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Reward Systems in Nonprofit Organisations – An Assessment of

Employee Motivations in the Homelessness Sector in England

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"Science, like all creative activity, is exploration, gambling,
and adventure. It does not lend itself very well to neat blueprints,
detailed road maps, and central planning. Perhaps that's why it's fun"

Herbert A. Simon, 1964.

Abstract

Government reforms have led nonprofit organisations (NPOs) to become more involved in the provision of mainstream public services in the UK and consequently they have been subject to an increasingly demanding regime of performance measurement and inspection if they wish to provide services on behalf of the state. The creation of a contract culture has put nonprofit providers in a position where they have to bid against each other to deliver pre-determined services, resulting in a very competitive operating environment. NPOs have become more professionalised and performance-driven and this new climate encourages a business-like attitude to the management of their services. Pay-for-performance schemes have become a recognised phenomenon in NPOs, despite having generated controversial discussion in the literature. The literature on incentive theories has been applied almost exclusively to private sector organisations and limited attention has been devoted to the nonprofit sector. It is argued here that one cannot simply transfer across for-profit sector ideas; one must try to establish a framework that is more suited to the logic of the NPO. The aim of this thesis is twofold. First, it investigates the use of performance-related pay (PRP) in nonprofit housing associations in England and looks at whether PRP acts as a motivator encouraging nonprofit employees to improve their work performance. Second, it inquires whether the new competitive and performance-driven environment influences the reward decisions of NPOs. This thesis examines influences on the choice of reward practices in housing associations in order to provide an alternative to agency explanations for the use of PRP in the nonprofit sector. The results not only point to the ineffectiveness of PRP schemes in housing associations but also identify the strength of institutional pressures on NPOs to conform with best practice in pay decisions.

Acknowledgements

Table of Contents

Table of Tables

Introduction

Nonprofit organisations (NPOs) have become increasingly important in the provision of health, social services and housing in the UK, and the government, at both the local and national levels, has become an important source of funding for the work of many voluntary organisations. As a result, funding bodies are more demanding with regard to good management practice, and greater attention is paid to staff management so as to ensure the provision of high-quality services (Billis and Harris 1992). Changes in the nature of funding have contributed to the creation of a contract culture, where grants are made based on a specific service provision instead of the general purpose of a charity. The contract culture implies tighter controls and performance standards for staff delivering front-line services in community care, health, social services and homelessness (Cunningham 1999:20). Nonprofit providers are put in a position where they have to bid against each other to deliver pre-determined services, resulting in a very competitive operating environment. This ongoing pressure on NPOs to become more efficient and effective at competing for funding has led to a reliance on managerial concepts originally developed in private for-profit organisations (Theuvsen 2004). In particular, pay-for-performance systems have become a widely recognised phenomenon in NPOs (Baber, Daniel et al. 2002; Barragato 2002).

My thesis investigates the use of performance-related pay (PRP) in nonprofit housing associations (HAs) in England. HAs, according to Mullins (2010), are regarded as the 'distant uncle' of the voluntary sector in England because they have their own set of trade bodies, regulators, funders and consultancy organisations. Nonetheless, they remain true nonprofits, occupying a unique space outside of both the market and the

state (Salamon and Anheier 1997). As HA's become more involved in the provision of mainstream public services, they also become more professionalised and performance-driven and that may well impact on their choice and use of reward practices. This is what makes them a very interesting case to study within the voluntary sector.

The aim of this research work is twofold. Firstly, it seeks to address whether PRP acts as a motivator for nonprofit employees to improve their work and whether a new competitive and performance-driven environment could change the reward preferences of nonprofit employees whereby PRP becomes an incentive system suited to the needs of NPOs to increase organisational performance. The applicability of pay-for-performance systems in NPOs is something of a contradiction. Agency theory characterises compensation as a mechanism for aligning the behaviour of the agent with the interests of the principal. Making pay contingent on results obtained by agents implies that, the higher the salary received by an agent, the better will be the performance of the organisation (Fernandez-Alles, Cuevas-Rodriguez et al. 2006). However, nonprofit sector theorists argue that nonprofit workers seem to accept lower monetary compensation, and that they may agree to donate labour because they believe in the social relevance of the organisational output. Previous studies (Weisbrod 1977; Hansmann 1987; Rose-Ackerman 1996; Handy and Katz 1998) have been consistent with the assumption that NPOs have unique characteristics that can explain why they behave differently from for-profit organisations. These characteristics are likely to reduce production costs. Principal and agents are motivated by the mission of the organisation and, consequently, agency problems are not likely to arise as they do in the case of for-profit firms. The

NPO literature strongly emphasises the inadequacy of high-powered incentives in NPOs. The main rationale behind this is a lack of competition and the use of highly intrinsically motivated employees (Brandl and Guttel 2007). However, one could question whether the changing environmental conditions of the voluntary sector hold these assumptions true. The changing funding regime and market competition have led HAs to an increasing conformity with private sector management practices (Walker 1998) and the impact of such developments on the way PRP is implemented in these organisations remains to be seen.

The paradox between the popularity of PRP in NPOs and its apparent ineffectiveness as a tool for increasing employee motivation leads to the second aim of this research. Why have housing associations introduced PRP for their employees? Research on institutional theory suggests that organisations are pressurised to change as a direct response to other organisations upon which they depend. Changes in pay systems could result from informal pressures exerted on HAs by funding bodies (DiMaggio and Powell 1983). Voluntary organisations drawn into the contract culture and encouraged to use the performance measures established by public funders may introduce PRP to evidence purposeful and proper management, sustain legitimacy and ensure continued access to resources (Meyer and Scott 1983). PRP may be more symbolic than instrumental, used to accommodate environmental expectations and signal to funding bodies a more business-like attitude. Institutional pressures influencing reward decisions provide an important dimension to the study of PRP in NPOs because it argues that the adoption of PRP reflects conformity with 'best practice' in pay decisions led by institutional isomorphism, rather than the strategic

and commercial considerations that would make PRP a suitable reward system for nonprofits.

The rapid growth of the voluntary sector's paid workforce has primarily been driven by the growth of public service delivery. The workforce is growing at a faster rate than the public sector itself, and estimates suggest that over half a million people are now in paid employment in the UK's voluntary sector (NCVO 2007). Yet, relatively little is known about the way in which employees are managed in this sector, since it has been subject to little empirical investigation. My research will contribute to knowledge in a number of ways. First, it takes forward previous work examining performance in NPOs (Gray 1999; Brown 2002; Chou 2002; Ballou 2005) and addresses the issue at the employee level. Most studies concentrate on organisational performance in the healthcare system in the US or, at the employee level, on executive pay (Baber, Daniel et al. 2002; Gray and Benson 2003), resulting in a lack of empirical research on pay systems for the average nonprofit worker. Second, it aims to contribute to a programme of research into reward determination and uncover the underlying reasons for designing and implementing reward systems in NPOs. The analysis of why and how reward strategies are arrived at, and their efficacy in the social and economic context in which NPOs operate, are paramount to developing further research in reward management. Practically, my research findings may prompt practitioners in the sector to think more consciously and strategically about what drives their organisations' choice of reward system.

The first chapter will provide a discussion of incentives and motivation in the nonprofit sector in the interest of investigating whether pay systems such as PRP are suited to NPOs. The rest of this thesis is organised as follows: Chapter 2 continues

the discussion of rewards in NPOs and an institutional theory perspective assists in explaining the reasons why nonprofits make reward decisions to implement PRP. Chapter 3 presents the research methodology. Chapter 4 discusses in detail the performance management and pay systems implemented in the four case studies. The objective here is to identify whether the performance management and PRP systems follow the advice of good practice in the sector. Chapter 5 addresses why NPOs, and HAs in particular, seek to introduce PRP. The results of interviews with senior management in PRP organisations as well as interviews with reward consultants in the field are presented. Chapter 6 provides an analysis of the data collected in the four case studies in the housing sector. It compares the organisations using PRP to those using seniority pay and investigates whether PRP motivates nonprofit employees to perform well at work. Chapter 7 uses the Workplace Employment Relations Survey (WERS) to investigate the use of PRP in nonprofit organisations and its effect on attitudinal outcomes such as job satisfaction, pay satisfaction and organisational commitment across the sector. The main objective of this chapter is to provide a broader view, beyond the case study analysis, of the use of PRP for nonprofit employees in the UK. Extending the analysis to a broader and larger sample such as the WERS helps to assess how far the findings of this thesis extend beyond the cases discussed here. Chapter 8 summarises the key conclusions, implications for research and practice, limitations of the study and directions for future research.

Chapter 1   Incentives and Motivation in Nonprofit Organisations

In this chapter I present a discussion of the theory of incentives and how its theoretical framework fits into the nonprofit context. The discussion moves on to an overview of the theory of NPOs, focusing on the distinctive characteristics of these organisations. The main argument here is that the non-distribution constraint, inherent in nonprofit and public sector organisations, allows these organisations to drop the income maximisation purpose and produce socially desirable outcomes for society. Incentive theories may have a different impact in the nonprofit context since employees' compatibility with the goals and values of the NPO may vary from the corresponding compatibility in for-profit organisations. The use of PRP is also discussed here and lessons learned from the public sector case are presented with the aim of shedding some light on how PRP may work in NPOs.

1.1   Incentive Theories and their Application Beyond the For-Profit Firm

Traditionally, the issue of incentives in organisations has been studied within the framework of agency theory. Agency theory provides an explanation of how the separation of organisational activities from ownership presents the problem of ensuring that the owner's interests are aligned with the interests of the employees responsible for operating the business (Jensen and Meckling 1976). Because workers and employers may have divergent objectives within the organisation (Prendergast 1999), the owners (the principal) will try to ensure that the employees (the agents) direct their work efforts in line with the owners' interests. In order to achieve this, compensation systems are used to balance the provision of fixed and variable

rewards and ensure that appropriate incentives are in place for the employee to act in the owners' interest (Jensen and Meckling 1976).

The relationship between agent and principal can be classified into two aspects: The first one is referred to as moral hazard, which denotes a lack of effort on the part of the agent. In other words, the agent has an informational advantage over the principal and, after the contract has been agreed to, he or she does not meet the terms of the contract, knowing that the principal cannot directly observe his or her actions. The second aspect is known as adverse selection, often labelled information asymmetry. This is where the principal is not fully informed about the abilities of potential agents, and therefore may make an unwise agent choice (Eisenhardt 1989). The principal, aware of these potential problems, needs to guard against opportunistic agent behaviour by developing an effective contract. Three important factors will define the contracting process: the costs of obtaining information, both that needed to select the appropriate agent and that needed to effectively monitor and enforce the contract, the uncertainty associated with the production process, and the risk preferences of the actors (Ferris and Graddy 1996). The information costs related to agency problems will vary according to the nature of the activity being contracted. The costs of enforcing the contract depend on the measurability of the agent's behaviour (effort), and the agent's performance (the outcome of that effort). There is often considerable uncertainty associated with the translation of agent behaviour into outcomes. The more difficult it is to gather information on outcomes, the more likely it is that contracts will be based on behaviour. Thus, the ability to measure performance is a critical determinant of contract terms. The agent is unlikely to be indifferent about the nature of the contract, and a risk-adverse agent will not be

inclined to accept an outcome-based contract if there is a high degree of uncertainty associated with the behaviour-outcome process. The issue of risk arises because outcomes are only partly influenced by behaviour. Government policies, economic climate and competition can also have an impact on the outcomes. When outcome uncertainty is low, outcome-based contracts become more attractive (Eisenhardt 1989).

However, as Williamson (1985) has pointed out, contracts are not always effective at preventing opportunism. In his work on transaction costs, Williamson (1981:553) recognises two behavioural assumptions in his approach. The first is that agents are subject to bounded rationality and the second is that at least some agents are given to opportunism. Considering that rationality is limited by the amount of information one has, it becomes impossible to anticipate all contingencies and specify them in a contract. There are also high costs involved in trying to overly constrict agents' opportunistic behaviour. If agents were not given to opportunistic behaviour, incomplete contracts would not be a problem. Williamson (1985) advances his work addressing opportunistic behaviour by making a distinction between high-powered and low-powered incentives. High-powered incentives are provided by market transactions in which gains go directly to the parties transacting. In organisations, which he calls hierarchies, incentives are low-powered and the employees involved in a transaction may get a pay rise or a promotion but will not make any direct gains from the transaction. However, firms have increasingly turned to high-powered incentives that base compensation on measures of employee output. These include stock options to compensate executives, pay by results and PRP using a diversity of compensation systems. High-powered incentives have clear advantages but

Williamson also warns of the disadvantages of such incentives. Incentives can be too powerful and may encourage people to behave more dishonestly since the rewards are higher.

The key elements of incentive theories described above have largely been applied in (and developed for) for-profit organisations. High-powered incentives, for instance, may have beneficial effects in specific circumstances and for some principals but lead to very dysfunctional reactions in other circumstances and for a different type of principal (Dixit 2002). What must be taken into account here is the set of special characteristics some organisations may have that makes it difficult for them to successfully introduce outcome- or performance-based incentives. The theory of incentives argues that an agent gets utility only from the monetary income the principal pays him and disutility from the effort he exerts on behalf of the principal. Dixit (2002) points out that agents may also be motivated by some aspects of the job itself. If agents are motivate by working in the organisation and by the actions they perform in their jobs, then the principal can offer smaller marginal bonus payments and still guarantee the same level of effort. Several studies (Rainey 1979; Rainey 1982; Ferris and Graddy 1994; Tirole 1994; Frant 1996; Dixit 2002) have suggested that different incentive structures and constraints embedded in public, private and nonprofit organisations can result in different behaviours and outcomes. Firms operate differently depending on their ownership structure and on the motivations of employees, managers and consumers (Rose-Ackerman 1996).

The ownership structure of an organisation influences its objectives and its values. In for-profit organisations, the owner has control over the organisation and, therefore, not only the right to claim the residual income, but also to determine the goals of the

organisation, which will most likely be related to profit maximisation. Even when the organisation has a variety of stakeholders to answer to, the profit maximisation goal is usually shared by them all. Contrast this with government and nonprofit organisations. The heterogeneous stakeholders in these organisations are unlikely to share the same goals (Tirole 1994). Nonprofit organisations are accountable to a variety of constituencies and key stakeholders include financial donors, funders, service recipients and volunteers (Speckbacher 2003). Extending the line of reasoning applied to government organisations (Tirole 1994; Dixit 2002) to nonprofits, the profit maximisation objective in the latter is likely to be replaced, not by a single goal for the organisation, but by a multiplicity of potentially conflicting objectives, leading to vague and difficult-to-measure goals, to support these diverse groups (Stone and Brush 1996; Stone, Bigelow et al. 1999). The objectives are often very difficult to quantify because of their qualitative dimensions. Moreover, even when the objectives can be identified, their diversity raises the issue of how much weight should be given to each one in order to obtain a stable and well-defined purpose to maximise. Dixit (2002) stresses the multidimensionality of goals in government agencies and the difficulties in identifying what would constitute their fulfilment. As the profit motive does not figure importantly among the formal objectives of NPOs, their objectives are not as clear and well defined as they are in for-profits. While investors focus on the return on capital, owners of nonprofits promote other types of goals such as the return on the work accomplished, the quality of goods produced or the accessibility of the service provided (Laville and Nyssens 2001).

Incentives are used as a mechanism to transmit the organisation's values and shape attitudes and performance to conform to those values (Lawler 1983). NPOs, like government institutions, are highly complex; their goals and objectives are not always clearly codified but have usually developed from the history of the organisation and the shared values of its stakeholders (Bacchiega and Borzaga 2001). Consequently, incentive theories may work differently in relation to employees' attitudes and performance, depending on the type and strength of an individual's motives and their compatibility with the organisation's goals and values (Puffer and Meindl 1992).

Economic theories of the nonprofit sector can also help us to understand the distinctiveness of these organisations. Theoretical work started in the 1970s due to the growing number of organisations in the sector and, moreover, the large and growing public subsidies being given to them, which made understanding their economics relevant to public policy (Hansmann 1987). The economic theories of the NPO presented next help to explain the profit versus nonprofit distinction that has emerged from the theory of incentives in this section.

1.2   Economic Theories of the Nonprofit Sector: Roles and Behaviour of Nonprofit Organisations

A substantial body of work has been dedicated to the economics of the nonprofit sector (Weisbrod 1977; Hansmann 1980; Young 1983; Salamon 1987; Steinberg 1987; Rose-Ackerman 1996). Hansmann (1987) divides the literature into two groups: theories on the role of NPOs and theories on their behaviour. The first addresses issues concerned with the existence of NPOs and the economic functions they perform. The second relates to the objectives pursued by nonprofits and the

motivations of the managers and entrepreneurs who found and work for them. Questions of role and behaviour cannot be separated. In order to understand how these organisations behave, one needs first to understand how they developed and have survived in the market.

The public goods theory is the first economic theory of the role of NPOs. Weisbrod (1977) proposes that NPOs serve as private producers of public goods. Public goods are characterised here as products that, once produced, are enjoyed by everyone, whether or not they have paid for them. A clean environment is an example of a public good. Such goods can be desirable within a society but not necessarily profitable and for this reason may not be supplied by for-profit firms. Governments provide public goods but only at the level that satisfies the median voter; they may not be able or willing to meet all of the demand for certain goods, creating a demand for services produced by voluntary organisations. Nonprofits may also provide more diverse services than is possible in the public sector and individuals who are dissatisfied with the low quality of public services and wish to supplement this provision may establish nonprofits (Weisbrod 1977). Weisbrod's theory captures an important phenomenon in nonprofits: their role as providers of public goods. However, the problem with this theory is that many NPOs seem to provide private services rather than public ones. His theory does not explain the existence of commercial nonprofits, organisations whose income derives from the sale of goods or services, such as nonprofit hospitals, nursing homes, day-care centres or housing and support for the homeless. The theory also stops short of explaining why commercial nonprofits seem to spring up and survive in sectors where private firms cannot or are less likely to.

The contract failure theory (Hansmann 1980) expands the body of literature on the economic role of nonprofits and raises the issue of asymmetric information and transaction costs. Hansmann (1980) argues that NPOs arise in circumstances where consumers are not able to accurately evaluate the quantity and/or quality of the service a firm provides for them. For-profit firms thus have the financial incentive to take advantage of customers by providing less service or service of a lower quality than what was agreed. In contrast, NPOs, owing to the non-distribution constraint, have less incentive to take advantage of their customers. The central discussion of Hansmann's theory evokes the issue of trust. Because nonprofits do not distribute profits to owners, and because altruistically oriented individuals are assumed to self-select themselves into the sector, these organisations are seen as more trustworthy. NPOs are also efficient responses to high monitoring costs (Krashinsky 1986). Essentially, the contract failure theory views the nonprofit firm as a response to agency problems (Hansmann 1987). Since nonprofit employees tend to be altruistically oriented, nonprofits are motivated to act in accordance with consumer expectations, which implies that the costs of monitoring for potential exploitation, common in for-profit organisations, are avoided.

