveys (Millar and Dreyer 1991).

(b) Market surveys

Survey information enables an organisation to compare its remuneration levels and practices with the external market (Millar and Dreyer 1996; Schuler et al. 1992; The State Services Commission 1988). Market data requires sufficient information to ensure appropriate comparability (Bennett 1992).

Market surveys are extensively used in all regional councils.

"I think one of the important things about any kind of remuneration policy is that you get information from a variety of sources so you are not locked in only one way of thinking".

Five organisations (56% of the respondents) use four market surveys, 33% of the organisations obtain market information from two surveys, and 11% of the councils use one market survey. The three market surveys most widely use are the Regional Councils survey (used by 78% of the respondents), the PA consulting salary survey (used by 56% of the respondents) and the Watson Wyatt survey (used by 33% of the respondents). Interviewees commented that the Regional Councils survey is proving to be helpful especially for unique positions within regional councils. Other surveys, which are used at least by two councils are the Price Waterhouse and Sheffield surveys.

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5 "Positions such as: fire security and land resources staff" "are unique jobs within regional councils that you wouldn't find in other types of businesses or organisations".
To complement a total remuneration package it is necessary to have in addition to job evaluation and market information, some method of assessing the employee’s performance (Bennett 1992). The total payment structure is selected from a range of remuneration options (Rudman 1999).

A. Remuneration packages structure

Heneman and Gresham (1998) suggest that a number of different pay schemes exist. It is likely that organisations will use different approaches to meet their particular needs.

The findings of this present study illustrate that different remuneration packages have been introduced in regional councils. Regional councils total remuneration packages are summarised in Table 5-4.

Table 5-4: Total Remuneration Packages

<table>
<thead>
<tr>
<th>Participant organisations</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
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<th>6</th>
<th>7</th>
<th>8</th>
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<tbody>
<tr>
<td>Bonus payment for extraordinary effort</td>
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<td>*</td>
<td>*</td>
<td></td>
<td></td>
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<tr>
<td>Competency-based pay⁶</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job evaluation</td>
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<td>*</td>
<td>*</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Market surveys</td>
<td>*</td>
<td>*</td>
<td>*</td>
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<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Performance measured and rewarded</td>
<td>*</td>
<td>*</td>
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<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
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</tbody>
</table>

⁶ Competency-based pay is used by only one organisation. The system was created in-house. It includes an evaluation system based on organisational competencies.
Seven of the participant organisations (78% of the respondents) have adopted a remuneration system that assesses and rewards performance. As mentioned before, job evaluation is used to some degree by the organisation which uses market information and bonus payment for extraordinary effort. In this council performance is reviewed but not rewarded.

The context of significant managerial and organisational change in the New Zealand government has influenced regional councils human resource management initiatives (Boston et al. 1996).

In the next section the purposes of remunerations systems in regional councils, including performance management and motivation towards the organisation’s objectives, are presented.

**III. The Purposes of the Remuneration Systems**

Regional councils have implemented *performance management systems* which are linked to remuneration.

**A. Performance Management**

The performance management process identifies and assesses performance of employees in an organisation. The process links performance with organisational objectives and benefits employees in terms of recognition, receiving feedback (Landsbury 1988), and an increase in positive communication and encouragement (Pomeroy 1996).

Performance management involves an assessment process (Flannery et al. 1996). Eight of the participant regional councils (89% of the respondents) include some
aspect of performance appraisal in their review systems. Zemke (1985) states that managers and supervisors may have difficulty with the performance appraisal process.

In one of the pilot interviews the performance review system was described: The council has established in its employment contracts an annual performance review.

"We are obligated to have an annual performance review, managers with their staff, supervisor with their staff and so on, and that is actually written into industrial contracts”.

The interviewee believes

"... performance reviews become an issue when the system is purely looking at market information and it is really hard to explain to people how that works”.

Millar and Dreyer (1996) state that people need to know how their performance relates to the remuneration they receive. At one of the councils this view was supported:

"What I've been trying to do... is to write letters to staff following the annual performance and salary review... trying to comment on their performance and where the market is moving. I have got quite a lot good feedback”.

In another case, it was felt that:

The [remuneration] system improves productivity through the annual performance appraisal process where objectives and expectations are set and then rewarded if met.