Salamon (1987) suggests that Weisbrod's and Hansmann's theories explain the existence of the voluntary sector in terms of market failures and concentrate on comparing nonprofit and for-profit organisations. Instead, he developed a new theory of the voluntary sector based on the partnership between nonprofits and the government. The central argument of his theory signals that voluntary organisations are best equipped to solve collective and community problems although, if nonprofits fail to provide, government action becomes appropriate. The author suggests that,

instead of the voluntary sector being given a secondary role, it should be seen as the preferred mechanism for providing collective goods and services, with the government only assuming the residual role. Salamon's (1987) voluntary failure theory suggests that the failures of voluntary organisations justify government involvement and support for the voluntary sector. This approach is certainly more consistent with the history of the government-nonprofit relationship in European countries, and in the UK most specifically but what exactly are the voluntary failures addressed in Salamon's theory? There are four: 'philanthropic insufficiency' concerns the inability of the sector to generate sufficient income; 'philanthropic particularism' describes the tendency of NPOs to focus on specific groups, rather than favouring equality; 'philanthropic paternalism' refers to the fact that those in control of the charitable resources can determine what the sector does and whom it serves; lastly, 'philanthropic amateurism' explains the difficulties of attracting professional personnel.

Salamon (1987) suggests that the voluntary sector's weaknesses correspond well with the government's strengths and vice versa. On the one hand, the failures described above can be diminished because the government is in a position to generate more resources, set priorities to guarantee access to all citizens and improve the quality of the services by establishing quality control standards. On the other hand, nonprofits, operating on a smaller scale, can avoid red tape, adjust to the needs of customers and allow for a degree of competition among service providers. The theoretical rationale for government-nonprofit cooperation is a strong one. However, there are several concerns for the voluntary organisations, such as loss of autonomy,

bureaucratisation, and distortion of their mission in the pursuit of public funding, to name a few.

The second group of nonprofit theories relates to the behaviour of the NPOs. Most models of the behaviour of NPOs are optimising models (Hansmann 1987). These models explain the behaviour of the NPO according to the optimisation of an objective function under several restrictions. One example is the 'constrained quality-quantity maximising model' developed for the case of hospitals by Newhouse (1970). The main objective of the hospital is to maximise the quantity of services provided and at the same time maximise the quality of care; such objectives are constrained by a budget. Newhouse's model shows that the nonprofit firm will exhibit productive inefficiency when compared with the for-profit firm. This model suggests that organisations in general minimise costs. However, due to the absence of ownership claims on residual earnings, the nonprofit firm will not have an incentive to minimise costs and therefore will inherently be subject to productive inefficiency. Hansmann (1981) and James and Neuberger (1981) found similar results for performing arts organisations and universities, respectively. Another common behaviour of nonprofit firms is their poor ability to respond quickly to increases in demand compared to their private counterparts. One explanation is that NPOs are constrained in their access to capital (Hansmann 1987). The lower levels of efficiency, presented as a distinctive behaviour of NPOs, integrate well with theories of the role of nonprofits, especially Salamon's (1987) voluntary failure theory where government-nonprofit partnership becomes relevant.

Entrepreneurial theories of NPOs also offer an explanation for the distinctive behaviour of these organisations. Unlike the neo-classical models described above,

their contribution focuses on the preferences of the individuals engaged in these organisations. Understanding the motivations of economic actors who take actions from which they derive no material advantage has always been a challenge for economic theory. However it has been recognised that individuals derive satisfaction not only from extrinsic motives but also from setting meaningful goals and achieving them (Ben-Ner and Gui 2003). Entrepreneurship theories propose that entrepreneurial behaviour explains why NPOs are founded and why they engage in the provision of services (Badelt 1997).

Young (1983) points out in his work different entrepreneurial motivations in the nonprofit sector, which helps to explain why NPOs are established in the first place. Young finds that preferences such as pride in accomplishment, the search for personal identity, a need for autonomy and independence and a desire to preserve a cherished organisation are more prevalent within nonprofit entrepreneurs. The author suggests that entrepreneurs with different motivations and styles allocate themselves into industries and economic sectors according to their preferences for wealth, power, and intellectual and moral purposes. Once established in different parts of the economy, they will be responsible for introducing particular behaviour and characteristics in their sector and in their organisation. Badelt (2003) affirms that entrepreneurial theories are consistent with theories of the role of NPOs. The different motivations of individuals founding NPOs are far from profit maximisation and therefore efficiency levels may be lower in nonprofits. James's (1987) work on religious organisations, for example, indicates that customers may prefer the services of NPOs for the same reasons that nonprofit entrepreneurs form them.

The literature on NPOs is abundant and research has shown that nonprofits are more than profit maximisers (Newhouse 1970; Hansmann 1981; James 1983). The non-distribution constraint has been the most salient characteristic of NPOs presented in the literature so far but the question is whether the behaviour of for-profit and nonprofit organisations can be differentiated according to that constraint. Empirical studies comparing the economic behaviour of nonprofit, government and for-profit organisations exist for a number of industries, although most deal with health care. Attention has been directed mainly towards differences in four dimensions of behaviour: cost and use of resources, quality of service, access to care and user satisfaction (Weisbrod 1989).

With respect to costs, a study of hospitals (Steinberg and Gray 1993:306) reviewed research comparing for-profit and nonprofit hospitals and concluded that 'nonprofits had either similar or lower expenses than did for-profits, and all studies showed that the costs to third-party payers were substantially higher in for-profit hospitals than in nonprofits'. Hamilton (1994) found that NPOs served more patients than government and private hospitals, and characterises nonprofit hospitals as patient maximisers rather than profit maximisers.

The effect of ownership type (for-profit, nonprofit or government agencies) on the quality of the service provided is also a subject of speculation. An important aspect is whether for-profit organisations cut quality more, especially in dimensions that are difficult for consumers or regulators to monitor (Weisbrod 1989). A study of day-care centres found that the quality among nonprofits tended to be higher than in for-profits (Mauser 1998). Gray (1986) also concludes that most studies on the quality of nursing home care favour NPOs in a wide range of measures, including the amount

of patient care staff, expenditure on food, complaints to state agencies and nonconformity with regulatory requirements. Grabowski and Hirth (2003) found support for asymmetric information theory, and confirm that an increase in nonprofit market share has improved for-profit and overall nursing home quality. Marmor, Schlesinger et al. (1987) found that for-profit organisations offered lower-quality care than nonprofits. Gray (1999) and Harrigan, Woolhandler et al. (2001) conclude that for-profit nursing homes provide worse and less nursing care than nonprofit and public homes. This shows that some studies are consistent with the assumption that the non-distribution constraint will soften the incentive to reduce quality of service in aspects that are hard to monitor (Chou 2002).

When it comes to access to care, Mauser (1998) found that nonprofit day-care centres were more likely to serve children from low-income families than for-profits, even when price was controlled for. Another national study in the US also compared for-profit and nonprofit organisations in relation to patient selection (Brown 2002) and found that nonprofits were more likely to serve severely disabled people. Ballou (2005), meanwhile, confirms that ownership has an effect on consumers' choices. He concludes that clients have a preference for nonprofit homes. Other studies have consistently found NPOs to be more positively associated with user satisfaction than for-profits (Dellana and Glascoff 2001; Landon, Zaslavsky et al. 2001; Sikorska-Simmons 2005; Gillies, Chenok et al. 2006). Interpreting consumer satisfaction is not clear-cut, however, and should also be related to expectations (Carley 1988). On the one hand, a high level of satisfaction could simply be a result of low expectations; on the other hand, consumers may be dissatisfied with an adequate service because of

unmet needs that the service was not designed to meet in the first place (Carley 1988).

The four dimensions of behaviour discussed here – cost, quality, access to care and user satisfaction – are not, on their own, predictive of performance. They have deficiencies, and strong conclusions about the superior performance of NPOs are not warranted. However, what these studies demonstrate is a significant difference between the behaviour of nonprofit and for-profit organisations and, moreover, how the non-distribution constraint is effective in producing socially desirable outcomes (Galaskiewicz and Bielefeld 2001).

The studies presented above show the profit-nonprofit distinction at the organisational level. However, the non-distribution constraint can also explain different behaviours at the employee level. Theoretical research on NPOs assumes that nonprofits attract intrinsically motivated agents (Hansmann 1980; Rose-Ackerman 1996) and several empirical studies show that these nonprofit agents are willing to exchange extrinsic rewards for commitment to a social cause (Handy and Katz 1998). The next section will reveal the unique attributes of employees in the nonprofit sector in relation to their motivation, and how the non-distribution constraint plays an important role in that. Nonprofit employees appear to have different needs, motivations and reward preferences that culminate in a stronger nonmonetary motivational foundation (Ridder and McCandless 2010).

1.3 The Characteristics of the Nonprofit Employee: Different Needs and Motivation

NPOs have distinctive structures of extrinsic and intrinsic incentives that serve to attract workers who are not predominantly driven by monetary remuneration (Bacchiega and Borzaga 2001). The rewards offered in organisations can take various forms: Firstly, intrinsic rewards consist of features of the work itself, such as worker self-fulfilment and fulfilment of the organisation's social mission, opportunities for workers to accomplish moral and ideological aspirations, and doing work that is helpful to other people. Extrinsic rewards can be monetary, such as pay and benefits, or nonmonetary, such as job security, autonomy, future career advancements, and training and development (Borzaga and Tortia 2006). A mix of these incentives, with less emphasis on monetary rewards, serves as an organisational device to attract employees to the NPO.

In many organisations the services provided are very difficult to measure in terms of output. Hence, linking workers' remuneration to their performance does not help to solve agency problems because of the difficulties of monitoring effort. 'Any economic system can reward only what it can monitor, and monitoring involves cost' (Weisbrod 1989:542). One consequence of the difficulties of monitoring effort is the adoption of incentives only loosely related to performance. However, these types of incentive may trigger low commitment from workers and have limited influence in terms of encouraging agents to behave efficiently (Bacchiega and Borzaga 2001). In NPOs the services provided are often intangible, making outputs even harder to measure. Williamson (1975), for example, stresses that monitoring in NPOs can be even more complicated than in business enterprises as measuring the fulfilment of

organisational goals is more difficult. Another problem with measuring performance in NPOs is that, even if outcome measures can be identified, they may not be affected only by the employee's effort. NPOs often face problems securing funds for their activities, attracting volunteers and securing reasonable levels of workforce to do the job. These factors could contribute to an incorrect perception of low employee performance. On the other hand, some important aspects of worker behaviour in NPOs may diminish the effort-monitoring problem.

There is an ongoing debate on wage differentials between nonprofit, for-profit and government organisations. Empirical studies have shown that NPOs tend to pay their employees less than public and for-profit organisations (Mirvis and Hackett 1983; Preston 1990). The hypothesis of donative labour suggests that nonprofit workers seem to accept lower monetary compensation and agree to donate labour because they believe in the social relevance of the organisational output and share the mission of the organisation (Preston 1989). However, the differences in monetary compensation diminish or even disappear in industries such as health, social services and education, where nonprofits are heavily concentrated (Ruhm and Borkoski 2000). Some other studies point out that NPOs pay their workers less than government agencies and more than for-profit organisations in certain industries but, when nonprofits have a larger number of volunteers with a high social aim, pay is lower than in for-profit organisations (Almond and Kendall 2000). Leete's (2001) research indicates that there is no single economy-wide wage differential among sectors as the differences disappear when controlling for industry and occupational category. However, she finds that Preston's (1989) donative hypothesis holds true for white-collar workers. She goes further and reveals that wages in nonprofits are less

dispersed than in for-profits, leading to perceptions of greater fairness in wage structures. Leete (2000) suggests that NPOs rely more on practices that strengthen intrinsic motivation than their for-profit counterparts and that wage equity may be important for developing and maintaining employee motivation in this sector.

Empirical evidence also suggests that employees in the for-profit and nonprofit sectors differ in personality, values and behavioural dimensions (Rawls, Ullrich et al. 1975). The authors point out that the students in their sample who expressed a preference for positions in NPOs had different needs from those who chose for-profit organisations. Previous studies (Hansmann 1987; Weisbrod 1989; Rose-Ackerman 1996; Handy and Katz 1998) are consistent with the assumption that nonprofit employees are highly motivated by the social aim of the organisation and are attracted by the goals they are asked to pursue. However, personality and values are not the only differences found between for-profit and nonprofit workers. Nonprofit employees have stronger nonmonetary orientation and studies have shown the different reward preferences of these employees and their reasons for working in NPOs (Light 2002; Borzaga and Tortia 2006). Wittmer (1991) examined motivational factors among public, for-profit and nonprofit employees and identified that nonprofit employees were more interested in serving the public needs than in extrinsic rewards such as a large salary. The research also shows similar motivational factors between government and nonprofit employees. Another study compared nonprofit employees with government and for-profit employees (Mirvis and Hackett 1983) and found that nonprofit employees were more likely than for-profit workers to state that 'their work is more important to them than the money they earn' and reported more 'meaningfulness' and autonomy in their work than for-profit

employees. The authors also suggest that government and nonprofit employees have some similar orientations towards work and intrinsic job gratification.

Katz (1964) proposes that organisations need to elicit different types of behaviours to function effectively and increase performance. Experienced meaningfulness and autonomy in the workplace relate to what the author calls spontaneous behaviour. This type of behaviour is illustrated by one showing initiative and working beyond the requirements of his/her job. Reliable behaviours, on the other hand, are characterised by regular attendance, arriving at work on time and having to perform at the satisfactory level. Self-determination theory confirms this view and posits that there are two types of motivation, autonomous and controlled (Gagne and Deci 2005). Autonomous motivation involves acting with a sense of discretion or choice, and controlled motivation involves acting with a sense of pressure, a sense of having to engage in the actions (2005:334). According to the authors, autonomous motivation is an example of intrinsic motivation and in the case of nonprofit employees, they tend to have more autonomy, greater task variety and greater influence over their job than for-profit employees and these characteristics have been identified as essential for strengthening intrinsic motivation.

Research also confirms that nonprofit workers display higher job satisfaction than for-profit employees, even in the presence of lower wage levels (Mirvis 1992; Benz 2005; Borzaga and Dependri 2005; Borzaga and Tortia 2006). Parsons and Broadbridge (2006) explore the role of job characteristics and communication in relation to job motivation and satisfaction amongst UK charity shop managers. The authors found that, although managers exhibited high levels of satisfaction when analysing job characteristics, they exhibited much lower levels of satisfaction with

factors such as pay, job status and working conditions. The study points out that the managers' dissatisfaction with these extrinsic factors was overcome by the satisfaction they achieved from providing support to their volunteers and help to the charity's beneficiaries. Hackman and Oldham (1980) explain the 'task significance' concept, in which a job that has an important impact on the lives of others becomes strongly meaningful to a worker, to the point that it is translated into worker satisfaction and performance. Thus, it seems clear that the monetary characteristic is not necessarily the highest priority for employees. Rather, NPOs seem to be able to motivate employees by using non-wage incentives and relying more than other types of organisations on intrinsic motivation.

Another study (Devaro and Brookshire 2007) presents evidence that there is no difference in average performance between business workers and those from nonprofit firms. Yet, in their study, business firms appear to use different types of incentive mechanisms, such as promotions and other types of output-contingent incentive contracts, while the opposite scenario is found in NPOs. Considering that performance levels are the same, on average, in both types of firm, it seems that NPOs must have a different approach to creating incentives for their workers. The authors explain that a plausible answer is that workers in nonprofit firms are inherently more motivated than their for-profit counterparts because of their interest in the organisational mission of the NPO. Based on these studies, it seems clear that nonprofit and for-profit employees do not share the same characteristics defining their motivations (Alvarado 1996). Such differences may well lead to different approaches to reward systems. Theuvsen (2004) indicates that since nonprofit employees are not primarily motivated by financial rewards, the conditions of

nonprofit environments and employees' preferences do not coincide with the motivational determinants of pay-for-performance systems.

NPOs seem to be able to mobilise human and financial resources and to select workers who are willing to exert themselves for other reasons than in exchange for monetary compensation. Authors (Bacchiega and Borzaga 2001; Borzaga and Tortia 2004) suggest that the efficiency of NPOs is tied to the sharing and fulfilment of social missions. The existence of an explicit social aim is an important signal of the organisation's nature, and existing and potential workers should be attracted to the organisational goals they will be asked to pursue. The non-distribution constraint of NPOs makes it possible to attract workers who are motivated by reasons other than economic ones. The pursuit of collective benefits associated with the goods or services produced constitutes an incentive in itself and explains the commitment of the individuals who create and establish the goals of the NPO. Serving the community facilitates the integration of volunteers, users, workers and access to various donations. When the dimension of working for a common good is present, it facilitates social support from workers, volunteers and users, who share a concern for a problem that needs action (Laville and Nyssens 2001). The stakeholders involved, both internal and external, have incentives to find responses to any problems they identify in the organisation. This feature of NPOs is most likely to reduce production costs. Stakeholders, principal and agents, are motivated by the mission of the organisation and are interested in establishing fiduciary relationships; consequently, agency problems are not likely to arise as they do in the case of for-profit firms.

Working in a NPO, setting meaningful goals and achieving such goals enables committed workers to realise their own visions. This also enables employees to

understand how a certain service should be provided and how an organisation should be conducted. Engaging in such valuable activities is an incentive for workers as they may gain gratitude from the public or a group of people being served (Rose-Ackerman 1996). Rose-Ackerman (1996) argues that an organisation with committed founders and workers has two possible benefits. First is the quality control advantage, where founders will seek to hire employees who share their vision and thus little monitoring will be necessary. This means that the problem of effort control can be diminished or eliminated by selecting motivated managers and workers, or by auto-selection by these employees themselves, promoted by incentive structures that rely less on monetary rewards (Handy and Katz 1998). Secondly, NPOs have the product differentiation advantage. This means that they can attract a high level of professional employees, willing to accept a lower level of pay in return for achieving their altruistic goals of providing goods and services in a NPO.

The social dimension of NPOs and their motivated workers are crucial to defining the incentives adopted within them. The existence of an explicit goal of contributing to the social good and the direct involvement of a group of stakeholders such as members, donors, volunteers, customers and workers sharing common values are some of the important characteristics that should be considered when applying the theory of incentives. The involvement of agents interested in the services provided by the organisation creates an environment of participation and democratic management, which increases the cohesiveness within the group carrying out the tasks, strengthening the achievement of goals (Bacchiega and Borzaga 2001). The studies presented here are consistent with the assumption that NPOs and the motivational characteristics of nonprofit employees are more likely to avoid the

problem of workers' opportunistic behaviour than are for-profit enterprises. The characteristics of NPOs give rise to incentive systems that help to overcome agency problems. The distinctions between for-profit and nonprofit organisations argued for here explain why the incentive logic that applies within businesses cannot be forced into the nonprofit case without considering the specificities of these organisations. The fact is that incentive systems have always been a controversial issue and this is no different in the nonprofit sector. The challenge is to promote a framework of analysis suited to the logic of the NPO. The next section will discuss in detail the theoretical foundations of PRP and its use in the nonprofit sector.

1.4   Theoretical Foundations of Performance-related Pay

This thesis is concerned with individual PRP schemes as they appear to focus on the issue of motivation more acutely than other schemes such as team bonuses or other systems concentrating on organisational performance. Perhaps this is because the link between individuals, pay and their performance in individual PRP schemes more closely reflects the key elements of motivation theories than in other incentive schemes (Thomson 2004). This section identifies those theories of motivation that seem most likely to explain the motivational effectiveness, or ineffectiveness, of PRP schemes. Looking at the literature, the three theories identified as most relevant to PRP are expectancy theory, goal-setting theory and equity theory (Marsden and French 1998).

PRP is considered a powerful motivational tool and the main theoretical support for using pay as a motivational tool comes from expectancy theory (Vroom 1964). Expectancy theory points to three factors that play an interactive role in motivation.

The first is the effort-performance relationship, also called expectancy. This refers to how strongly effort is (positively) correlated to performance, from the individual's viewpoint. The higher the effort-performance expectancy, the more motivated the individual will be to apply effort. The second factor, referred to as instrumentality, represents the performance-outcome relationship, which can be translated as the individual's expectation that his reward will be closely linked to his level of performance. This factor also leads to an increase in the motivation to exert effort. The third factor, valence, represents the degree to which a person values a particular reward. The higher the valence factor, the higher will be the motivation of the individual. Interestingly, the second and third factors of expectancy theory can be translated into the agency theory framework discussed earlier. Instrumentality translates into incentive intensity and valence into the agent's utility function. In both theories, remuneration is valued positively and effort negatively by the individual (Sloof and van Praang 2007).

Clearly, there is a natural congruence between a pay system that links pay to performance and a theory that predicts an employee will be motivated to work harder to achieve goals that produce a valued reward for him (Thomson 2004). This is an obvious reason for Vroom's theory frequently being used to justify the use of PRP, as it assumes that individuals make choices between alternative actions in order to maximise the benefits to themselves (Pearce and Perry 1983).

The use of PRP represents the implicit acceptance of expectancy theory in the for-profit sector. However, applying the theory in the nonprofit sector would assume that there is no significant difference between the motivations of nonprofit and for-profit employees and that both are seeking the personal financial rewards offered through

PRP (Alvarado 1996). The main focus of expectancy theory is on the individual, who is assumed to be a rational maximiser of personal utility. Moreover, applying PRP in the nonprofit sector assumes that the two organisational environments, for-profit and nonprofit, are similar. Expectancy theory is particularly useful in situations where goals can be clarified, where there is an abundance of rewards, and where rewards can be closely linked to performance (Shamir 1991). In many situations this is not the case, such as in the public and nonprofit sectors for instance, where rewards are less abundant, where there is a multiplicity of goals, and where there is a tendency not to differentiate individuals on the basis of their work performance (Perry and Porter 1982).

One view is that it is simply a question of implementation, and that if PRP were implemented in the correct way, then it would be an effective motivator in any organisational environment. Kessler (1994) identifies three elements of PRP that present implementation problems: establishing performance criteria, assessing whether or not those criteria have been met, and the linkage between the criteria and the pay award. The alternative view, though, is that it may not simply be a matter of proper implementation, since NPOs to begin with already have limitations such as limited funds to invest in PRP, the weak link between objectives and performance, and an organisational culture that emphasises equality in the workplace. If PRP is properly implemented in NPOs but still fails to succeed, one should ask whether characteristics inherent in the organisational environment of these organisations may be what is limiting the success of the schemes. Limited funding, an egalitarian organisational culture and intrinsically motivated employees are all inherent in NPOs and their impact on the applicability of PRP should be assessed carefully.

Another theory commonly associated with PRP is goal-setting theory. Authors have pointed that the essential elements of goal-setting theory are also present in PRP, given that individual employees are set specific targets that they must achieve in order to get a performance reward (Cannell and Wood 1992). Moreover, the introduction of performance management practices in NPOs is likely to increase goal specificity and measurability in these organisations, making goal-setting theory even more relevant in this context. Goal-setting theory involves establishing SMART – specific, measurable, attainable, realistic and time-targeted – objectives. The theory claims that employees will be more highly motivated if they are set specific and challenging levels of performance to be achieved within a specific time frame, as long as they also have high goal commitment and as long as feedback on their progress towards goal achievement is provided on a regular basis. Goal-setting theory explains individual performance, based on the hypothesis that, if goals regulate performance, then more difficult goals will lead to a higher level of performance than easy goals (Locke 1968). The theory suggests that clear and specific goals are more motivating than generalised statements about expected performance. It also states that challenging but attainable goals are more motivating than easily attainable ones, particularly for employees with high achievement needs. The theory claims that feedback and participative goal setting can have a positive reinforcement effect on the employee's effort. Participatively set goals may be more effective than assigned goals and there is evidence that the degree of transparency, ownership and objectivity associated with goal setting is particularly relevant for motivating public service workers (Latham and Locke 2006). Participation and democratic management are also important characteristics of NPOs, and are

consistent with the need for the constant involvement of workers and managers in affirming and defining the goals of the NPO (Bacchiega and Borzaga 2001).

There appears to be a fundamental difference between goal-setting theory and expectancy theory. Goal-setting theory posits that goal difficulty is the driver that increases worker motivation, meaning that the increase in employee effort is directly related to an increase in the difficulty of specific, measurable and achievable goals. On the other hand, expectancy theory postulates that perceptions about the effort/reward relationship and the value of the reward drive employee motivation. The two theories depend upon different drivers but it is possible to utilise concepts from each of them in a single PRP scheme. Goal-setting theory indicates that financial incentives increase acceptance of difficult goals and, consequently, may enhance performance (Locke, Latham et al. 1988). The use of PRP in performance management systems can be viewed as a way of ensuring that performance appraisals are actually carried out, as Cannell and Wood (1992) found in their survey. PRP reinforces the organisational objectives for employees by tying those objectives into financial rewards, which may increase their commitment to appraisals. In contrast, one could argue that, if it is the goal setting rather than the financial incentive that explains the motivational effects of PRP, then it may be possible for an organisation to get the same motivational effects without the need for a financial incentive. If the performance management system in the PRP scheme is what affects motivation, then performance rewards may be unnecessary. An evaluation of the introduction of PRP in the British National Health Service (NHS) found that managers were very positive about the goal-setting component of the scheme, more so than the reward component of it. Managers spoke favourably about

role and goal clarity, good feedback and support from their superiors (Dowling and Richardson 1997).

Performance management in many cases plays an important part in both the introduction and continued use of PRP in organisations. Through the use of performance appraisals, an overall rating can be used to decide the level of a pay increase. The payment can take the form of a bonus or an increase in base pay, substituting for seniority pay and increases based on the cost of living (Arrowsmith and Marginson 2011). However, PRP is not essential for performance management. Hendry et al. (2000) criticise the use of PRP, terming it the 'dark side' of performance management, because it emphasises the controlling rather than the developmental aspects of performance management. Nevertheless, the ability to cascade organisational objectives down through the hierarchy and reward their achievement, through PRP, means that, in practice, PRP is widely associated with performance management.

In the literature, the expectancy and goal-setting theories help to explain the motivational effects of PRP. In this study, equity and organisational justice theories will be useful in complementing these first two approaches, and are introduced here to help explain the potentially demotivating effects of PRP in NPOs. Porter and Lawler (1968) expanded Vroom's initial work and added some important enhancements related to the motivational effects predicted by expectancy theory. They suggest that the level of reward the employee can expect to receive in exchange for his/her performance has to be perceived as both equitable and consistent with the existing reward structure of the organisation. If the reward structure does not provide equitable rewards for a given level of performance, the employee will not have

sufficient motivation to apply effort (Harvey, Speier et al. 2001). Similarly, if high performance in the past failed to lead to a higher reward, future individual effort may suffer as a result of a loss of credibility of the organisation's reward system (Steers, Mowday et al. 2004). Porter and Lawler (1968) address the relationship between expectancy theory and equity theory and argue that perceptions of equity affect the valence of outcomes. Perceptions of inequity could reduce the valence and therefore the motivation of the individual.

Equity theory (Adams 1965) suggests that people are motivated to reduce inequity. The theory makes no claims about the relationship between financial incentives and performance, although, under certain conditions, deviations from fairness may diminish the association between financial incentives and performance (Kanfer 1990). One of the arguments for PRP is that this system is a fairer system of pay since it looks at the ratio of individual inputs to outputs, rather than paying everyone the same rate for the job (Armstrong and Murlis 2004). However, equity theory is underpinned by the individual's perceptions of fairness. In other words, employees will compare the ratio of their input to reward outcome with the ratios of their colleagues to assess the fairness of the system (Adams 1965). There is a danger that individual employees will simply have a different view than the organisation regarding fairness. PRP may bring unintended consequences for the organisation in terms of work motivation if it is believed to be unfair. Equity theory provides an explanation of how employees' perceptions of the fairness of the PRP system affect work motivation. Linking it to expectancy theory, any doubts an employee has about the fairness of the PRP system are also likely to affect his or her belief in the effort-reward relationship, and consequently, the motivational effectiveness of the reward.

PRP purposefully offers different levels of pay to employees doing the same work, if those employees' performances are judged to be different. Researchers have suggested that PRP may, in fact, demotivate employees if they feel that their employer's assessment of their performance is unfair (Marsden and Richardson 1994; Brown and Benson 2003).

Adams' equity theory refers to what is termed distributive justice. Greenberg (1987) argues that, in addition to distributive justice, employees are also concerned with procedural justice. Individuals will assess the fairness of the procedures that the organisation introduces to distribute rewards among employees (Folger and Konovsky 1989). It has been noted that the two types of justice are influenced by different factors; distributive justice concerns the amount of one' reward compared with those of others, whereas procedural justice is related to organisational practices. Folger and Cropanzano (1998:26) define procedural justice as 'fairness issues concerning the methods, mechanisms and procedures used to determine outcomes'. Procedures are thus regarded as important for attaining fair outcomes, and authors have suggested that procedural justice may be just as relevant as distributive justice (Cropanzano and Folger 1991).

Procedural justice is also a very important issue in PRP systems. PRP is popular when the quality of output and the level of discretion and initiative exercised by individuals are important to an organisation. As such, PRP involves an element of subjective evaluation of performance, which explains its attractiveness to employers (Gilman 2004). The subjective nature of the assessments made in PRP are due to rewards being based on the achievement of less readily quantifiable or tangible areas of performance, such as the quality of the work done and customer service (Heneman

1994). Subjective performance evaluations can give rise to bias, however. There is a danger that performance appraisals will be tainted by factors other than the individual's work performance. PRP could, for instance, be influenced by a halo effect, where an employee who is viewed favourably, perhaps because of his readiness to agree with the manager, is unfairly assumed to have performed well, without any objective justification (Thomson 2004).

A number of biases have been highlighted in the personnel literature, such as 'leniency bias' where supervisors are reluctant to give bad ratings to employees, and 'centrality bias' where supervisors compress ratings around some norm, rather than distinguishing good from bad performers. The compression of ratings, either by leniency or centrality bias, is more severe when ratings are important for pay setting. Supervisors are often reluctant to give bad news to workers if it means salary adjustments (Prendergast 1999). Prendergast (1999) also points to other distortions that can arise when pay is at the discretion of the impressions of the supervisor. The author explains the danger that a principal or supervisor might manipulate assessments and underreport the level of performance in order to save on wages. Thus, even if performance is high, the supervisor may claim otherwise in order to keep costs down. Marsden and French (1998) found that employees thought their assessments were being overridden by more senior managers in order to comply with an imposed quota for the number of employees who should receive additional payments.

From the employer's point of view, a quota system helps to control wage costs and also acts as a check on managers who might otherwise tend to be too extreme, one way or another, in their assessment of their employees' performance. Even though

these reasons may be legitimate, employees may view such procedures as extremely unfair. The issue of procedural justice also links back to expectancy theory. If the assessment is thought to be influenced by factors other than the individual's performance, such as a quota system, then the link between expectancy and performance pay will be broken. From a theoretical perspective, if the link between expectancy and performance is broken, the motivational effects of PRP will be diminished or, worse still, procedural inequity could demotivate employees (Brown and Benson 2003).

Many of the characteristics of NPOs are shared by the public sector. Both sectors are responsible to multiple constituencies with a stake in the organisation. Taxpayers, clients, contractors, donors, board members and special interest groups are just some of the stakeholders concerned about the organisation's performance. Moreover, in both sectors, organisations are expected to be equitable, responsive to unanticipated problems, process clients through systems of eligibility and treatment, and be true to their mandated purposes (Pynes 2009). They are also similar in the way they define themselves in relation to the often intangible and difficult-to-measure services they offer. Because of these similarities, it is possible to draw some lessons from many of the performance-related studies that have been carried out in the public sector in order to understand how PRP may or may not work in NPOs. The next section provides an overview of PRP studies conducted in the public sector.

1.5   Performance-related Pay and Work Motivation in the Public Sector

In the UK, PRP was promoted in the 1980s as part of the 'Thatcher revolution' (Kessler and Purcell 1995), and organisations saw the introduction of

PRP as a step towards the enterprise culture (Armstrong and Murlis 2004). Plans for the public sector under later Labour governments continued to emphasise performance and the use of PRP as a mechanism for achieving improved performance. The logic seems to have been that, if firms want to compete then they have to be performance driven and one way this can be demonstrated is by adopting a payment system that links the level of pay to the employee's performance. Public sector agencies moved away from a budget control measure of effectiveness to the use of output measures. As the controls became more output-oriented, performance became more critical, making a pay system linking pay to performance more attractive (Thomson 2004). Attempts to link motivation to PRP have been covered extensively in the literature (Cannell and Wood 1992; Thompson and Buchan 1993; Marsden and Richardson 1994; Thompson and McHugh 1995; Marsden and French 1998) and much of the evidence about the motivational ineffectiveness of PRP comes from the public sector, where there are constraints regarding the nature of the workforce and the nature of the organisation, both of which make it less likely that PRP will be an effective motivator (Kessler 2000).

The first study that evaluated the effects of PRP on the work motivation of public sector employees tested the three conditions of expectancy theory and claimed that public sector employees were not more motivated by PRP than they had been under their previous seniority-based pay (Pearce and Perry 1983). The longitudinal study suggested that the small effect of PRP on the motivation of workers was due to difficulties related to the implementation of the performance appraisal system. The appraisal results did not lead to a sufficient differentiation between the bonuses received by high and low performers. Heneman and Young (1991) conducted a

47

survey to evaluate the effects of PRP on the motivation of 120 managers of schools in the US. They explained the lack of increased motivation they found among school managers by a negative perception of the monetary rewards proposed. The managers expressed a preference for an increase in basic pay rather than a bonus based on achieving the required results.

Studies conducted in the UK confirm these results. Marsden and Richardson (1994) assessed the effects of PRP on the work motivation of employees in the Inland Revenue and found that, although the majority of employees supported the principle of linking pay to individual performance, PRP had failed to lead to a significant increase in work motivation. Even though employees believed they were able to perform to the desired level, the majority did not believe that their increased performance would lead to a monetary reward, breaking the performance-outcome expectancy. In addition, many stated that the size of the reward was not enough to persuade them to change their behaviour at work. Another important finding of this study is related to the perceived fairness of the appraisal system introduced in the Inland Revenue. The existence of quotas on the number of high ratings that could be given had led to feelings of unfairness in the workplace. This survey in the Inland Revenue was complemented by a wider survey (Marsden and French 1998; Marsden 2004; Marsden and Belfield 2006), among the most comprehensive in the field of work motivation in the public sector. The results were again unfavourable to PRP, showing that it had led to jealousy among co-workers and perceptions of unfairness due to the quota system.

These studies show that PRP has had little positive impact on employee motivation and organisational performance in the public sector. Most importantly, they note that

the failure to find a significant pay-motivation relationship is due to a lack of adequate funding for PRP and a lack of the organisational and employee characteristics needed to make PRP work in government settings (Perry, Mesch et al. 2006). A number of studies (Pearce and Perry 1983; Kessler and Purcell 1992; Marsden and Richardson 1994) support the idea that PRP has been unsuccessful in the public sector and that, due to the reasons explained above, the underlying foundation of expectancy theory has failed to materialise. Poor implementation could well be a reason for that but it is unlikely to be the sole explanation for the failure of PRP. According to Perry, Engbers et al. (2009) the fundamental deficiencies of PRP in the public sector are rooted in the basic institutional differences between market and non-market settings. Budget constraints are a feature of public and nonprofit institutions and will always challenge the viability of PRP. It is unlikely that PRP, in either public or nonprofit organisations, can be designed in such a way that the pay rewards reach the 10 to 15% required by expectancy theory (Perry, Engbers et al. 2009).

Studies (Wittmer 1991; Rose-Ackerman 1996) also highlight the intrinsic reward preferences of public and nonprofit employees and how they differ from private sector employees. Marsden and French (1998) found that the majority of hospital employees claimed that the ability to help other people was a central factor in their choice of profession, pointing to the intrinsic element of their work motivation. Similar results have been found in the education sector. The public nature of these jobs has a major impact on the effectiveness of PRP, while its introduction assumes that public sector employees are closer to the private sector than they actually appear to be (Marsden 2004). It is also assumed by PRP that private and public sector

employees are similar in terms of what characterises their motivation. However, as established in both theoretical and empirical studies, this is hardly the case. The values and motivations of public servants play a central role in the success or failure of PRP. Growing importance has thus been given to public service motivation (PSM) theory as a means to explain the motivational aspects of this workforce. Public sector employees attach considerable importance to the nature of their jobs, such as helping others or serving the public interest, and PSM theory is based, among other things, on this assumption (Wright 2007).

1.6   Public Service Motivation Theory and the Nonprofit Sector

It was the early work of Rainey (1982) that led to the first notion of PSM. The author compared 275 middle managers from five public organisations and four private ones and found that civil servants do not attach great importance to monetary rewards and give more importance to altruistic and ethical values. However, the first explicit assessment of PSM theory was carried out by Perry and Wise (1990:368), who defined PSM as 'an individual's predisposition to respond to motives grounded primarily or uniquely in public institutions and organisations'. Their definition is the most widely accepted and stems from the belief that the motives of public servants are different from those of private sector employees. The work of Perry and Wise also distinguishes between three different types of motive associated with PSM. The first is the rational motive, where civil servants are motivated by maximising their own utility and the desire to satisfy the private interests of certain groups. It must be noted, however, that civil servants' self-interest often coincides with that of the public organisations they work for and consequently that of the community. Such interests are likely to include the opportunity to contribute to policy and to serve the

interests of the groups to which they are affiliated. The second motive associated with PSM is the normative motive, which relates to the desire to adhere to an ethical standard, such as serving the public interest or ensuring social equity by enhancing the welfare of minority groups who lack economic resources. The third is the affective motive, that is the strong desire to see certain organisational missions realised, such as educating, caring, defending and protecting people. These three motives conceptualise PSM as a multifaceted construct consisting of four dimensions: attraction to policy making (rational motive), commitment to the public interest (normative motive), compassion and self-sacrifice (affective motives) (Koumenta 2010). Vandenabeele (2008a) adds a fifth dimension to that scale, named governance values (falling under the normative motive), which refers to values such as accountability, equity and due process, all particular to the characteristics of public bureaucracies and how individuals think the public interest is best served. Each dimension is different and they can all vary independently but they all contribute to the construct of PSM. Researchers, however, have tended to drop some of the dimensions or to use a limited set of items (Brewer, Selden et al. 2000; Moyniham and Pandey 2007), either to reduce the length of the study or so as to fit the dimensions to a particular context.