A remuneration system should ensure that there is a clear relationship between remuneration and performance to maintain productivity and enhance motivation (Millar and Dreyer 1996).

B. Motivation Towards the Organisation's Objectives

Motivation is essential to organisational performance (Otley 1997). Two interviews believe that:
"Motivating factors for most people are recognition, ‘thanks, you did that job well and what you did about it was really good and I really appreciate that’.”

"Performance is not just about salary... there are other benefits for doing it, even the fact of saying thank you for what you do”.

It was suggested in Chapter Three that an understanding of the factors that influence individual motivation is important in designing and evaluating systems of incentives.

One of the survey’s respondents commented:

Some people are motivated for doing the particular kind of job they have got. Motivating factors for most people are recognition

In four (44% of the respondents) organisations human resources personnel believe that the remuneration system they have motivates staff towards the organisation’s objectives by being fair and equitable. Two more opinions of how a remuneration systems motivates staff are:

By being market related and having the performance component and performance appraisal system.

By having merit and market increase plus a performance bonus system, [and because the system is] linked into a performance management system and annual plan.

Two participants commented that motivation towards the organisation’s objective has not been totally achieved. The answer given by one of the participants was: no, [the system we have does not motivate staff]. Managers [should] be clear about their expectations of staff when setting objectives and relating those objectives and expectations to rewards, as a means to motivate the organisation’s staff towards its objectives.

Central to effective motivation is the link between incentives and those aspects of behaviour that it is wished to encourage (Emmanuel et al. 1990). A major aim of a management control system is to induce individuals to behave in ways which
contribute to overall organisational performance (Emmanuel et al. 1990). The complexities of the organisation's overall context and objectives influence the design of successful remuneration packages (Rudman 1999; Cameron and Simon 1995).

IV. Success of the Remuneration Systems

Despite remuneration systems in regional councils being successful according to responses from the survey, organisations continue re-visiting and re-designing their strategies to reward results and behaviours that are consistent with the organisation's objectives (Rudman 1999; Watson Wyatt Worldwide 1998; Cameron and Simon 1995).

Views on success of remuneration systems in regional councils were reflected by human resources personnel in each council according to their own criteria.

In one organisation, a remuneration system, which was implemented in 1991

enables an employer to distinguish and reward those that want to put in the extra effort or those that are good performers.

A system implemented in 2000 in another council

aims to allow... managers to pay people based on their performance and their contribution to the organisation. It challenges some of the traditional ways of paying people and is promoting culture change.

Other organisations' systems are successful

to an extent and currently outstanding issues are addressed.

One of the respondents wrote: We set some success criteria when we started this [remuneration system] 3 years ago. The remuneration system should be:

- Simple to understand and administered
- Transparent
- Able to be fully communicated
• Consistent with the council’s values
• Consistent with the council’s ability to pay
• Aligned to the council’s labour market pay levels

However, the respondent also wrote. I do not think we have achieved these yet. This organisation has addressed the issues of: Communication and matching market movement with the organisation’s ability to pay. Improvements wished for by the organisation are to make the [remuneration system] more simple, yet retain market competitiveness.

In addition to the preceding comments, other issues were addressed by the survey’s respondents.

V. Emerging Issues

There are some other initiatives that need to be considered: improvement on the area of remuneration schemes, similar pay systems for all employees, and management techniques that are applicable in both public and private sector.

A. Improvements in the area of remuneration systems

The following are improvements that human resources personnel would like to have implemented:

• I would like to see the system used as intended which is to pay for performance rather than managers still adopting the old mentality of everyone automatically getting an increase each year.

• I want to challenge old beliefs and see the organisation flexible, fluid and receptive to change.

• I would like the remuneration system to change as our outcomes change and what we pay people to be connected to what we are here to do.
• [I would like to see] further development of the bonus system to recognise very good and top performers.

• I would like to see those who are under-performing not receive any monetary increase as well as some performance management happening.

Human resources have developed systems to remunerate employees according to the needs of each council. In some cases managers or only the chief executives are excluded from the other employees' remuneration packages.