Perry and Wise (1990) argue that individuals who respond to incentives such as the opportunity to serve a goal greater than themself have PSM. They hypothesise the following: First, the greater an individual's PSM, the more likely it is that they will seek membership in a public organisation. Second, in public organisations, PSM is positively related to performance. Third, public organisations that attract members with high levels of PSM are likely to be less dependent on utilitarian incentives to

manage individual performance effectively (1990:370). According to Perry (1997), PSM has significant behavioural implications. However attempts to link differences in PSM to any specific performance or behavioural consequences have produced mixed results (Wright 2007). Naff and Crum (1999) found that PSM has a strong positive effect on the job satisfaction and performance ratings of employees. He also found a negative association between PSM and the intention to leave the public sector. Alonso and Lewis (2001), however, did not find any association between PSM and performance, nor did they find any evidence that the link between material rewards and performance mattered any less to those with high PSM.

Gabris and Simo (1995) criticise the PSM construct and argue that employees are more likely to be attracted to public sector employment by non-pay incentives such as job security, pension and work-life balance schemes. Their empirical study highlights that the motivation to serve the community is not a characteristic exclusive to any particular sector. However, proponents of PSM argue that intrinsic and extrinsic motivations are not mutually exclusive and that self-interested behaviour can co-exist with PSM (Koumenta 2010). The work of Lewis and Frank (2002) confirms this assertion and point out that, even though job security and pay are very strong predictors of an individual being attracted to work for the public sector, the desire to help the society is also a key reason for joining the government. Similarly, Vandenabeele (2008b) demonstrates that, despite job security, pension and flexible working arrangements being amongst the key considerations for individuals interested in the public sector, public sector employees also display higher levels of PSM, confirming that PSM is clearly an attribute of public servants.

Other studies have found a link between PSM and organisational performance (Brewer, Selden et al. 2000; Kim 2005a). The link between PSM and organisational commitment, job satisfaction and organisational citizenship behaviour (OCB) has also been investigated. Crewson (1997) claims that PSM in the federal sector is positively associated with organisational commitment. Kim (2005a) found a positive relationship between PSM and job satisfaction and between PSM and organisational commitment. In another study, the same author found that government employees with high PSM also had higher OCB (Kim 2005b). Research has also been carried out to try to identify what factors may affect PSM. Perry (1997) identified several antecedents of PSM with a potentially important influence on it, such as parental socialisation, religious socialisation, professional identification, political ideology and individual demographics. His results suggest that the individual's PSM develops from exposure to a variety of experiences, some related to childhood, some to religion and some to the individual's professional life. Interestingly, Koumenta (2010) found that trade union membership is positively associated with PSM, which is consistent with Perry's findings about professional identification. Koumenta suggests that trade unions have traditionally been based on professional identity and that professional and ethical values are often communicated in trade unions' mission statements.

The majority of PSM research focuses on the public/private dichotomy (Mann 2006). However, as scholars find motivational similarities between public and nonprofit sector workers, PSM is likely to be applicable to the nonprofit sector too. In fact, Perry and Wise's (1990) definition of PSM seeks to emphasise motives commonly associated with public and nonprofit employees, and various researchers (Brewer and

Selden 1998; Francois 2000; Houston 2006) have tried to expand the application of PSM theory to the nonprofit sector. Rainey and Steinbauer (1999:20) propose a more general definition of PSM, as a 'general altruistic motivation to serve the interests of a community of people, a state, a nation or humankind'. According to the authors, PSM is by no means a characteristic restricted to civil servants; the pro-social behaviour inherent in PSM is also found among nonprofit workers. Both public and nonprofit organisations have values-oriented missions, multiple stakeholders and outcomes that are not easily measurable. Therefore, employees in both sectors are more likely to be public service motivated than employees in the private sector (Houston 2006). In fact, studies have demonstrated that nonprofit employees are even less concerned with pay and job security than their public counterparts (Mirvis and Hackett 1983; Wittmer 1991).

The study of Perry, Brudney et al. (2008) provides additional support for the validity of the PSM construct for volunteer workers. The research used a sample of morally committed individuals who provided a public service to others but were not public employees. Another study (Light 2002) uses a number of survey items common to PSM and compares a sample of nonprofit employees against two other comparable surveys of government and private employees. The author suggests that nonprofit employees display much higher PSM than public and private employees.

According to the views of researchers above, PSM is an inherent characteristic of nonprofit employees and they may select themselves into the nonprofit sector regardless of the extrinsic rewards being offered. Nevertheless, Moyniham and Pandey (2007) opened a new avenue for PSM research by stating that PSM is not only a result of the individual's socio-historical background but also a result of the

organisational environment in which they find themselves. Their study reveals that organisational tenure negatively affects PSM and they explain this finding by arguing that those who join an organisation with a strong commitment to public service may find themselves increasingly frustrated if their hopes to contribute to the public good are diminished as time passes. Koumenta (2010) also finds that workplace characteristics, such as job design, influence PSM. Since workplace characteristics may have the ability to shape the individual's PSM, one could argue whether pay systems such as PRP can have any influence on the PSM of nonprofit employees. The PSM construct utilised here is paramount to assert that the organisations studied are motivationally similar in regards to PSM and that they will vary only in relation to their pay systems.

Conclusion

The theoretical and empirical research presented here emphasises the difficulties associated with the successful implementation of PRP in NPOs. NPOs have some inherent features, shared by public sector organisations, that are more likely to make PRP problematic. The multiplicity of stakeholders, the often intangible objectives, as well as limited funding are some of the difficulties encountered by nonprofits that make PRP systems less likely to succeed. Additionally, nonprofits operate under the non-distribution constraint, meaning that they are prohibited from distributing profits or residual earnings to individuals controlling the organisation. Therefore, it is believed that they have higher public service motivation and a greater concern for the public interest than for-profit organisations. The non-distribution component of nonprofits is crucial in explaining the unique characteristics of their employees and how nonprofits are able to produce

socially desirable outcomes and attract an intrinsically motivated workforce willing to exchange extrinsic rewards for the opportunity to contribute to a social cause. This first chapter forms the basis for the discussion of whether PRP can increase the work motivation of nonprofit employees, and indeed fit, as a pay system, into the characteristics of the sector and its workforce.

The next chapter will address the reasons why nonprofits make the decision to implement PRP for their employees and institutional theory is the rationale used to explain reward decisions in these organisations. Chapter 2 also places the nonprofit sector within the context of this thesis. It provides definitions and a classification system in an attempt to describe the sector in terms of its organisation. It explores, in particular, the context of housing associations and how this subsector has developed to become one of the largest public service sectors in England and Wales. The aim is to analyse the impact of government reforms on the environment in which nonprofits operate. The housing sector case presented here addresses the major changes that have occurred through government reforms. The sector has become more competitive and, as a result, institutional pressures have led HA's to embrace managerial practices that are widespread in the business world.

Chapter 2   An Institutional Theory Perspective

Agency theory has been the dominant theoretical explanation for reward decisions for some time. However, given the paradox between the popularity of PRP in nonprofit and public sector organisations and its apparent ineffectiveness at increasing employee motivation and organisational performance (Pearce and Perry 1983; Heneman and Young 1991; Marsden and Richardson 1994; Perry, Engbers et al. 2009), a complementary perspective is necessary. As reward decisions are not always in line with the prescriptions of agency, institutional theory questions the overemphasis on efficiency when making decisions about reward strategies. Institutional theory proposes that institutional forces make organisations more similar without necessarily making them more efficient (DiMaggio and Powell 1983). This approach suggests, as opposed to the agency approach, that the purpose of reward strategy decisions in organisations may well be to conform to other organisations and market practice so as to gain legitimacy. This means, for instance, that the desire to minimise shirking when monitoring is difficult or costly is not the only explanation for the introduction of PRP. The introduction may be in line with the best practice perspective, thus emphasising the relative uniformity and stability of human resource management (HRM) practices in organisations (Sherer and Leblebici 2001). The argument here is that reward decisions in NPOs may be influenced by coercive, mimetic and normative pressures if operating under certain norms is thought to confer legitimacy (DiMaggio and Powell 1983). This perspective recognises the importance of context and the external environment, and their role in shaping the behaviour of organisations (Marsden and Belfield 2010).

2.1 Institutional Isomorphism Explained

According to institutional theory, organisational choice is limited by a variety of external pressures, and organisations must be responsive to external demands and expectations in order to survive (Meyer and Rowan 1977). The exercising of strategic choice is driven by the need to incorporate practices and procedures defined by concepts institutionalised in society. Organisations that do implement such practices increase their legitimacy and their survival prospects, independent of the immediate efficacy of the acquired practices and procedures (1977:340). This perspective also emphasises the importance of obtaining legitimacy in order to demonstrate social worthiness and mobilise resources (Oliver 1991). Legitimacy is defined here as 'a generalised perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions' (Suchman 1995:574). The homogenisation of organisations reflects the pressure of their institutional environments and has little to do with their technical notions of performance accomplishment (DiMaggio and Powell 1991; Greenwood and Hinings 1996). This process is called isomorphism and is best described as a constraining process that forces one unit in a population to appear similar to other units that face the same set of environmental conditions (Hawley 1968). Institutional isomorphism is subdivided into three mechanisms and they will be explained next.

2.1.1 Coercive Isomorphism

Coercive isomorphism 'results from both formal and informal pressures exerted on organisations by other organisations upon which they are dependent' (DiMaggio and Powell 1983:150). These pressures may be either forced upon

organisations or represent an invitation to comply, through laws and regulations established by the government, such as employment legislation. Equal pay rights for men and women, hours of work and holiday entitlements, maternity and paternity rights are all encouraged by legislation. Other examples include the adoption of pollution control technologies to conform with environmental regulations, or nonprofits having to maintain accounts and comply with performance indicators to ensure eligibility for central and local government funding (1983:150). Nevertheless, coercive pressures may not always be of a legal or political nature. Subsidiaries may be pressurised to adopt a particular set of practices derived from the home base of the organisation. Head office managers may transfer practices, people and resources to subsidiaries in order to maintain control, without taking into account the institutional contexts of the latter organisations (Morgan and Kristensen 2006).

Oliver (1991) suggests that organisations within the same legal environment will try to manage regulatory and government pressures, leading to a convergence to the same practices. In the case of NPOs, their reliance on government funding, private donations and fees makes them vulnerable to institutional pressures (Verbruggen, Christiaens et al. 2011). In their study of NPOs, Verbruggen, Christiaens et al (2011) found that coercive isomorphism played an important role in explaining why organisations comply with accounting and reporting standards. The authors argue that the government is the institution that sets the rules as well as controls important financial resources for many NPOs. External audits of financial statements, for example, are a way of coercing nonprofits to comply with the norms. NPOs are generally thought to be highly dependent on their funding sources, and may therefore be subject to coercive isomorphic pressures (Leiter 2005). Miller-Millesen (2003)

considers the influence of funding agents on nonprofit board behaviour, in particular their rationale for taking on certain activities that enhance approval and legitimacy in the context in which they operate. Cunningham (2010) explores how the purchaser-provider relationship in the UK voluntary sector impacts upon the human resources (HR) of these organisations. The author discusses the increase in state regulation through the requirement for all care providers to have National Vocational Qualifications (NVQs), and how HR in voluntary organisations needs to comply with new training and development strategies in order to achieve legitimacy in the eyes of funders and regulators (2010:194). He also points out how purchasers monitor the quality of the workforce in voluntary organisations and minimise the risk from contracting out to the sector by ensuring that recruitment strategies comply with best practices. These coercive pressures leave voluntary organisations having to prove, through the adoption of best practices, that they are competent enough to participate in the delivery of public services (Tonkiss and Passey 1999; Brandl and Guttel 2007; Cunningham 2010). Although this may not be a bad thing, organisations may not have a choice over which practices best fit their requirements. Coercive pressures are not the only constraints faced by organisations. Mimetic and normative isomorphic pressures are less explicit than the above examples but nonetheless are also placed on NPOs by their surroundings.

2.1.2 Mimetic Isomorphism

Mimetic isomorphism occurs when one organisation copies the approaches and policies adopted by other organisations (DiMaggio and Powell 1983). Mimetic behaviour derives from uncertainty within the imitating organisation (Miller-Millesen 2003). When goals are ambiguous, or when the environment creates

uncertainty, organisations may model themselves on other organisations that they perceive to be legitimate or successful. (DiMaggio and Powell 1991). The Japanese modelled new government initiatives on successful western prototypes, such as the banking system in the US, the army in France and the navy and postal system in the UK. Later, Americans and Europeans implemented the Japanese model to solve productivity and personnel issues. Quality circles and work-life balance practices then became widespread in America and European countries. These practices may or may not solve organisational problems but what they certainly do is enhance organisations' legitimacy and demonstrate to stakeholders that they are at least concerned with improving the working conditions of their employees (DiMaggio and Powell 1983:151).

Arrowsmith and Sisson (1999) identify mimetic pressures in their study of the printing, engineering, retail and health sectors. The authors examined pay processes and outcomes, and working time, in a survey of the four sectors, and found that, after the decline in collective agreements, the institutional arrangements for pay in the sectors did not lead to different outcomes. The authors argue that 'employers tend to move like ships in a convoy when managing change' (1999:51) and that this is due to the growing uncertainty in the sectors and increasing importance being given to legitimacy. They also allude to the role of networks in disseminating information on pay issues in the sectors. They conclude that, even without a centralised collective bargaining process, organisations continued to operate in a collective way when it came to pay and working time arrangements. They comment that the organisations seemed reluctant to deviate from the norm and shared a best practice approach without necessarily basing it on a rational assessment of business requirements

(1999:71). Other authors have also identified the importance of networks in diffusing practices and policies through the institutional environment of organisations. The use of consultants and recruitment agencies has led to a number of practices being endorsed by consultants in the field. Large organisations choose from a small pool of major consulting firms, which spread a few organisational models within the sector in which they operate (DiMaggio and Powell 1983). The use of these experts may bring legitimacy to the organisations adopting such practices (Barkema and Gomez-Mejia 1998; Main, Jackson et al. 2008).

Diverging from standard practices within their environment may lead to uncertainty, and organisations will try to avoid uncertainty as much as possible (Norman, Artz et al. 2007). This perspective has also been employed in studies of NPOs. Arnaboldi and Lapsley (2004) demonstrate in their study how a healthcare NPO adopted accounting techniques, not required by the government, in order to present itself as up-to-date and modern to its external environment by mimicking private sector practices. Other studies have also shown how the need to move from amateur administration to professional management has pressurised NPOs to conform to for-profit sector practices. Helmig, Jegers et al. (2004) show how fundraising and marketing practices are being adopted by nonprofits, and it has been observed in the literature that European NPOs facing financial uncertainty have begun to use activities such as fundraising over the past decades (Anheier 2005). Another example of this is the use of awards to demonstrate performance. Paton and Foot (2000) investigate the use of the 'Investors in People' and International Standards Organisation (ISO) 9000 awards by NPOs and find that these awards introduce significant similarities among the organisations that adopt them. Many of the

interviewees in their study mentioned that their organisations had adopted such standards in order to be, and to be seen as, private organisations. These awards promise a way of raising, reinforcing and publicising performance standards within the organisation and also of differentiating an organisation in the market for contracts, grants and donations (2000:331). These actions can all be interpreted as forms of mimetic isomorphism.

2.1.3   Normative Isomorphism

Normative isomorphism stems primarily from professionalisation (DiMaggio and Powell 1983). It refers to the relation between managerial practices and the background of employees in terms of educational level, job experience and networks of professional identification (Paauwe and Boselie 2005). Universities and professional training programmes are important centres for the development of organisational norms. They play an important role in the professionalisation of individuals and, in turn, these same individuals are responsible for shaping and diffusing similar practices within organisations (DiMaggio and Powell 1983). DiMaggio (1991) studied art museums in the US between 1920 and 1940 and found that, prior to the 1920s, a lack of resources prevented museum personnel from developing their skills and establishing professional associations in the field. Towards the late 1920s, a large grant from the Carnegie Corporation changed this and led to the introduction of specialised training programmes for personnel. The author points out that employees from a wide variety of museums attended the same training programmes, leading to a standardisation of museum operations across the US. This is a good example of normative isomorphism. Standards of practice provide norms and guidelines relating to how practices are to be carried out within the

institutional setting (Lawrence 1999). They are shaped by professional associations and influential actors within the institutional environment. Greenwood, Suddaby et al. (2002) carried out a study of institutional change within the accounting profession in Canada and discovered that professional associations, having to respond to market forces for a range of new services, modified the political context of accounting firms and reshaped the breadth of their services to extend beyond the traditional. The professional associations also played a significant role in legitimising this change.

Many types of professional occupations are active in establishing normative elements in organisations. They develop principles and standards that represent their specialised knowledge in a distinct field (Scott 2008). These professional associations lack the coercive powers exercised by the government but attempt to influence the behaviour of others by setting standards, propagating principles and proposing benchmarks to gauge progress (2008:226). In the context of this thesis, reward consultants are a good example. In the UK, formal reward qualifications are well established and networks of reward practitioners have been paramount in spreading practices through conferences, professional bodies and reward consultancies (Chapman 2011). 'New pay' prescriptions, stating that pay should be linked to performance (Lawler 1995), have been widely promoted by professional bodies and reward consultants, and these normative pressures have led to what DiMaggio and Powell (1983) call the structuration of organisational fields. Chapman (2011) argues that the reward arena has emerged as an organisational field and concludes that a trend of increasing interaction between reward practitioners and professional groups through the proliferation of forums is one indication that it has. Moreover, the author suggests that the diffusion of dominant paradigms (such as

'new pay') as best practice across a wide range of organisations, and the willingness of practitioners to share examples of practices – often to competing organisations through case studies, conferences etc. – indicates a commonality pointing to reward being an emergent field (2011:62). Individuals taking part in this arena of discussion and exchange will exhibit much similarity with their professional counterparts in other organisations, and organisational arrangements are more likely to be based on normative processes than on any concrete evidence that the adopted models will enhance efficiency (DiMaggio and Powell 1983).

2.2   Institutional Isomorphism in the Context of Rewards: Empirical Evidence

Paauwe and Boselie (2003) argue that coercive, mimetic and normative mechanisms affect the shaping of HRM in organisations. Considering the effects institutional pressures appear to have on organisations, it is reasonable to expect that institutional pressures will also influence reward choices in organisations. The central focus of this chapter is that reward decisions are not always associated with organisational fit but may instead be based on institutional pressures exerted on organisations, as well as their desire to appear legitimate among their peers. St-Onge, Magnan et al (2001) state that incentives are not only used to reduce the agency problem. They are also implemented as a symbolic tool, aiding the desire of the organisation to imitate the practices of their competitors in the sector in order to be seen as part of a particular social context.