B. Managers' Compensation

Milkovich (1988) believes that there are groups in an organisation which are more or less critical to its success. As part of management control, a remuneration package should be designed to ensure organisational objectives are achieved. Otley (1987) believes that management control is not confined solely to managers; therefore remuneration schemes should be equally designed for larger groups of an organisation's employees.

Not all staff in all regional council organisations are subject to the same system. According to the survey's responses on average 91.5% of the staff are paid similarly and managers are remunerated differently. There is only one organisation that aims to pay all staff under the same remuneration system.

We are in the process of ratifying our ... Collective Contract that will encompass the [remuneration] system.

A consideration in the design of equal payments has been argued in the management control literature (Otley 1987). Newton and Findlay (1998) also argue that in both public and private sectors, the use of formal performance management techniques has been applied to sections of the workforce to which it had previously not been applied.
C. Public sector management techniques use in private sector organisations

Management techniques are essentially similar between the private and public sector (Anthony and Govindarajan 1998; Gunn 1987). Public organisations can learn from private organisations' experiences or vice versa and at the same time identify areas where they must innovate and learn from each other (Metcalf and Richards 1987).

Participants were asked if they thought the remuneration system they have could be used in private sector organisations. All nine respondents agreed that their systems could be applied in private sector organisations. In such a case private organisations would have to determine their own competencies, wording changes or basically no change is needed. The embracing of management practices in government provides new research opportunities.

The results of this research have shown consistency between some issues and previous literature. The next section discusses the findings and suggests avenues for future research which are expanded in the following chapter.

VI. Discussion

This research examined the remuneration system in nine regional councils in New Zealand. Human resources personnel in these organisations have implemented and developed a wide variety of remuneration management techniques. How remuneration systems have evolved in regional councils was investigated. Service based pay systems were used in regional councils and this is consistent with the literature on remuneration (Millar and Dreyer 1996). However, in the past, remuneration systems

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7 This issue is expanded in the next chapter.
used in regional councils included informal systems, which were subjective and not related to performance.

Over the last decade all participant organisations in this research have adopted new remuneration packages. Competencies and performance are rewarded and job evaluation systems and market information are used to define the total package.

Councils establish ranges of pay and the internal structure of the organisation through job evaluation (Schuler et al. 1992; The State Services Commission 1988; Boxall et al. 1986). There are various job evaluation schemes available in New Zealand (The State Services Commission 1988), and every council has chosen a job evaluation scheme in accordance with its requirements.

Likewise, councils use market information to compare their pay levels with the external market and also to establish ranges of pay (Millar and Dreyer 1996; Schuler et al. 1992; The State Services Commission 1988). Regional councils use similar market surveys and confront similar difficulties when using market information. In this case "job components are important to look at". Market information gained through the regional councils survey "give [human resources personnel] very good information" and another important thing related to market data is that "information [is got] from a variety of sources".

One of the participants stated that regional councils design their pay structures according to "management style and philosophy and what they believe is best for the organisation".

Regional councils have developed a variety of remuneration systems according to their needs as summarised in Table 5-5 (page 69).
Table 5-5: Brief Description of Remuneration Systems in Regional Councils

<table>
<thead>
<tr>
<th>Description</th>
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<tbody>
<tr>
<td>Six organisations use a performance-based pay system in conjunction with a job evaluation system and market information.</td>
</tr>
<tr>
<td>One organisation uses a competency-based remuneration system which pays for performance and contribution to the organisation, and includes an evaluation system based on organisational competencies. Market information is also used.</td>
</tr>
<tr>
<td>One organisation pays in relation to market survey data and is loosely following a job evaluation system. A bonus system is used as a mean of rewarding people for special events. This organisation measures performance yet does not reward it with pay increases.</td>
</tr>
<tr>
<td>One organisation uses a job evaluation system and market information. This council rewards people for extraordinary effort.</td>
</tr>
</tbody>
</table>

A major problem with earlier remuneration packages in regional councils was the inequity of rewards. This has been confronted with the adoption of remuneration packages which relate performance to rewards. It was suggested that the reward for results is part of the performance management process where expectations are linked to the organisation’s objectives, performance is planned and people are motivated (Flannery et al. 1996).