One of the first studies to provide evidence of the potential importance of institutional factors on the design and implementation of rewards in organisations was by Eisenhardt (1988). The author examined the choice between commission and

salary compensation for salespeople in retailing, using agency and institutional theory predictions. She observed that the type of product and age of the organisation explained the variance in pay-performance sensitivity beyond that explained by agency theory variables (Eisenhardt 1989). The study suggests that the choice of reward – commission or salary – is consistent with the accepted practice within a sector rather than being a strategic choice.

A study of variable compensation for middle managers in the Spanish banking sector found that the design of pay systems is not conditioned only by objectives of efficiency but also reflects other objectives such as enhanced legitimacy. The findings suggest that variable pay is not always designed to reward practices and procedures that should enhance the performance of the organisation but may instead be used to enhance the organisation's social standing and reputation in its institutional context (Fernandez-Alles, Cuevas-Rodriguez et al. 2006). In other words, organisations follow the fashion or social convention within their industry or sector (Meyer and Rowan 1983; DiMaggio 1991). Bender's (2004) interview-based research aimed to determine why companies use PRP for their executives, using institutional theory to explain the results. The study shows that organisations base their decisions on market practices and the need for legitimacy within their sector. The author suggests that PRP is adopted, not so much to enhance performance, but so that organisations meet 'best practice' and do not attract adverse attention from their institutional shareholders. Pay structures were designed to attract and retain executives despite the belief that the money did not motivate the executives. PRP was seen as a symbol of executives' success, both internally and among their peers in other organisations, and to comply with the norm within the sector (2004:521).

Another study on executive pay investigates how UK remuneration committees (RCs) operationalise and justify long-term incentive pay schemes for their executives in privatised water companies (Ogden and Watson 2008). The research illustrates that RCs, confronted with a wide range of comparative pay benchmarks and firm performance metrics to determine the overall remuneration package for their senior executives, end up making decisions of a political and controversial nature. The authors suggest that the uncertainty pervading the institutional environment surrounding executive pay decisions increases the pressure on RCs to ensure that their choices of long-term incentive plans are regarded as legitimate. Legitimacy will largely depend on the adoption of appropriate structures and practices in line with prevailing cultural norms, beliefs, symbols and rituals in the institutional environment (Ogden and Watson 2008:714).

The search for legitimacy, however, does not necessarily imply negative economic consequences (Scott 1995). Research on PRP in Korean firms identifies economic as well as social and political factors influencing the adoption and coverage of PRP schemes (Kang and Yanadori 2011). Growing globalisation and capital mobility has resulted in a greater exposure of Korean firms to global firms' employment practices. In the late 1990s, Korea experienced a financial crisis and began to be criticised for its traditional structures and management systems, facing increased pressure to transform its pay practices. The authors argue that, while Korean firms undergoing institutional change embrace newly legitimised PRP practices in order to conform to changing institutional norms, these same firms determine the coverage of the adopted pay practices according to their functional need to maximise economic efficiency. Despite institutional pressures, therefore, the Korean firms 'did not blindly imitate

performance-related pay practices in search of legitimacy, rather they proactively adapted the practices using economic efficiency mechanisms when designing their PRP practices' (Kang and Yanadori 2011:1857).

It seems that the design of compensation systems is not always the result of an economically rational prior choice, as proposed by agency theory. Nevertheless, reward choices that are explained by institutional theory do not necessarily have to be classified as irrational (Fernandez-Alles, Cuevas-Rodriguez et al. 2006). The adoption of certain practices legitimised by the organisation's environment could indicate that managers are complying with the requirements of powerful external pressures (Meyer and Rowan 1977). Securing legitimacy could also benefit the organisation by, for instance, facilitating access to certain valuable resources (Elsbach and Sutton 1992). The adoption of practices and policies that confer social legitimacy on an organisation could be seen as logical behaviour on the part of managers (Paauwe and Boselie 2005).

Other factors may also underpin organisations' endorsement of PRP systems. The attempt to use PRP as a means of facilitating change in the organisational culture could be one of them (Kerr and Slocum 1987; Kessler and Purcell 1992; Kessler 1994). Pay is widely recognised as an important tool for bringing about such change (Kessler 1994; Brown 1995). Kessler (1994) claims that political and cultural drivers are more important considerations than increased employee motivation in the introduction of PRP in privatised organisations. Batstone, Ferner et al. (1984) point out that PRP was part of a management strategy designed to break down the Post Office ideology of corporate paternalism and bureaucracy. Similarly, voluntary organisations have become more professionalised and performance driven in order to

meet the demand for public services. Top management may see the implementation of a performance-based system as a way of communicating to employees the new performance-driven environment in which the organisation is now operating and the need for workers to change their mind sets towards a more 'business-like' approach.

PRP sends a strong message to employees about the importance that the employer places on performance because it relates pay to performance. Lawler and Jenkins (1990) assert that all pay systems influence organisational culture, but argue that pay for performance does it more dramatically than other pay systems because it communicates the norms of performance in the organisation. PRP may be used, not because it fits the organisation, but because it fits the type of organisation that it would like to become. This relates closely to institutional pressures. An organisation changes its culture in order to adopt, mimic and maintain organisational legitimacy through alignment with political and social concerns, shifts in business focus or the development of professional associations (Hofstede 1997). Nevertheless, there is a danger in determining pay systems by mimicking other organisations or complying with normative pressures. Organisational fit may be more beneficial than succumbing to mimetic and normative pressures and thus mismatching business strategy with inappropriate practices (Sherer and Leblebici 2001).

The next section provides an overview of the nonprofit sector in the UK and places housing associations in the context of public service provision. The housing sector in England has seen a dramatic change in the environment in which it operates and this is what makes the sector a particularly interesting topic for this research. Institutional pressures such as changes in the funding regime and increased market competition have increasingly led HAs to conform to private sector management practices

(Walker 1998). Particularly, reward decisions made based on coercive, mimetic and normative pressures.

2.3   The UK Voluntary Sector: The Case of Housing Associations

2.3.1   A Sector Rich in Definitions and Activities

The literature on the nonprofit sector varies immensely in its terminology. The different terms and definitions that have emerged over the past decades show an attempt to bring clarity to a diverse and varied field of research. 'Definitions and classifications are hardly the stuff of high drama. Yet they are crucial to clear thinking and careful analysis' (Salamon and Anheier 1997: 6). Labels such as 'third sector', 'voluntary', 'nonprofit', 'charitable' and 'independent' organisations have emerged over time, each bringing a different approach to these types of organisations. The term 'third sector' is frequently used in the US literature and is defined as an emergent sector occupying a space outside the market and the state. Levitt (1973:49) states that society has come to accept the existence of two broad sectors, the private and the public. He considers the third sector to refer to a variety of organisations whose purpose is 'to do things business and government are neither doing, nor doing well, nor doing often enough'. In the US literature, nonprofit organisations (NPOs) are defined as organisations prohibited from distributing any profits generated to the owners, the board or the managers, known as the non-distribution constraint (Hansmann 1980). The voluntary sector term is also used to describe the range of organisations studied here. The term is widely used in the UK and emphasises the fundamental role volunteers play in these organisations. Also popular in the UK, as well as in the US, the term charity refers to NPOs and

emphasises the support these organisations receive from private donations (Salamon and Anheier 1997).

Salamon and Anheier (1997) point out that the variety of terminologies in the sector tends to emphasise one aspect of reality at the expense of others. Thus, 'charitable sector' emphasises support from charitable donations but ignores other income sources; similarly, 'voluntary sector' excludes the growing role of paid staff, and 'independent sector' ignores the financial dependence of some organisations on the government and business. The UK government also refers to 'value-driven' organisations when referring to nonprofits. However, since all organisations are driven by values of one kind or another, the use of the term suggests a political rather than social purpose (HMTreasury 2006). The terms 'voluntary' and 'nonprofit' are used in this study as the main descriptive terms, since they seem to be the most accurate and best understood concepts in the UK context and in the literature, in general, respectively. They are used interchangeably, also, in the interest of providing some variety.

Arriving at an agreed definition of nonprofits is almost impossible. A number of writers have attempted to bring together the defining characteristics of a NPO, often in terms of what makes them different from their private and public counterparts. Gladstone (1979:4) defines the NPO as 'involving a group of individuals who associate without a commercial motive, to further their own welfare or the welfare of others'. Rather general, this definition lacks in terms of identifying the features that characterise NPOs. Hatch (1980:15) defines NPOs as:

'(i) being organizations, not informal groups; (ii) not established by statute or under statutory authority; and (iii) not commercial in the sense of being profit-making or (like much of the private sector in health and education) being mainly dependent for their resources on fees and charges paid by private individuals'.

Hatch (1980) attempts to provide a definition based on the functional characteristics of voluntary organisations. However, he defines the NPO by what it is not rather than what it is. Brenton (1985:9) proposes a type model that establishes that 'a voluntary body should be a formal organisation, constitutionally separate from government, self-governing, non-profit-distributing…and of public benefit'. The author places much emphasis on the self-governing characteristic and argues that financial dependence on public funds should not necessarily mean there is external intervention. The notion of not making a profit as a defining characteristic is also examined in Mason (1984). The author designs a list of characteristic contrasts between nonprofit and for-profit firms. His central argument is that voluntary organisations could not be as precisely measured as business firms. He suggests that money is a means in the voluntary sector, while in business enterprises it is seen as an end.

Salamon and Anheir's (1997:33) international definition of the nonprofit sector is the one adopted in this study. It emphasises the structure and operation of the NPO. According to the authors, in order to be considered part of the nonprofit sector, the institution must be organised, showing some degree of organisational performance such as rules and procedures, private, neither part of the government nor controlled by it, non-profit-distributing, not returning any profits generated to the owners or directors, self-governing, that is it must control its own activities and, lastly, it must

be voluntary, that is it should involve some degree of voluntary participation. Although these conditions may vary depending on the type of organisation, they must appear to a reasonable degree in order for an organisation to be considered part of the nonprofit sector. This definition fits the voluntary sector in the UK. In particular, HAs meet the five criteria.

Moving away from the arena of definitions, a classification of organisations in the sector is also essential. The diversity of the sector makes it crucial to have a classification system in order to identify the systematic differences among its organisations. Voluntary organisations are extremely different from each other, which makes classification a difficult task. Nevertheless, the task is a first step towards identifying commonalities in the behaviour of these organisations. Some of the attempts that have been made to create a coherent categorisation of nonprofit enterprises will now be examined.

Johnson (1981) looked at geographical spread and identified four types of NPO - the entirely local organisation, the entirely national organisation, the national organisation with local branches, and the national association with local affiliates. This rather simplistic categorisation leads to a vague differentiation among organisations. Handy (1990:10) proposes that voluntary organisations fall into five categories: the service providers, the research and advocacy group, the self-help group whose firms give support and assistance to meet a variety of needs, another self-help group that is more related to recreational matters and, lastly, the intermediate bodies, such as councils for voluntary organisations. Hansmann (1987) indicates two kinds of NPOs: the philanthropic that are dependent on donations, and the commercial that receive all their income from the sale of services. Even though

Handy and Hansmann attempt to differentiate between the functions of NPOs, they fail to represent the full scope of nonprofits.

The Home Office (1990:3) attempts to categorise the nonprofit sector according to the structural type of the organisation and method of resourcing. It identifies four main types of structure among NPOs: the national organisations running local offices and raising funds for local work, the national headquarter bodies providing support services to autonomous local groups that raise their own funds, the self-standing local bodies with no head office to provide support, and the national or local intermediary that provides support services to a range of voluntary organisations. The main problem with this classification is that it does not consider the characteristic functions of the different organisations.

The work of Salamon and Anheier (1997) identifies the systematic differences among the organisations in the nonprofit sector and creates a more appropriate basis for grouping them. Based on three important classification systems – the International Standard Industrial Classification (ISIC), the European Community's General Industrial Classification of Economic Activities and the National Taxonomy of Exempt Entities (NTEE) – the authors combined the advantages of each of the above systems and developed an alternative classification system for NPOs at the international level called the International Classification of Nonprofit Organisations (ICNPO). The ICNPO uses the economic activities of organisations as the basis for classification and divides them into 12 major groups: Education & Research; Health; Social Services; Environment; Culture and Recreation; Development and Housing; Law, Advocacy and Politics; Philanthropic Intermediaries, Voluntarism; International; Religion; Business, Professional Associations, Unions, and Other.

These 12 major groups are in turn subdivided into a further 24 subgroups[1]. According to the authors, this system may not be ideal for some countries as it may not embrace the diversity of activities within them, but it does provide a 'useful compromise between the level of detail that might be ideal for national work and the level that is feasible for comparative work' (Salamon and Anheier 1997:67).

There is no simple route in the UK to the identification of types of voluntary organisations as there are three different legal frameworks in the country (England and Wales, Scotland and Northern Ireland). Nevertheless, Salamon and Anheier's classification is representative of the NPOs in the UK (Kendall and Knapp 1997). In the UK, the voluntary sector's role as a substitute and a complement for public service delivery have been encouraged by the government, and the next section will explore the evolution of its role as public service providers.

2.3.2 The New Public Management Agenda and the Voluntary Sector in the UK: Partners in Public Service Delivery

In the last two decades, the public sector in the UK has seen widespread attempts to reform public services in order to reduce costs and enhance performance (Bach 1999). Central to these reforms is the voluntary sector's involvement in public service delivery. Previous Conservative governments sought to create a mixed welfare economy under which local authorities moved from being the providers of care to becoming the planners, commissioners and monitors of services contracted

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[1] For more information on the classification groups, see Salamon and Anheier (1997:70-74).

out to the private and voluntary sectors. The aim was to cut the costs of service delivery by local government (Brenton 1985; Deakin 1995; Harris, Rochester et al. 2001). This process of transformation led to an emphasis upon local accountability and decentralised local government, representing a major shift in government policy. The strategy of the government agenda in the 1980s was to weaken the power of local authorities and involve private and voluntary sectors with the introduction of Compulsory Competitive Tendering (CCT). This meant that local authorities had to submit competitive tenders alongside private and voluntary organisations to compete for contracts to deliver their own direct services in key areas such as road building and maintenance, refuse collection, street cleaning, leisure management, catering and park maintenance. After 1992, CCT was extended to other services, such as housing management, legal and personnel (Di Domenico, Tracey et al. 2009). The Labour government that came into power in 1997 shared the same view as the Conservatives and the emphasis on contracting-out by local authorities increased, continuing to reinforce the contract culture. When the new government signalled an interest in promoting and enhancing the involvement of the voluntary sector in public service delivery, it was clear that its capacity would need to be boosted through improvements in governance, leadership and performance management. The Labour government established a number of regulatory changes to support the development of the new client-provider relationship (McLaughlin 2004; Cunningham and James 2009; Macmillan 2010).

CCT was abolished and Best Value Review (BVR) was introduced as a replacement. The latter approach did not reverse the previous Conservative reforms, however. While competitive tendering was no longer mandatory, its coverage was extended to

include all local government services, most notably social care (Richardson, Tailby et al. 2005). BVR was introduced by the Local Government Act 1999 and enforced in 2000, with the aim of encouraging continuous quality improvement in council services through a five-year audit cycle. For the first time, every local authority service would be subject to external inspection (Martin and Davis 2001; Harris 2005). Following many criticisms related to the increased burden and paper work caused by BVR, the government introduced the Comprehensive Performance Assessment (CPA) in 2002, to try to reduce the level of audit needed for well-performing councils. The CPA was devised and is run by the Audit Commission, an autonomous body working to independently assess and report on the performance of improved public services. However, BVR remains at the heart of the reform agenda (Roper, James et al. 2005). Undertaking BVRs is a statutory requirement for all local authorities, encouraging them to continuously improve the economy, efficiency and effectiveness of their functions. Although there is no prescribed format, all reviews must undertake and evidence four primary activities, the so-called 4Cs: 'to challenge why and how a service is being provided, compare its performance with others to see how the service could be better provided, consult with local taxpayers and service users about what they want from the service and compete, wherever practicable, fairly and openly to provide the best service' (Harris 2005:683). These initiatives require local authorities to achieve targeted standards of performance across all the services they provide.

The explicit use of measures of performance as well as a greater emphasis on output controls seeks to encourage a business-like approach to the management of public services. A variety of systems have been introduced in the public sector to reinforce

the link between individual and organisational performance. Organisational targets, individual target setting, performance reviews and PRP, all tested and widespread in the private sector, are now also used to measure the performance of public services (Boyne 2002). Obviously, nothing suggests these systems are not applicable in the public sector. Nevertheless, failure to take into account the specificities of the sector when importing private sector practices to support the modernisation agenda of the public sector may lead to negative outcomes in the services delivered (Boxall and Purcell 2000). Local authorities are very complex structures, serving and answering to a multitude of goals and stakeholders, and a top-down approach to performance measurement could lead to a long string of bureaucratic inspections and auditing regimes. In essence, the BVR introduced in local authorities is a performance measurement system that evaluates the outcomes against established benchmarks in order to identify performance standards to be achieved in the future (Harris 2001). Harris (2005:684) puts it well when she suggests that a local authority that has 'improved its performance from poor to average is likely to get a better report in its next inspection than one whose performance has consistently been rated as average but may well have had less scope for improvement'. This is only one of the many issues related to measurability in public as well as nonprofit organisations.

Voluntary organisations have been drawn into this increasingly regulated environment ever since they started to become more involved in the delivery of public services. Local authorities are responsible for measuring the performance of nonprofits and allocating funding to their activities. Paton (2003) argues that the emergence of performance measurement in nonprofits resulted from central government's initiative aimed at transferring the provision of social services from

government agencies (local authorities) to independent (private and nonprofit) organisations. Supervisory and monitoring tactics became widely diffused in the voluntary sector through the use of funding restrictions by public donors. Such government-led reforms, referred to as New Public Management (NPM), have contributed to reshaping the management of many NPOs (Walker 2000). This is the case with the HAs studied in this research. The rationale behind this choice of sector is elaborated next.

2.3.3 Housing Associations and the Provision of Public Service Delivery

The housing sector is one of the largest and most significant public service sectors in England and Wales, with an annual turnover of over £10 billion. The sector comprises around 2,000 registered bodies known as Registered Social Landlords (RSLs), or simply called Housing Associations (HAs). HAs are an excellent example of how the nonprofit sector is taking a major role in public service provision, and offers a fascinating context to observe (Mullins 2002; National Housing Federation 2010).

After the First World War, housing was the responsibility of local authorities, and HAs played a secondary role. However, the last few decades have seen them play an increasingly central role in social housing provision. In the late 1970s and 1980s, when Conservative governments began the transfer of local authority housing stock to existing HAs, the housing sector experienced its most significant transformation. Public funding was introduced for HAs with the aim of supporting and expanding the provision of public services in the sector. In addition to housing for people on low

income, HAs also became involved in niches such as housing for older people and other vulnerable groups.