There is evidence that some organisations are trying to use remuneration management as a means of performance management as suggested by Rudman (1999). Eight participant organisations (89%) include some aspect of performance appraisal in their review systems.
As commented in a previous section of this chapter, one of the respondents stated that they were obligated to have an annual performance review. Conversely, when an interview was undertaken at another council a comment of the interviewee was:

"As far as I am aware of there is not a specific legislation that says that you have to set performance targets but setting performance targets is an easy way of making sure you are a good employer.

The chief executive is the employer of everyone in this council, his performance pay is based on the whole organisation’s objectives and then each individual person’s objectives are set by what the chief executive gives each person or section to do. Everyone gets performance appraisal and that is measured against the objectives and the job description..."

Previous literature suggests that New Zealand public management adopted a number of policies related to performance (Lapsley and Pallot 2000; Boston et al. 1996).

Although, pay for performance developments have been embraced by the majority of regional councils (78% of the respondents), some [staff members] are open to change but others get really concerned and extremely demotivated when their pay is affected, especially at the beginning of the implementation process. Once the staff start seeing performance pay, they get a lot more faith and trust in the system. Linking performance with rewards is central to effective motivation.

Money is certainly a main motivating factor but other factors that people consider influence motivation at work are:

"Some people are motivated for doing the particular kind of job they have got".

"The work itself".

"A combination of job satisfaction and the remuneration [that one deserves]".

Remuneration in regional councils has been successful to an extent. In two councils (22% of the respondents) human resources personnel believe the remuneration system
in their organisation is totally successful. In seven councils (78%) human resources personnel have tried to improve the success of the system and an annual review of the remuneration system has been implemented in two councils (22%):

_We survey staff each year to get their feed back on it. The ratings have generally improved from the previous year but overall satisfaction is still low._

Human resources personnel are also aware of the staff’s opinion:

_"Maybe you should ask the staff... I think there will be staff here who think that it is a fair [remuneration] system and equally I think you will find staff that prefer to get x percent a year. But I think overall it is working in the best interest of most staff"._

Interviews were undertaken with two users of the remuneration system who stated that:

_"I think the system is very good in theory but in practice there will always be discrepancies..."_

_"I feel that [the change of remuneration system] is a retrograde step... Older remuneration systems still can work very well. [The new system] is actually demotivating people who are not certain of how things work out."_

The implementation of a new system in regional councils has not been an easy task. _It has been a long process._ There are still initiatives which have been suggested: changing the old mentality of getting an annual increase, and seeing the staff members receptive to accept pay for performance and their relationship to the market. The opinion of a member of the staff in one of the councils is:

_"I think, the system is very [unclear] now, your pay is based on performance and I think market information is a very poor way for relating to movement in a salary scale."_

Furthermore, Newton and Findlay (1998) suggest that the use of performance appraisal the same remuneration system should be applied to the entire workforce, because each person in the organisation contributes to achieving the desired outcomes
(Otley 1987). There is only one council which intends to develop an equal remuneration package for all staff of the organisation.

The design of remuneration packages is the function of human resources departments in most organisations (Otley 1999). All participant organisations’ remuneration systems are maintained and administered by human resources personnel, and in some cases consultants might provide advice and up-to-date information. In one of the organisations there is a project team which enhances the system.

Remuneration package development should not be simply a function of human resource management (Otley 1999). Regional councils have “significant expertise and skill particularly at the executive level”. Management accounting contribution becomes relevant because generally this area undertakes organisational performance measurement. Hence, both areas, management accounting and human resource management, will benefit if management control in the context of the overall organisation is recognised. Furthermore, a management control system may encompass the financial control system, the management accounting system, and the human resource system (Widener and Selto 1999).

The management accountant of one of the councils was asked if he would like to participate in the design of the organisation’s performance-based pay system.

“I would like to help people in order to increase their performance. I would help them to understand how the system works and relates to their performance”.

The Human Resources Officer in this council was asked if anyone who measures the organisation’s performance or working in the finance department was involved in the development of their remuneration system. The answer was “human resources were involved in the whole decision... because there were a lot of anomalies as far as
salaries were concerned”. Then, they decided to develop and implement a new salary system.

It has been recommended the integration of human resources and management accounting practices (Modell 2000; Otley 1999; Powell and Spicer 1994). Presently, this is not happening in the organisations that were studied, however, there is progress in human resources practices without the involvement of management accounting. Thus, the contribution of management accounting may be relevant but does not exist in these organisations despite Otley’s (1999) recommendation\(^8\).

It has been suggested that management accounting should be investigated in the larger organisational context of public sector organisations (Lapsley 2000), which have their own complexities, including the examination of human resources practices (Otley 1999). This accounting research has investigated these practices.

It is also evident that there has been an adoption of private sector management techniques and at the same time there is a need for research in this area\(^9\) and these techniques have been influenced by agency theory and the ‘new public management’ as discussed in Chapter Two. At the same time, public sector organisations face unique situations. Stace and Norman (1997) argue that in the New Zealand public sector “there seems to be an inability to share best practices, in areas like Human Resources”. It was noticed that each council has developed its own system according to its particular needs. Nonetheless, they should share best practices and learn from each other (Metcalfé and Richards 1987).

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\(^8\) This issue is discussed in the next chapter.

\(^9\) This issue is presented in the next chapter.
New ideas have emerged from the findings of this research. These ideas suggest areas for future research on remuneration systems in New Zealand public sector organizations which are suggested in the next chapter.

VII. Chapter Summary

In this chapter the results of this research have been presented, analysed and discussed. The major findings are:

1. Following the public sector reform, regional councils in New Zealand have developed remuneration packages which interrelate job evaluation techniques, market survey’s information and performance management.

2. There is an emphasis on relating organisational objectives and values to rewards.

3. Individual motivation is linked to performance management.

4. One regional council aims at cultural change through a competencies based pay systems and also all staff members are subject of the same remuneration package. This case could be a best practice, however might not be applicable to small councils\(^{10}\).

5. The findings of this present research fill a gap in the literature regarding remuneration and performance in New Zealand local government organisations, and additional research have been identified.

\(^{10}\) This issue is discussed in the next chapter.
These ideas and conclusions of this thesis are presented in the next and final chapter.
Chapter Six: Conclusions and Research Directions

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I. Conclusions

This thesis has reported on a study of remuneration systems in local government in New Zealand. The environment in the New Zealand public sector and innovations in remuneration management practices set the framework for this study. The findings from this research offered an examination of the implementation and development of remuneration packages in regional councils which have been related to concepts of performance.

Regional councils’ remuneration packages were investigated using a survey and interviews. The findings of the interviews were used to complement the information gained through the survey. This is consistent with previous recommendations for the use of multiple research methods.

Every regional council uses job evaluation schemes and market information according to its needs. The majority of regional councils (89%) review their employee’s performance and most of them (78 %) also reward this performance. One regional council (11 % of the participants) has designed its remuneration systems to fit within its culture. The aim of remuneration packages is to improve individual performance and motivate staff towards organisational objectives. However, it is not the remuneration package which enhances the performance, it is a series of practices that need to be improved, better communication, skilled management, and the contribution of other areas within the organisation which also measure performance.

There are four main points that can be concluded from this study. Firstly, in the last decade regional councils in New Zealand have adopted a new approach to public sector management. This approach stresses the use of management practices to
enhance institutional and individual performance, and the improvement of performance management systems throughout the public sector.

Secondly, in regional councils, new organisational structures have led to innovative remuneration programs. Human resources personnel have given attention to designing and implementing programs that fit within the objectives of the organisation. Remuneration philosophies have changed towards performance-based rewards thus, the management of performance has been linked to remuneration.

Thirdly, remuneration systems in regional councils have been implemented and developed by human resources personnel exclusively. Modell (2000) and Otley’s (1999) recommendation of integrating management accounting and control and human resource management practices is not happening.

Lastly, the literature was sourced predominantly from overseas journals and examined private sector techniques. Remuneration and performance practices suggested in the literature were found to be applicable to regional councils in New Zealand.

There was a dearth of research on the topic of remuneration packages in the New Zealand context. This research has filled this void and identified areas for further research.

II. Directions for Future Research

Extensive opportunities for future research arise from the results of this study:

1. An examination of the links between management accounting and human resource management, that contributes to organisational performance.
2. An investigation of issues relating to performance management within a management control context.

3. A study of the adoption of private sector management techniques in public sector organizations in order to enhance these techniques.