The huge amount of public funding being thrown at HAs led to the formation of new bodies to monitor and regulate their activities, as well as the development of financial and organisational capacity that would serve them later on (Mullins 2010). The Housing Act 1988 led to a new funding regime under which associations were seen as 'non-public bodies with the ability to source private capital leveraged against the asset value of their existing stock holdings' (Mullins 2010:10). This meant that private borrowing became their main source of income for the acquisition and development of new and existing homes, exposing associations to the financial risks from which they had been spared previously. By 1997, HAs had grown and expanded significantly and their market share had increased to 22%, from less than 5% in 1974. The Labour Government continued to discourage local authorities from remaining as landlords and accelerated the pace of the stock transfer to HAs. In addition to transferring stock, local authorities also had the option to delegate the management of housing to the HAs while maintain ownership of the stock, a practice known as Arm's Length Management Organisations (ALMOs). Another alternative was to offer public/private contracts for the long-term improvement and management of housing stock (Mullins 2010). In 2005, 45% of social housing was owned and managed by HAs and 15% by ALMOs (Pawson 2006).

HAs have thus experienced a long process of change, from playing a secondary role in the provision of social housing, to being involved in the large-scale delivery of public services in England and Wales. They are defined as independent NPOs governed by voluntary boards that provide homes and support for people with

housing needs, as well as key community services (National Housing Federation 2010). There are distinct categories of HAs, related to the types of activities or services they deliver. According to the National Housing Federation, HAs work in six key areas: they provide affordable rent to many people on low incomes or who are unable to work because of a disability, and who cannot afford to pay private sector rents; they also help people on low incomes to buy their homes through shared ownership programmes; HAs are involved in regeneration programmes in the community to improve the environment and reduce social exclusion; they provide housing-related support and floating support to people who need assistance to live independently – such services may include sheltered housing for older people, rehabilitation for people with drug and alcohol problems, job and life skills training, and housing for homeless people and victims of violence; they also provide temporary accommodation such as hostels for homeless people as well as community services including employment training, child care and community centres. HAs work in partnership with local authorities to meet housing needs and are regulated by the Tenant Services Authority (TSA) regarding the level of rent, the quality of homes and the involvement of tenants (National Housing Federation 2010).

The four organisations presented in this thesis are HAs working within the homelessness sector in London. The homelessness sector is formed by a group of NPOs within the housing sector that share a focus on preventing homelessness. The 1996 Housing Act defines homelessness as the state of lacking adequate accommodation in which one is entitled to live. Consequently, rough sleepers are not the only homeless people in the UK. This category also includes those living in hostels, bed and breakfasts, squats, overcrowded accommodation, or 'sofa surfing'

with family and friends (Buckingham 2010). The homelessness sector divides itself into two subgroups: The first comprises housing advice organisations working on policy and development, training and campaigning, operating at regional and national levels. Some well-known organisations in this field include Shelter and the Salvation Army. The other subgroup, to which the four case studies belong, consists of housing-related support organisations that provide a diverse range of services, from supported accommodation and hostels, to day centres and soup-runs, to help people who have experienced homelessness or are at risk of homelessness to achieve independent living (Joseph 2010).

Housing-related support organisations are funded by the Supporting People (SP) programme and the four organisations studied in this thesis receive between 40 and 54% of their total funding from this programme. The SP was launched by central government in 2003 with the aim to end social exclusion and to enable vulnerable people to maintain or achieve independence through the provision of housing-related support. The Department for Communities and Local Government allocates SP grants to local authorities, which are responsible for contracting the services of HAs and other charities working in the homelessness sector and providing SP-relevant services (Supporting People 2009). Local authorities, as well as supplying funding, are also responsible for monitoring the housing-related support offered to homeless people, through a series of inspection regimes, targets and contract specifications (Mullins, Jones et al. 2009). The majority of the contracts to provide SP services are allocated through a competitive tendering system, where organisations have to bid for contracts. That has led to a cost versus quality issue. In the SP Programme Report (2009), UNISON members voiced their concern at the emphasis local authorities had

been placing on the cost of services at the expense of quality. This contract culture based on 'the cheapest bid wins' is said to have created an environment of uncertainty and put pressure on organisations to do more for less (Joseph 2010).

Contracting places a much tighter set of controls, legally enforceable, upon homelessness organisations and the services they provide. Moreover, it creates a very competitive environment among the organisations bidding for contracts. Morris (1999) suggests that the rivalry between organisations caused by the 'contract culture' goes against the natural culture of voluntary organisations. She describes how one of the organisations she researched told her of how it had once shared information with another organisation that had then undercut it in a bid for a service delivery contract. Eventually, the organisation therefore stopped sharing information with others. One could argue that, if nonprofits refrain from sharing information and working together when seeking funds from the same pot of money, the difference between them and their private counterparts will become less clear, which could be damaging for the sector and society in general.

The uncertainty and turbulence that characterise the operating environment of the housing sector has thus resulted in changes in the organisational behaviour of these organisations. HAs are moving towards flatter management structures, decentralising operational management, empowering operational staff, and taking decision making closer to the customer. They are developing sophisticated business-planning, strategic management and management techniques as they increasingly conform to private sector management models (Walker 1998). The susceptibility of HAs to institutional pressures brought into play by the increased competition and funding restrictions in this new climate, have contributed to mimetic isomorphism in the

sector. A new discourse has entered HAs, including business terms such as goal-setting, appraisals and PRP, and the new business-focused approach of HAs might be expected to result in a more hard-nosed attitude towards management (Pawson 2006) and carry consequences for reward decisions taken in HAs. However, there is a great deal of complexity involved in delivering housing-related support for homeless people and, as a result, performance measures can be noisy, expensive to monitor and, most importantly, detrimental to the quality of the service being provided (Koumenta 2010). These points are even more evident when performance is linked to pay.

Conclusion

Substantial research evidence has been produced over the years on the existence of a performance culture within HAs (Clapham and Satsangi 1992; Kemp 1995; Walker 2000; Mullins 2002). However, most of the research exploring how increased competition and regulation in the sector have led to a business culture in HAs is carried out at the sectoral level (Walker 2000). What is of particular note here is that little is known about how performance regimes have altered the management of HR in HAs and how this has influenced the choice of pay systems in the organisations. HAs are vulnerable to coercive, mimetic and normative pressures, which in turn play a role in the introduction of reward practices such as PRP. This issue has not come under the scrutiny of researchers and its investigation is one of the contributions of this thesis.

Chapter 3   Research Methodology

A key issue in the selection of a research design is its appropriateness for addressing the proposed research question. The main research question proposed in this thesis seeks to address whether PRP acts as a motivator for nonprofit employees and is consequently an appropriate pay system for NPOs. This chapter presents the research approach adopted here and describes the context of the cross-sectional study of the four organisations in which data were collected, as well as the data collection procedures, response rates and characteristics of the samples for each organisation. As the main research method comprised a survey questionnaire, the contents of the survey instruments are also provided.

3.1   The Case Study Approach

The initial focus of this research is based on a case study design. According to Feagin, Orum et al. (1991), the case study is a multi-perspective method that enables empirical studies to be conducted through in-depth investigation. Yin (1994) defines the case study approach as exploratory research into a contemporary phenomenon within the context in which it occurs. In this research, the cases studied permit a more in-depth examination of whether PRP acts as a motivator for nonprofit employees by placing it in the context in which it occurs. Yin (1994) argues that the case study does not represent a sample but deals with a limited number of events or cases. However, case studies can consider not just the cases themselves but also the groups to which they belong and the relationships between the cases. This approach is put forward here as one of the primary research designs in which quantitative and qualitative methods are combined. It has been said that it is unusual for quantitative

85

and qualitative research methods to be allocated equal roles within an overall research design (Coyle-Shapiro 1996). This study is no exception in that greater emphasis is placed on quantitative methods.

3.2 Rationale for Quantitative Design

Quantitative research methods have been implemented in this study. Such methods are particularly useful for testing the hypothesis about the motivational effects of PRP among nonprofit employees. There is a substantial body of evidence, largely from the public sector (Kessler 2000), to show that PRP is not a strong motivator for employees (Pearce and Perry 1983; Thompson and Buchan 1993; Marsden and Richardson 1994; Marsden and French 1998; Marsden and Belfield 2006). These studies focus on the employee as a unit of analysis and use quantitative methods to give a more detailed picture of the effectiveness of the PRP scheme. The present study continues in that tradition and takes another step towards advancing our understanding of incentive pay in NPOs. It also sheds light on a key question, that is, to what extent research on incentives in private organisations can be applied more generally.

A quantitative research design offers a number of benefits, including a relatively high level of measurement precision. A survey is deemed the best way to access all the variables studied here in a standardised manner so as to investigate the theory-driven hypothesised relationships amongst these variables. In addition, previous research on pay systems has relied on quantitative measures, and following a similar strategy here facilitates comparison, not only among the participants in this study, but also between the findings of this and other studies. Quantitative methodologies facilitate

replication and, consequently, compared with research in the field, improve our understanding of the variables investigated. Therefore, a quantitative research design was deemed most appropriate for this study, given its theory-driven hypotheses and the number of variables involved.

3.3   Case Study Choice and Criteria

The criteria for selecting cases should be grounded in the research question and the analytical framework proposed. This research aims to answer, primarily, whether PRP motivates employees to improve their work within their organisations. In order to answer that, four HAs for the homeless are used in this study. For reasons of confidentiality, pseudonyms are used to identify the organisations. Two organisations with PRP systems have been selected, PRP1 and PRP2, and the other two, PM1 and PM2, have seniority-based pay systems with performance management. The latter two have been selected to function as a control group. The motivational effects of PRP will be compared with the motivational effects of PM that is not linked to pay. The cases have been selected because they show some important similarities. The whole of this study is regarded as a case study of England and I decided to select cases from the city of London. The regional context is important in the choice of cases since pay systems and wage structures may vary between different regions of England. Selecting all four cases from London also helped to minimise differences in labour characteristics and the level of pay of the employees, since all the organisations studied compete for employees in the same labour market. Another important similarity among the cases is the source of their funding. All four organisations receive between 40 and 54% of their total funding from the Supporting People Programme and therefore compete for contracts in the

majority of London boroughs under the same regulations. They also work with very similar client groups consisting of homeless people or people under the threat of becoming homeless. The similarities in their client bases means that their employees have similar qualifications for dealing with their clients and also similar requirements when it comes to accessing the quality and quantity of work they do within each council to which they provide services. In order to investigate and compare the motivational effects of PRP and PM not linked to pay, the cases must be observationally equivalent in respect to their demographic structure, types of activity, client bases etc. The next section introduces the cases.

3.4   Research Settings

3.4.1   PRP1

PRP1 is a NPO that was established in 1973. At that time there was a growing gap in the market for high-quality, affordable accommodation for single people on low incomes. In 1974, PRP1 became affiliated to the National Federation of Housing Associations and the following year registered with the Housing Corporation. In more recent years there has been an increased focus on providing accommodation and services for young people, families and people with learning disabilities, as well as increasing the capacity and geographical spread of floating support services offered to people in their own homes. PRP1 currently works in partnership with 24 local authorities and primary care trusts to meet the housing and care needs of their local residents. In 2007, it supported over 3,000 people, including rough sleepers, people with mental health needs or learning disabilities, homeless families, single homeless people, women and children fleeing from domestic violence, people with substance misuse issues and ex-offenders. PRP1 works in 21 boroughs in London

and has over 50 separate accommodation-based support, floating and outreach services. There are 1,371 people in supported housing, 938 people using tenancy sustainment services, 440 in hostels, 450 using outreach floating support services and 49 people in registered care homes.

3.4.2 PRP2

PRP2 was founded in 1969 and is a registered charity legally organised in the form of a company limited by guarantee and governed by its Memorandum and Articles of Association. PRP2 is also a registered social landlord and acts entirely as a non-profit-making organisation. PRP2's overall purpose is to help promote social inclusion and eradicate youth homelessness, working primarily with people aged 16-25 years old. Its work provides a range of accommodation-based services, including emergency night shelters, short-stay hostels and specialist projects for care leavers. Services are also provided for ex-offenders, and young single parents, including supported flats and floating support services. As part of its direct work, PRP2 offers employment, training, education and specialist support for young people with mental health, drug and alcohol issues at different London and national locations. PRP2 has traditionally focused its efforts in London but, in 1989, in response to the growing demand from agencies outside London, it set up a national development unit to provide consultancy services to specific geographical areas, helping local voluntary and statutory agencies to design, deliver and implement coherent youth homelessness strategies. It now supports organisations based in four government regions across England – the North East, Yorkshire/Humber, the West Midlands and the South West. PRP2 has two subsidiary companies. However, at the time of the fieldwork, they were not integrated with PRP2's reward system and therefore did not take part

in the study. PRP2 offers about 500 beds to young people and, in 2007, worked with just over 1,800 people.

3.4.3 PM1

PM1 is a registered charity and a company limited by guarantee. It was created in April 2002 from the merger of two London homelessness agencies. One of them, based in West London, had been providing shelter and support to homeless and vulnerable people since 1977, housing and caring for nearly 1,500 single homeless people each year. The other, based in Camden since 1981, provided services both directly to homeless people and to agencies who worked with them. PM1 provides a range of services to meet the needs of homeless and vulnerable people in London. The services include street outreach, the PM1 Centre, which offers services to rough sleepers, hostels and supported housing, and advice services that assist with benefits and debt management. It also provides a range of education and training opportunities that help its clients to develop skills and increase their employability. In addition, it works with other agencies that support homeless people, to promote best practice. PM1 works in 34 boroughs in London and aims to meet both the immediate and long-term needs of people experiencing homelessness. It provides help to rough sleepers, people with mental and physical illnesses, people with substance misuse issues, and ex-offenders, among others. In 2007, it provided direct support to around 3,000 people.

3.4.4 PM2

PM2 was founded in 1969 and is a HA and a charity exempt from registration. The organisation started with volunteers in Battersea, providing support

to rough sleepers. PM2 is one of London's largest hostel providers and its services also include street outreach, floating support, care homes and prison services. PM2 provides emergency services such as emergency shelters and hostels, and outreach teams who work on the streets with people sleeping rough. It also provides drug and alcohol treatment, and physical and mental health care. PM2 runs semi-independent housing projects for nearly 700 people and offers high-support housing to 400 people in danger of sleeping rough. The organisation provides work and learning services for people seeking jobs, and training such as IT and woodworking skills. Its prison service offers advice to prisoners who may experience housing difficulties on release from prison. PM2 has nearly 1,700 beds across London and currently works in all 33 London boroughs.

3.5   Data Collection

Case study research typically includes a range of data collection techniques. Below, the techniques utilised in this study are described.

3.5.1   Interviews

Interviews are an essential source of case study evidence. The respondents in this research provided important insights into their organisations and offered explanations as to why certain pay systems had been introduced, and how they had been developed and implemented in the organisations. Given the quantitative nature of this study, the purpose of the interviews was to gain a better understanding of the work context of the employees, and ensure that the concepts used in the questionnaire were consistent with the reality for the employees in all four organisations. Following Fowler's (2001) recommendations for questionnaire

development and adaptation, interviews were carried out with managerial staff in order to gain knowledge of the pay system in all cases. HR Directors and one Chief Executive were initially interviewed and provided an overview of the services offered by their organisations and the pay systems currently in effect. Subsequently, I interviewed other line managers in the organisations to get a better understanding of how the pay systems worked in practice. The results of the interviews are discussed in Chapter 4, where I present the pay structures in the organisations as well as their PM and PRP systems. The interviews were carried out between May and August 2008. They followed the semi-structured format and lasted between 45 and 60 minutes. Below is the list of partiipants from each organisation:

PRP1
- HR Director
- HR Managerc
- Mental Health Support Services Contract Manager
- Senior Homelessness Manager

PRP2
- Chief Executive
- HR Director
- Line Manager from the Department of Health
- Contracts and Performance Manager

PM1
- HR Director
- Services Manager
- Assistant Manager, Day Centre

PM2
- HR Director
- Community Services Manager
- Group Manager, Work and Learning Services Department

3.5.2 Documentation

The HAs provided documents, reports and other material on pay structures and grades, and the reward and PM systems, including appraisal forms, guidance notes for appraisers, performance ratings and competency frameworks. The documentation gathered provided the initial and core information about the reward system in each organisation. It served as useful evidence for verifying details and information obtained through the interviews. This information is also presented in Chapter 4.

3.5.3 Survey Distribution

The surveys at PM1 and PRP1 were conducted between June and July 2008 and the surveys at PRP2 and PM2 were conducted between September and October 2008. The online questionnaires were distributed to respondents via their email addresses which were provided by the organisations, and the employees answered them on company time. Electronic surveys bring several advantages, such as the elimination of paper, postage, mail-out and data-entry costs. In addition, the time required for survey implementation can be reduced from weeks to days or even hours. One of the main advantages of the introduction of these new technologies is the potential for reducing the correspondence between sample size and survey costs, resulting in decisions to survey entire populations rather than only a sample (Dillman 2007). However, the use of online questionnaires raises an entirely new issue of

security and confidentiality that must be considered (Dillman 2007). According to Cooper (2000), electronic surveys may cause some concern to employees regarding perceptions of confidentiality, and also incur a risk of coverage error. To minimise these issues, some important measures were taken in this research. First, the coverage issue was addressed. All employees in all four organisations studied had access to a company email address and regularly checked their email account as part of their daily routine at work. Second, the security and confidentiality issues were addressed. Prior to sending the email to the respondents containing the link to the online survey, I sent each manager an individual covering letter, explaining the study, with instructions to distribute hard copies of the covering letter, signed by me, to all employees. It is known that personalised covering letters on letterhead stationary play a significant role in establishing trust, and consequently increase response rates (Dillman 2007). As part of the instructions, the managers were also asked to send an email to the employees, confirming that the organisation endorsed the survey.

The letter distributed to the employees contained an explanation of the study and the date on which the survey would be launched, and indicated once again that the research was endorsed by their employing organisation. It also assured confidentiality to the respondents and explained that all survey responses would be sent to me, the researcher, and not to the organisation. The letter also contained my email address at the LSE, and welcomed them to contact me for clarification or if any concerns arose. The email sent to the employees containing the link to the online survey also contained a brief introduction to the study and a thank you for completing the questionnaire. Email reminders were sent to the employees, encouraging them to participate in the study, every two weeks during the two-month

period for which the survey was active in their organisation. Making the survey available for two months in each organisation was aimed at giving the opportunity to employees on annual leave to answer the survey on their return. The reminders sent to each organisation were identical, save for references to the organisation's name and to the length of time since the survey had been distributed. Questionnaires, cover letters and reminders can be found in Appendix 2.

A small-scale pilot study was conducted in all the organisations between May and July 2008. Pilot studies are used to pre-test the survey instruments that will be utilised in the main data collection process to ensure all items are understood by the respondents and to test the logistics involved, prior to the large study (Creswell 2002). The main purpose of this pilot test was to ensure that the item wordings were understandable and that appropriate terms related to the reward system and appraisals were identified in each organisation. For instance, in one organisation the appraisal was called an appraisal meeting, and in another organisation it was called a performance development review. Some minor changes in wording were made as a result of the feedback from the respondents. A small random sample of 10 employees in each organisation answered the pilot test and, on average, they took between 15 and 18 minutes to complete the questionnaire.

3.5.4 Response Rate and Sample Characteristics

The survey was distributed to all 161 permanent employees at PM1 and 83 usable questionnaires were returned (51.6%). At PRP1, the survey was distributed to all 579 employees and 267 usable questionnaires were returned (46.1%). At PRP2 the survey was distributed to all 247 employees and 130 usable questionnaires were returned (52.6%). At PM2 there were 800 employees but, due to another internal

survey being distributed around the same time, my survey was distributed to a random sample of 262 employees and 137 usable questionnaires were returned (52.3%). The total survey sample was 1,249 employees and the total response rate was 617 employees (49.4%). In all organisations, the majority of the participants were full-time female employees, and between 30 and 34% held supervisory positions. 57.3% of the employees at PRP1 were between the ages of 30 and 49 years, and 60.6% at PRP2, 61.4% at PM1 and 74.7% at PM2 were in the same age group. Table 3.1 presents a summary of the sample characteristics by organisation. In all four cases studied, the respondents were representative of the population distribution in each organisation.

Table 3-1: Sample Characteristics by Organisation (in %)

Characteristics	PRP1	PRP2	PM1	PM2
Female	59.3	63.1	62.2	55.9
Full-Time	92.4	93.1	86.7	89
Managers	30.7	31.5	34.9	33.3
Age				
Under 20	-	1.6	-	-
20-29	24.3	29.9	30.1	14.2
30-39	27.1	32.3	33.7	39.6
40-49	30.2	28.3	27.7	35.1
50-59	16.1	7.1	8.4	7.5
60 or more	2.4	0.8	-	3.7
Tenure				
Less than 1 year	23.5	22.7	18.8	15.7
1 to less than 2 years	16.5	11.7	21.3	15.7
2 to less than 5 years	36.9	32	33.8	32.8
5 to less than 10 years	14.9	24.2	15	15.7
10 years or more	8.2	9.4	11.3	20.1

3.5.5   Contents of Survey Instruments

The survey contained measurements that assessed (a) biographical information (e.g., gender, age, tenure, education, supervisory status, and trade union membership), (b) motivation, (c) public service motivation, (d) perceptions of fairness, (e) affective commitment, (f) job satisfaction, (g) pay satisfaction, (h) goal setting and (i) quality of appraisals. Below is a detailed explanation of the main variables.

3.5.5.1   Measurement of Motivation

Motivation is treated here as a willingness or preparedness to undertake certain kinds of action (Marsden and Richardson 1994). It is measured using the responses of the nonprofit employees to a variety of statements about themselves in relation to the PRP scheme. Employees in the two organisations with seniority-based schemes were given the same statements but, instead of the PRP scheme, they were asked about their PM system. The statements were presented to and discussed with senior managers in the organisations and were in line with the organisations' expectations about the behaviours of their employees as a result of either the PRP scheme or PM system. Therefore, it was appropriate to ask these questions when trying to discover the motivational effects of PRP and PM. All items were answered on a five-point Likert response scale and the managers also responded to the same statements about their employees.

A confirmatory factor analysis (CFA) was performed with AMOS using the maximum likelihood method of estimation (Table 3.2). The CFA identified two factors in the motivation scale. I termed factor 1 MotivationDiscretion and factor 2,

MotivationEffort. This finding is consistent with Katz's (1964) views of different types of employee behaviour necessary to increase performance in the organisations. The employee's willingness to work beyond the requirements of their work, show initiative and get work priorities right is an example of autonomous motivation, where he or she acts with a sense of discretion. On the other hand, willingness to work harder, increase the quantity of work and improve the quality of work could be an example of controlled motivation, where the employee acts with a sense of pressure (Gagne and Deci 2005). According to the authors, autonomous motivation and controlled motivation are both intended and necessary to the organisation.

Table 3-2: Confirmatory Factor Analysis of the Motivation Model

Factor/Items	Factor Loadings (Standard Errors)		R^2
	Motivation Discretion	Motivation Effort	
The existance of Performance-related Pay (PRP) gives me an incentive to work beyond the requirements of my job.	.84* (.03)		.70
The system of PRP makes me want to show more initiative in my job.	.91* (-)		.82
PRP gives me a greater incentive to get my work priorities right.	.88* (.03)		.77
PRP makes me willing to work harder.		.88* (.02)	.82
PRP makes me willing to improve the quality of my work.		.93* (-)	.86
PRP makes me willing to increase the quantity of work I do.		.88* (.02)	.78

Note: * p < .001 (-)
Regression weight was fixed at 1

Different models were compared and the one with the best fit to the data was selected. The motivation model used here is a two-factor model with correlated latent

variables (Table 3.3). As can be seen from Table 3.3, the results of the analysis demonstrate a good model fit. The first measure of model fit is the χ^2. The χ^2 should be a non-significant and small value, which indicates that what is observed in the data is not significantly different from what is expected to be the case in the population, if the model is to be regarded as true (Fife-Schaw 2000). However, according to Jöreskog (1990) the χ^2 is only a reasonable measure of fit in models with about 75 to 200 cases and can be problematic with larger sample sizes (400 or more). As n increases, the value of the χ^2 will also increase, becoming almost always statistically significant, even with unimportant differences. In an attempt to make the results less dependent on sample size, the relative chi-square (χ^2/df), which is the chi-square fit index divided by degrees of freedom, is used here. Values between 2 and 5 indicate a good fit (Marsh and Hocevar 1985). Two other fit indices were used to estimate the model fit of the motivation scale: the root mean square error of approximation (RMSEA) and the comparative fit index (CFI). The RMSEA is currently the most popular measure of model fit and is reported in virtually all papers using CFA or structural equation modelling (SEM) (Kenny, Kaniskan et al. 2011). Stevens (1996) suggests that a RMSEA value of .05 or less indicates a good fit of model, while models with .10 or more have a poor fit. Other authors, however, are more flexible with regards to this universal cut-off of .05. Hu and Bentler (1999) suggest that, when the RMSEA value is .06 for instance and the CFI is .90 or greater, then the model has a good fit. In addition, more recent research (Curran, Bollen et al. 2003; Chen, Curran et al. 2008) demonstrates that there is no empirical support for the use of 0.05 or 0.10 as universal cut-off values to determine adequate model fit and that the .05 cut-off value does not work consistently well across different models and sample sizes. The scale's reliability coefficient (Cronbach's alpha) was also

computed and its value was found to be .95, above Carmines and Zeller's (1979) .70

threshold of acceptable reliability.

Table 3-3: Fit Statistics for the Motivation Model

	χ^2	df	χ^2/df	χ^2 difference	df difference	CFI	RMSEA
				Contrast with baseline model			
Motivation Baseline (one-factor)	179.35	9	19.93			.94	.17
Motivation Model 1 (two factor uncorrelated)	565.82	9	62.87	386.47	0	.79	.31
Motivation Model 2 (two factor correlated)	20.7	8	2.59	158.65*	1	.99	.05

* p .001

After performing the CFA for the motivation model, it was deemed necessary to

investigate whether the model presented a good fit for all of the organisations

studied. In other words, I wanted to investigate whether the motivational measures

were consistent between the four cases. All four HAs answered the same questions in

the motivation scale. However, two answered about the motivational effects of

'performance management' and two about the motivational effects of 'performance-

related pay'. In order to be able to make the assumption that the scale was measuring

the same trait of 'motivation' in all groups, a test of measurement invariance (MI)

was necessary. The aim of the MI test is to evaluate the equivalence of scores used in

different sample groups. In this case, the aim was to ensure that the 'motivation' trait

related to the same set of observed variables, in the same degree, for all four

organisations. Vandenberg and Lance (2000) state the importance of performing a

MI test across different samples in organisational research. A multigroup CFA was

undertaken to cross-validate the motivation model. When performing a MI test, three different types of MI are tested in the analysis: configural invariance, where the latent variable is measured by the same number of observed variables across the groups, metric invariance, which tests the equivalence of the factor loadings across the groups, and scalar invariance, which tests the equivalence of intercepts across the groups. All three types of measurement equivalence were found to exist across the organisations and the motivation scale presented an excellent model fit in all organisations (Table 3.4). For the other scales used in this study, testing for measurement equivalence was not necessary since there was no reason to believe that the other latent variables used here would have different meanings across the organisations.

Table 3-4: Multigroup Confirmatory Factor Analysis of the Motivation Model across the Four Organisations: Chi-square and Goodness-of-fit Statistics

	χ^2	df	χ^2/df	CFI	RMSEA
Motivation Model (two factor correlated)	50.17	29	1.73	.99	.03

3.5.5.2 Measurement of Public Service Motivation (PSM)

PSM theory (Perry and Wise 1990) explains that the motivations of public and nonprofit workers are different from those in for-profit organisations. The theory suggests that public and nonprofit employees attach considerable importance to the nature of their jobs, which includes helping others and serving the public interest (Wright 2007). In this study, the motivational effects of PRP and PM are compared and, consequently, every effort was made to determine whether the employees in all

four organisations were observationally similar. Thus, this study looked at whether the employees in the four organisations were similar in terms of their PSM.

The PSM construct was originally developed within an American context by James Perry (Perry 1996). However, further research in other countries has confirmed its universal relevance (Kim 2005b; Castaing 2006; Cerase and Farinella 2006; Vandenabeele, Scheepers et al. 2006; Koumenta 2010). Perry's (1996) original scale consisted of 40 items used to measure six dimensions of PSM – attraction to policy making, compassion, self-sacrifice, commitment to the public interest, social justice and civic duty. Using CFA, he found that the final three dimensions could be combined into a single dimension, and his final 24 items were then based on four dimensions: attraction to policy making, public interest, compassion and self-sacrifice. Despite the scale's high reliability and validity, concerns have been raised regarding its ability to fully capture and measure the public service construct in non-US contexts (Vandenabeele 2008a). Vandenabeele (2008a) added a fifth dimension, 'democratic governance', which captures public service values that are closer to the European and UK public service context. The five-dimension scale has been implemented by Koumenta (2010) in a study of public prisons in the UK and shown to work well in the UK context.

The dimension 'attraction to policy making' captures the extent to which respondents are attracted to public service because they have an interest in politics and policy making. The 'democratic governance' dimension looks at the extent to which respondents agree with particular values characteristic of a public bureaucracy (access, accountability and rule of law). Because I am studying a sample of nonprofit employees who are not formally tied to a traditional public administration and who

are not involved in policy making as part of their work-related activities, I decided to drop the items related to these two dimensions. In a study of PSM in a sample of morally committed citizens, Perry, Brudney et al. (2008) dropped the 'attraction to policy making' dimension and only used the 'public interest', 'compassion' and 'self-sacrifice' dimensions to assess the level of PSM among volunteer workers. Following the same line of argument, it seemed appropriate to only include items related to public interest, compassion and self-sacrifice in this study. In a study of PSM and job performance in the federal sector, Alonso and Lewis (2001) performed a CFA using six items from Perry's scale, two self-sacrifice questions plus one each for policy making, compassion, public interest and social justice. They found that these six questions could be collapsed into a single index of PSM. In this study, I also perform a CFA with AMOS using the maximum likelihood method of estimation. 10 items from Perry's 24-item scale were chosen based on best model fit for this scale: three questions were used for public interest, three for compassion and four for self-sacrifice. No items loaded on multiple factors and all items rendered significant factor loadings above the .40 threshold (Table 3.5). Model fit indices were also computed and the results demonstrate a good model fit (Table 3.6). The scale's reliability coefficient (Cronbach's alpha) is .79.

Table 3-5: Confirmatory Factor Analysis for Public Service Motivation

Factor/Items	Factor Loadings (Standard Errors)	R^2
To me, before anything good citizens should think of society	.48* (.08)	.23
Serving the community interest is an important drive in my daily life	.66* (.09)	.44
I voluntarily contribute to my community	.56* (.10)	.31
To me, helping people who are in trouble is very important	.45* (.06)	.21
Without solidarity our society is certain to fall apart	.41* (.09)	.17
To me, patriotism includes seeing to the welfare of others	.40* (.09)	.16
Much of what I do is for a cause bigger than myself	.58* (-)	.33
I am prepared to make sacrifices for the good of society	.64* (.09)	.40
I feel people should give back to society more than they get from it	.48* (.09)	.23
Making a difference in society means more to me than personal achievements	.62* (.11)	.39

Note: * p < .001

(-) Regression weight was fixed at 1

Table 3-6: Fit Statistics for the Public Service Motivation Model

	χ^2	*df*	χ^2/df	CFI	RMSEA
PSM	130.08	35	3.71	.92	.06

104

3.5.5.3 Measurement of Goal Setting

Goal setting was measured using items related to the SMART criteria followed in appraisal meetings. A CFA was performed with AMOS using the maximum likelihood method of estimation (Table 3.7). Model fit indices were also computed and the results demonstrated a good model fit (Table 3.8). The scale has a Cronbach's alpha of .91.

Table 3-7: Confirmatory Factor Analysis for Goal Setting

Factor/Items	Factor Loadings (Standard Errors)	R^2
The objectives set were clear and measurable	.86 (-)	.74
The objectives focused on issues which I have direct control over	.75 (.04)	.56
The meeting helped to relate my objectives to wider objectives at Centrepoint	.75 (.04)	.56
The meeting provided a good opportunity to discuss my development needs	.80 (.04)	.64
I am in a position to achieve the objectives set to me	.79 (.03)	.62
I understand how the objectives will be monitored and reviewed	.76 (.04)	.57

Note: * p < .001
(-) Regression weight was fixed at 1

Table 3-8: Fit Statistics for the Goal Setting Model

	χ^2	*df*	χ^2/df	CFI	RMSEA
Goal Setting	42.84	9	4.76	.98	.07

3.5.5.4 Measurement of Other Variables

Perceived fairness was measured using items from a scale developed by Leventhal (1976). The items ask respondents about the appropriateness of their pay, given their contributions and responsibilities, and whether their pay is fair compared to that of other employees in similar positions in the organisation. The scale has a Cronbach's alpha of .81. The items used here are similar to other measures commonly used in the organisational justice literature (Moorman 1991; Sweeney and McFarlin 1993). Affective commitment was measured using items from a scale developed by Allen and Meyer (1990). For affective commitment, it was appropriate to ask respondents not only whether they felt 'part of the family' in their organisation but also whether they felt 'part of the family' within their project as well. Social workers often work away from the organisation's headquarters and spend most of their time working with their colleagues and clients on support projects in various boroughs. The affective commitment scale has a Cronbach's alpha of .81. Job satisfaction was measured using items from a scale developed by Hackman and Lawler (1971). The scale has a Cronbach's alpha of .84. The measures of affective commitment and job satisfaction are included in this study in order to assess employees' similarities across the organisations and, once again, to confirm that the employees in all cases are observationally similar. Further discussion of the measures and their role in this study is provided in the analysis in Chapter 5. Two statements were used to measure the quality of appraisals: 'My most recent performance appraisal grade was a fair reflection of my performance' and 'My line manager knows enough about my work to assess my performance accurately'. A Cronbach's alpha was computed for these two items and the internal consistency score of the

scale was found to be .71. Appendix 1 presents the table of means, standard deviations and correlations for all the variables in the study of housing associations.

At the end of the questionnaire distributed to the employees, I also included an open question about the PM and the reward system in their organisation. The purpose of the open question was to give employees the opportunity to talk about the issues addressed in the survey and to gather further information about how well PM and PRP was working in practice. Of the 617 respondents, 206 answered the open question, giving valuable data that helped me to interpret the statistical results in Chapter 5.

Having described the research settings and the methodology utilised in this study, the thesis will now address the research aims outlined in the theoretical chapters. The following chapter provides a detailed description of the PM and PRP systems in the four organisations. An evaluation of the design of such schemes is paramount to eliminating poor design as a cause of failure.

Chapter 4   The Cases Studied – An Overview of their PM and PRP Systems

Before investigating whether PRP is an appropriate pay system for nonprofit employees, it is first important to gain an understanding of how the organisations studied here have laid out their PM and reward systems. The complexity of the linkages between pay and performance are such that only well-thought-out schemes have any chance of success (Marsden and French 1998). In order to eliminate poor design, as one of the main causes of failure of PRP schemes in HAs, I examine whether the organisations have introduced systems that follow appropriate implementation guidelines. This chapter presents information gathered from the interviews with HR directors and managers (Appendix 3), as well as internal documents related to their reward and PM systems.

The advice and guidelines provided by the Advisory, Conciliation and Arbitration Service (ACAS) have been used here to investigate whether sound procedures have been put in place by the case organisations. The ACAS provides impartial advice that is particularly useful for those establishing new procedures or redesigning old ones (Bamber 1987) and it is widely recognised as a leading authority on employment relations, given its access to the perspectives of key workplace players such as employers, employees and trade unions. The ACAS promotes best practice in the workplace, through the provision of independent advice, on many employment relations issues, and its advisory activity covers a wide variety of organisations and sectors. Its guidelines provide a benchmark for employers who want to assess their HR practices (Stuart and Martinez Lucio 2008).

There is no single model of an effective PM or reward system, nevertheless good practice should be observed to ensure a scheme is effective. The ACAS booklets on Performance Management (ACAS 2010) and Appraisal Related Pay (ACAS 2005) provide an illustration of sound guidelines and procedures for the implementation of well-designed PM and PRP across organisations. The ACAS suggests that schemes should include individual employee performance plans that contain the objectives the employee is expected to achieve, following the SMART criteria for Specific, Measurable, Achievable, Relevant and Time-bound objectives, the competencies or behaviours employees need to perform their job at the appropriate level, and a personal development plan for the employee that will indicate, usually discussed during appraisal meetings, the development needs of the employee in order for them to perform their job. Development needs may include formal training courses, coaching, online learning, mentoring etc. (ACAS 2010). Because managing performance throughout the year involves an ongoing dialogue between employees and their line managers about how well they are doing and how they can improve, regular meetings to offer feedback and encourage progress are also crucial (ACAS 2010). Other implementation guidelines for PRP explain the need for adequate resources and suitable training for the managers who will be carrying out appraisals. Moreover, PRP should be based on a formal system of performance assessment, should encourage consistency and there should be an appeals procedure in place for the employees. The schemes I observe in this chapter follow many of the tenets of current best practice as outlined by the ACAS Appraisal Related Pay booklet. The table below presents a summary of the practices implemented by each organisation (Table 4.1) and is followed by a detailed description of the PM and PRP in the four HAs.

Table 4-1: Procedures for the Implementation of PM and PRP by Organisation

Organisation	PRP	PM	Annual Appraisals	Objectives Conform to SMART Criteria	Regular Interim Meetings	Personal Development Plan	Appeals Procedure	Pay Structure	PRP Fund	Annual Pay Increase
PRP1	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Broad Bands	5%	-
PRP2	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Job Family	5%	-
PM1	No	Yes	Yes/360°	Yes	Yes	Yes	Yes	Pay Spine	-	3%
PM2	No	Yes	Yes	Yes	Yes	Yes	Yes	Pay Spine	-	2.45%

Source: Interviews and documents provided by the organisations, 2008.

4.1 PRP1

In PRP1 the board and the senior management team are formed by a mixture of individuals with experience in the public and private sectors. The HR department has a relatively broad number of HR specialists dedicated to different functions such as pay and benefits, learning and development, engagement etc. The organisation has 579 employees, of which 43% work in Housing and Care services (Central, West and East London), 34% in Homelessness and Tenancy Sustainment services, 13% in Central Support Functions such as Finance, HR, IT, Fundraising etc, 9% in Learning Disabilities services and 1% in Housing Management. 83.6% of its staff work full-time, managers account for 19.9% of all staff and 57.3% of all staff members are female.