4. An overall organisational perspective in management accounting research is needed to contribute to management practices.

1. Integration between Management Accounting and Human Resource Management

It has been recommended that the areas of management of performance and control, including remuneration management need further management accounting research (Otley et al. 1995; Otley 1999). Organisational performance has been traditionally measured by managers and management accountants (Otley 1999, 1997). Individual and group performance has been a view of interest for those who design the reward schemes for performance (Otley 1999). Therefore, the links between management accounting and human resource management should be recognised in order to design appropriate remunerations packages which aim to induce individuals and groups to contribute to overall organisational performance.

There is no participation of the personnel who measure the organisation's performance on decisions related to the management of individual performance in regional councils. Previous research (Modell 2000; Armstrong 1985) has advised that there is competition and occasional conflicts between the human resources and accounting professions and functions. There is also a lack of involvement of human resources personnel in management control systems (Kinnie 1989). Examinations of the integration of management control, human resource management and management
accounting in both public and private sector environments are recommended (Modell 2000; Otley 1999; Armstrong 1985), especially as it is "non-existent" in the organisations studied.

2. Performance Management Issues

Reform in the public sector and the business re-engineering process worldwide has focused attention on the measurement of performance in organisations. Literature on performance appraisal has been broadly investigated, yet the study of wider issues relating to performance management has been suggested (Kloot and Martin 2000; Newton and Findlay 1998). Otley (1999) argues that performance management offers a broader framework for management control systems, which are not limited only to managers. Every person in an organisation contributes towards the attainment of overall organisational goals, so the control system must have appropriate rewards associated with it (Otley 1987). The importance of performance management is recognised by human resources personnel in regional councils when improving remuneration packages, yet further studies in broader areas of performance management, including remuneration management will benefit institutional and individual performance linked to optimal remuneration packages.

3. Adoption of Private Sector Management Techniques in Public Sector Organisations

Recent research (Kloot and Martin 2000; Lapsley 2000; Lapsley and Pallot 2000; Howarth and Shanahan 1998; Williams 1998) fosters the study of the adoption of management accounting techniques by governments from the private sector in an organisational context, including studies of performance management. The use of remuneration management techniques was investigated in this study, which perceived
the need for further investigation and analysis of how management techniques in the
public sector can be developed in the context of the reinvented government.

4. Organisational Perspective in Management Accounting Research

Finally, management accounting research needs to examine the complexities of
organisational contexts and the dynamics of organisational functioning (Otley 1999;
Dent and Ezzamel 1995; Flamholtz 1992). This is a call for improving our
understanding of the way in which organisational activities evolve over time and how
organisational processes interact to shape these activities, including the development
of remuneration packages. Such a holistic approach will explain why and how
management accounting is intertwined with organisational functioning. Management
accounting researchers must learn about actual organisations. They need to know
what managers and accountants are currently doing. Management accountants
researchers will then contribute to the overall practices of management in
organisations through transferring their knowledge to management accountants in
practice.

It should be noted that two of the non-respondents in this research were small
organisations and advised that the information they could provide might not be useful
to this study. Attempts to generalise the results of this research should be used with
cautions. Further studies which examine specific groups of organisations classified by
size are therefore recommended to learn about their particular organisational context.
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Appendices

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Appendix One: Request of Participation

Dear <<First Name>>

My name is Alma Suárez. I am studying for a Master of Commerce degree at the University of Canterbury. [Name of Human Resources Manager] will have already contacted you concerning research I wish to undertake regarding remuneration systems in Regional Councils. As a result I would like to request your participation in my research project.

The objective of this research is to investigate the following aspects of remuneration systems of Regional Councils in New Zealand: 1. How the remuneration systems have evolved in each region. 2. What the similarities and differences are between councils. 3. The purposes of these systems. 4. How successful these systems have been.

Can you please send a return e-mail confirming your participation in this research.

I thank you in anticipation.

Alma Suárez
Appendix Two: Follow-up Letter

Dear <<First Name>>

Thank you for agreeing to participate in my research regarding remuneration systems of Regional Councils.

Currently I am working with my supervisor preparing the proposal for my project. As a result, I will e-mail you a questionnaire to complete in late February or early March.

Thank you once again for your assistance.

Regards

Alma Suárez
Appendix Three: Questionnaire

<<First Name>> <<Last Name>>

<<Region>> Regional Council

<<City>>

Dear <<First Name>> <<Last Name>>

Thank you for agreeing to participate in this research. Please find attached the questionnaire for you to complete and return via email. Your responses are critical to the results of this study. All respondents will receive a copy of the results. The information you provide will be treated in a confidential manner.

I would like to express my sincere appreciation for your participation in this study.

Questionnaire

Section One: Organisational Characteristics

Your job title:

Number of staff in the <<Region>> Regional Council:

Section Two: Remuneration Systems

A remuneration system can be used to influence people’s behaviour and performance. Organisations use a variety of approaches to encourage, recognise and reward the work performance. Also, these systems are used to attract, motivate and retain individuals and teams in organisations. Following are some examples of remuneration elements:

- Wages and salaries
- Bonus, commission or incentive payment
- Performance based pay

Note: This questionnaire will use the term “system” to refer to “remuneration system”.
1. Please describe the remuneration system in your organisation.

2. Who maintains and administers the system? (e.g. Administration Manager, Human Resource Manager, external consultant)

3. Do you believe that the present system is successful?
   3.a) If so, why?
   3.b) If not, why not?

4. In which year did you start using this system?

5. What other systems, if any, have you used before?

6. If other systems were used, why did you change to this new system?

7. What percentage of the staff in the <<Region>> Regional Council is subject to the system?

Job evaluation aims to develop a systematic method of determining the relative worth of jobs. There are numerous job evaluation systems currently available in New Zealand, which have been developed both locally and internationally.

8. Has job evaluation been implemented?
   8.a) If so, what job evaluation system is being used?

Data from surveys allows the organisation to compare its remuneration levels and practices with those prevailing in the market place.

9. Is the system in your organisation based on market information?
   9.a) If so, what sort of market information is used?

10. Do you think your system could be used in private sector organisations?
   10.a) If yes, how would it need to be different?
   10.b) If not, why not?
11. Do you believe the remuneration system you have motivates staff towards the organisation’s objectives?

11.a) If so, how?

12. In your opinion, what is the biggest challenge that you have had to deal with concerning remuneration systems?

13. What improvements would you like to see in the area of remuneration systems in the <<Region>> Regional Council in the next five years?

Thank you once again for your assistance, it is much appreciated.

I look forward to your reply.

Yours sincerely

Alma Suárez
Appendix Four: Human Resources Officer Interview

1. In 1997, a new job evaluation system was implemented. Who participated in the implementation process? Was anyone from the finance department or someone who was in charge of the budget, or who measured the performance of the whole organisation involved in this process?

2. Has job evaluation been encouraged by any legislation? If so, which legislation and how?

3. Has performance based pay been set following legal requirements? If so which ones and how?

4. Could you expand more on the performance pay system you use? What rewards will the staff gain by achieving performance targets (or conversely what penalties will they suffer by failing to achieve them)?

5. Do you think performance rewards motivate staff? If so, how? If not, why not?

6. Do you believe that managers are setting objectives and relating these objectives to rewards? If so, how? Please give an example.

7. Do you believe that the remuneration system in this organisation is fair?

8. Please describe briefly any other remuneration system(s) you use.
Appendix Five: Management Accountant Interview

1. How long have you been working for the <<Region>> Regional Council?

2. How did you feel about the last change to the new remuneration system?

3. Do you participate in the remuneration or performance system setting and reviewing process?

4. Do you think the system is congruent with other management accounting or financial systems in the organisation? Please explain.

5. Do you set objectives and relate those objectives to rewards?

6. What is the most important motivational factor in getting people to work more effectively?

7. How would you feel if you also participated in the development of the remuneration system?
Appendix Six: Administration Officer Interview

1. How long have you been working for the <<Region>> Regional Council?
2. Please briefly describe what your duties in your present position are.
3. Is your performance measured?
4. Does your performance affect your pay? If so, do you think the system is fair?
5. What do you think about the last change to the remuneration system you had?
6. What is the most important motivational factor in your work?
7. Do you believe your boss thinks you are doing a good job?