The majority of PRP1's contract funding comes from local authority Suporting People (SP) teams (46%). It receives a further 32% of its income from rent and service charges, 14% from other local authority social services funding, 7% from the Department of Communities & Local Government funding and 1% from other income. PRP1's turnover in 2007 was £29,463 million.

4.1.1 The Pay Structure

PRP1 had implemented PRP progressively over the previous few years. The scheme was first implemented in 2005 for all senior management staff and then extended to middle managers in 2006. In 2006, non-management employees received an invitation to move from their annual incremental increase to the PRP system, and received their first PRP pay increases on 1st April 2007. According to

the HR Director of PRP1, at the time of the interview 93% of all employees were in the PRP scheme. The other 7% were hourly paid ancillary staff not invited to belong to the PRP scheme (cooks, cleaners, kitchen porters etc). The PRP scheme was implemented together with a new grading system and broad-banded salary ranges for all salaried operational support staff.

Table 4-2: Salary Scales at PRP1 2007-2008

Grade	Salary Ranges
S1 (Staff 1)	£13,000 - £21,500
S2 (Staff 2)	£15,000 - £28,500
JM (Junior Management)	£23,000 - £31,000
M1 (Manager 1)	£25,000 - £37,000
M2 (Manager 2)	£28,000 - £42,500
SM1 (Senior Management)	£32,000 - £48,000
SM2 (Senior Management)	£44,000 - £65,000

Source: Documents provided by PRP1, 2008.

Each year, the senior management team agrees upon the monetary value of the scheme's total PRP fund. This is determined by the underlying rate of inflation, the overall performance of the organisation and its business strategy, its financial resources and funding levels, the government agenda, sector regulation and market competitiveness. Once a given percentage of the pay bill has been allocated to the PRP fund (5% in 2008), the senior management team decides on the percentage increase allocated to each performance rating in the PRP1 Performance Development Review (PDR) appraisal rating system.

Table 4-3: Appraisal Ratings at PRP1

Rating	Assessment
E	Excelled
H	Highly Effective
A	Achieving Well
M	Meeting Objectives
V	Variable
U	Under Performing
N	Not Proven

Source: Documents provided by PRP1, 2008.

PRP1 has seven possible assessment ratings that result from the appraisal meetings (Table 4.3). For staff whose performance is rated as Underperforming (U), there is no automatic entitlement to receive any salary increase. According to the HR Director, they would be subject to close management of their performance under the organisation's Capability, Disciplinary or Sickness Absence Procedures, depending on their particular circumstance. Depending on the amount of the total PRP fund in a specific year, staff whose performance is rated as Variable (V) or Not Proven (N) might be eligible for consideration for a percentage increase, up to the equivalent determined underlying rate of inflation. Staff who are assessed as Meeting Objectives (M) will receive a pay increase equivalent to the underlying rate of inflation. Staff who are assessed as Achieving Well (A), Highly Effective (H) or Excelled (E) will be considered for a pay increase in excess of the determined underlying rate of inflation, in accordance with the percentage increases allocated to each rating in any given year. The PRP increases awarded are expressed as a percentage of the basic salary and based on the salary as at the 31st March. Any pay increases that are awarded are consolidated into the basic salary and are subject to PAYE tax and NI deductions. Pay increases are applied to the April salaries

following the completion of the relevant PRP scheme year. Newly recruited staff joining PRP1 after the commencement of the scheme year on a date between 1st May and 30th September will receive an appraisal rating and will be eligible for a pay increase proportionate to the amount of time they have been in the scheme.

4.1.2 The PM System

The PM system at PRP1 includes a PDR meeting, which is an annual appraisal, an informal review every six months, monthly meetings with individual employees, the delivery of training and development activities to support the achievement of business objectives, and the management of the individual's career. According to the HR Director of PRP1, the PDR meetings start in January, when directors and function heads have their performance and/or competence reviewed and agree future strategic objectives, and training and development needs with their own line managers. Having been appraised themselves, the function heads then become the appraisers in a cascading process. Once managers have been appraised and have a clear understanding of their own objectives, they can then appraise their staff. They review staff's current performance and competence objectives, and their training and development, and agree future team or individual objectives. The process of formal appraisal review is completed by the end of March. PRP1 also has an informal review that takes place in September/October each year. The purpose of the informal review is to ensure that employees are on track to achieve their objectives. The informal review also addresses whether training needs have been addressed and whether there are any changes in the objectives agreed previously. Employees also have monthly supervisions with their line managers to discuss any issues related to their performance, developmental needs etc.

PRP1 has also designed four steps that must be followed for the PDR meetings. In step 1, appraisers and appraisees should prepare for the meeting. Both should review any information related to the appraisee's performance objectives, competency development objectives and any training and development plans. Thus, they should come to the meeting having given some thought to the issues to be discussed. In step 2, the appraiser should plan the meeting and gather evidence to support the employee's assessment. They should plan possible courses of action required for improvement. Step 3 is the actual meeting, and the appraiser should use the PDR form as a framework to guide the meeting. As performance and development is discussed based on facts and evidence, the appraisers should make note of any issues raised. At this stage, new objectives and competence developments should be agreed upon. The number of objectives set should be between five and seven and they should follow the SMART criteria. Training and development needs should also be identified against each objective that is set. Step 4, action and follow-up, requires the managers to discuss the recommended performance ratings for their appraisees with their own line managers. Once these line managers have authorised the ratings, the appraising managers can then complete the PDR form. A copy of the form is given to the appraisees, the HR managers and the function heads so that they can plan any training or development activity for the year.

PRP1 uses a Balanced Scorecard Competency Model to assess employees' performance. There are four competence areas: Customer Relationship Management, Business Process/Operations, Results Orientation and Leadership. Employees have their competences assessed in these four areas. The competences, together with the performance objectives, are the criteria used to measure the employee's performance and to determine their appraisal rating. There is a grievance procedure for staff who

are dissatisfied with the outcome of their appraisal, if they are not able to resolve their concerns with their line manager informally. The interviews and documents provided by the HR director suggest conformity with the advice and guidelines outlined by ACAS.

4.2   PRP2

In PRP2 the majority of board members has experience in the private sector with some currently working in public and non-profit organisations. The senior management team came from the private sector but have now been with the organisation for over 10 years. PRP2 has 247 employees, of which 72.5% work in the direct provision of services to young people, 26.3% work in central services such as Finance, HR, IT, Fundraising and Policy and Communications, and 1.2% work at PRP2 Partnering, which provides support and training programmes to partner organisations that also work with young people. 82.6% of the staff are full-time, 9.3% are part-time and 8.1% are temporary. Managers account for 17.8% of all staff and 61.4% of all staff members are female.

PRP2's income is generated mainly from three sources: grants and contracts, rent and service charges, and donations and gifts. The total income for the year 2007 was £16.2 million. 54% came from grants and contracts, with the vast majority coming from the SP fund, 24% came from rents and charges, 18% from donations and gifts, and 4% from investments and other income. Its surplus for the year was £511K, just over 3% of total income. The surplus is set aside to help with the provision of services in case income suffers a shortfall.

4.2.1   The Pay Structure

PRP2's pay structure has three distinct Job Families, reflecting its three main business functions. All jobs within the organisation are assigned to one of these job families. The first family is Direct Provision. Employees in this family are directly responsible for the delivery of services and support to clients of the organisation. The second is Market Influence. The main focus of employees with job roles within this family is to influence and develop the external environment of policy, provision, public understanding and resources in which PRP2 operates. This includes those responsible for influencing central, regional and local government policy and provision, increasing commercial and corporate awareness, and developing various fundraising channels. The final family is Business Support. Those with roles in this family are responsible for finance and information technology, human resource management, internal facilities and general administrative business support functions.

Within each job family, there is a grading structure consisting of up to 10 grade levels, as follows:

Table 4-4: Grade Structure at PRP2

CEO/Directors (Senior Executive Team)
Grade 0
Senior Professionals
Grade 1
Grade 2
All Other Staff
Grade 3
Grade 4
Grade 5
Grade 6
Grade 7
Grade 8
Grade 9

Source: Documents provided by PRP2, 2008.

Each grade has a pay range showing the minimum and maximum salary for the grade. The pay ranges are based on reference data from the market (Charity Rewards Survey, local authority pay scales, NHS pay scales, monitoring press advertisements etc) and indicate the 'going rate' for each grade. According to the HR director, within each pay range there are three distinct zones reflecting levels of individual contribution, to support the approach to pay progression. These are named the Developing Zone, the Established Zone and the Excellence Zone. The Developing Zone within a pay range will generally be for individuals who are still developing their full competence in the job, and this includes newly recruited staff or those who have had limited time in the role (less than one year), assuming they have minimum qualifications for the role. However, depending on the individual's experience, expertise and skill related to the job, he or she may be placed directly into the Established Zone. Employees in the Established Zone should have the appropriate skills, knowledge and behaviours to do their job. According to the HR director, this

zone is where the majority of employees are placed and generally covers a period of 1-5 years spent in the role. The Excellence Zone was designed for employees who are able to demonstrate that they make a more significant contribution than most and who consistently deliver added value beyond the scope normally expected. These employees will be highly rated through the PM process and this zone will be reserved for a limited number of staff. Not everyone will reach this zone within their pay range. The pay range in the Excellence Zone reflects the upper quartile of market pay for the respective roles.

Table 4-5: Direct Provision Job Family

Grade	Benchmark Jobs	Developing Zone	Established Zone	Excellence Zone
0	Director of Services		Pay determined by individual contracts	
1	Head of Services	£38,297 to £40,822	£40,823 to £43,348	£43,346 to £48,398
2	Project Manager Life Skills & Youth Work Manager Learning & Work Manager Supported Housing Manager Multiple Health Needs Manager	£29,702 to £31,659	£31,660 to £33.618	£33,619 to £37,535
3	Deputy Project Manager Support & Development Worker: Mental Health, Drugs/Alcohol, IT Tutor	£26,070 to £27,789	£27,790 to £29,509	£29,510 to £32,947
4	Support & Development Worker: Projects; Lifeskills: Basic Skills; Resettlement; Learning & Work; Housing Worker	£22,220 to £23,685	£23.686 to £25,150	£25,151 to £28,080
5	Night Support Worker	£19,919 to £21,233	£21,234 to £22,546	£22,547 to £25,173
6	Weekend Support Worker	£19,240 to £20,509	£20,510 to £21,778	£21,779 to £24,315
7	Project Receptionist	£17,135 to £18,265	£18,266 to £19,394	£19,395 to £21,654
8	No jobs at this level currently	£12,561 to £13,389	£13,390 to £14,216	£14,217 to £15,874
9	No jobs at this level currently	£10,236 to £10,910	£10,911 to £11,587	£11,588 to £12,936

Source: Documents provided by PRP2, 2008.

Table 4-6: Market Influence Job Family

Grade	Benchmark Jobs	Developing Zone	Established Zone	Excellence Zone
0	Director of Fundraising Director of Policy, Communications and Organisational Learning		Pay determined by individual contracts	
1	NDT Manager	£36,760 to £39,184	£39,185 to £41,608	£41,609 to £46,456
2	Trusts & Statutory Fundraising Manager Director Marketing Manager Corporate Fundraising Manager	£31,438 to £33,510	£33,511 to £35,582	£35,583 to £39,729
3	Senior Media Relations Officer Senior Trust Fundraising Officer Major Donor Fundraising Officer Project Co-ordinator	£27,519 to £29,332	£29,333 to £31,145	£31,146 to £34,775
4	Trust Fundraising Officer Corporate Fundraiser, Policy & Research Officer Direct Marketing Officer Public Affairs Officer Executive Officer Events Officer Development Worker	£24,089 to £25,677	£25,678 to £27,266	£27,267 to £30,442
5	Communications Assistant	£21,643 to £23,070	£23,071 to £24,497	£24,498 to £27,351
6	Fundraising Adminstrator	£19,153 to £20,416	£20,417 to £21,680	£21,681 to £24,206
7	No jobs at this level currently	£17,553 to £18,712	£18,713 to £19,868	£19,869 to £22,182
8	No jobs at this level currently	£15,847 to £16,893	£16,894 to £17,937	£17,938 to £20,027

Source: Documents provided by PRP2, 2008.

Table 4-7: Business Support Job Family

Grade	Benchmark Jobs	Developing Zone	Established Zone	Excellence Zone
0	Director of Finance Director of Human Resources		Pay determined by individual contracts	
1	Finance Manager Management Accountant IT Manager Facilities Manager	£39,004 to £41,576	£41,577 to £44,149	£44,150 to £49,291
2	HR Manager Head of SID Volunteering Manager	£34,126 to £36,378	£36,379 to £38,628	£38,629 to £43,127
3	Senior IT Support Officer Contracts & Performance Manager	£28,551 to £30,434	£30,435 to £32,315	£32,316 to £36,081
4	Finance Officers Facilities Officer IT Support Officers Snr Research Officer HR Officer Maintenance Coordinator	£24,228 to £25,826	£25,827 to £27,422	£27,423 to £30,617
5	Finance Officer – Payroll HR Adviser PA to CEO User Support Officer Statutory Monitoring Officer	£22,280 to £23,749	£23,750 to £25,219	£25,220 to £28,157
6	Services Administrator Finance Assistant	£19,162 to £20,427	£20,428 to £21,691	£21,692 to £24,218
7	Receptionist	£17,206 to £18,340	£18,341 to £18,462	£18,463 to £21,745
8	Trainee Development Worker	£15,507 to £16,531	£16,532 to £18,157	£18,158 to £19,599
9	No jobs at this level currently	£12,164 to £12,966	£12,967 to £13,767	£13,7768 to £15,371

Source: Documents provided by PRP2, 2008.

122

The zones are monitored through a PM system. The employee's contribution is judged in relation to both their outputs, determined based on their performance against their objectives, and inputs such as their competence, expertise and experience. According to the HR director of PRP2, the annual pay review process takes place between January and March each year, with any pay adjustments effective from 1st April. The PRP fund in 2008 was 5%. Each year, PRP2 and the Transport & General Workers Union agree the increase in the cost of living for all employees. Once the figure is agreed upon, the senior executive team will decide on the ratio between the basic and the contribution-related award. In 2008, it was agreed that the cost of living award would be 1.75%, which is what PRP2 calls the Basic Award. All employees receive the Basic Award, apart from those who are newly recruited. The Contribution Award is distributed according to individual performance. At PRP2, individual performance is rated on a scale from 1 to 5, as shown in the table below:

Table 4-8: Appraisal Ratings at PRP2

Rating	Assessment
1	Outstanding
2	Highly Effective
3	Effective
4	Development Needs
5	Significant Shortfall
6	Not Proven

Source: Documents provided by PRP2, 2008.

In 2008, employees who were rated as Outstanding received 5% on top of the Basic Award; Highly Effective employees received 3%; Effective employees receive 1.25%; employees in both the Development Needs and Significant Shortfall

categories received only the Basic Award. Nevertheless, according to the HR director, the approach to these last two categories is quite different. Employees who score 4 will have their development needs prioritised in order that they can become Effective in the following year. Employees who score 5 will have a discussion with their managers to address any problems and decide whether they should continue working for the organisation. They will then have to perform better in the following year in order to remain at PRP2. The Contribution Award is applied to all those who achieve a minimum performance rating of Effective (3) and can be allocated as fixed consolidated pay and/or as a one-off contribution bonus. In 2008, all employees who received a Contribution Award had up to 3% of their total award (Basic plus Contribution) incorporated into their salaries, with the remainder paid to them as a cash lump sum. The reason for this is to avoid large differences appearing over the years between the salaries of people doing the same jobs, while still ensuring that employees receive relevant pay increases according to their performance each year.

4.2.2   The PM System

Based on the analysis of documents provided by the HR Director at PRP2, the organisation currently has a Behavioural Competency Framework in operation for all staff. This framework contains a set of six competencies defined by the organisation, against which all staff performance is reviewed. The Behavioural Competency Framework outlines common, basic standards and skills (such as adaptability and teamwork) required by all staff. PRP2 identifies two levels in the competency framework and makes a clear distinction between staff and managers.

Table 4-9: Behavioural Competencies for Staff and Managers at PRP2

Behavioural competency	Indicative behaviours - Staff	Indicative behaviours - Managers
Being responsive	Respond to (sensible) requests from others, taking advice when necessary	Make time for staff to express ideas and concerns during day-to-day work
	Listen carefully to what others say and try to understand their needs and take action accordingly	Ensure that responses to issues promote future dialogue and are acted upon
	Where you have referred clients/customers elsewhere, follow up to see that their issues have been dealt with. If not, seek to find a solution	Listen carefully and grasp well the thoughts/needs of others
		Demand high standards of responsiveness to the (reasonable) requests/needs of others
	Put effort into communicating with colleagues and clients/customers	Ensure that PRP2's commitment to equal opportunities is fulfilled in all aspects of work
	Be aware and respectful of the needs and perspectives of individuals and groups, including those that are different from your own	Work hard to communicate effectively with colleagues and staff and establish systems (inc. feedback) to promote good communication
Being constructive	Be adaptable and open to change	Help individuals to bring ideas and issues to resolution
	Provide feedback or comment when asked	Provide supportive and helpful commentary on ideas/concerns expressed
	Be prepared to question where you do not understand and suggest ideas for change	Assist in removing barriers (real or imaginary) or open doors to facilitate change
	Find solutions to issues within your control	Be tenacious in resolving issues and do not give up but seek to find alternative routes to solutions
	Speak your mind appropriately – do not disagree in private	Take initiative to make improvements and challenge the status quo
Being realistic	Be practical in finding solutions to issues	Apply practical solutions to issues, taking into account available resources, timescales etc.
	Apply a common sense approach to work	Guide and support staff in achievement of goals
	Do not promise things you or the organisation cannot deliver	Curb overambition whilst continuing to motivate to achieve
	Be clear about the abilities and limitations of others / young people when working with them	Ensure actions/initiatives are developed from sound information
	Organise work effectively to ensure that targets and commitments are met	Establish and follow through on actions agreed with others

Behavioural competency	Indicative behaviours - Staff	Indicative behaviours - Managers
Working with young people (and others)	Ensure that the commitments made by PRP2 to young people are at the heart of activities undertaken and decisions made Do not dictate actions to others but seek to enable them to find their own solutions Work with other colleagues/clients as part of a team Give your opinion but, if overruled, accept and support the final decision made Recognise clients and colleagues as customers and partners and deal with them with courtesy and respect	Work across teams / functional disciplines and encourage reporting staff to do the same Consider impacts on colleagues/clients of work/initiatives in own functional area Look for ways to promote and support collaborative working for self and others Be respectful of the needs and capabilities of others and develop effective working relationships Delegate appropriately and support/coach staff as needed
Learning from experience	Actively try to avoid making the same mistake repeatedly Share experiences and knowledge with others and ensure that you learn from the actions of others Do not be afraid to try out new ideas/approaches within the frameworks laid down by your manager / the organisation	Develop an environment of 'managed risk' where staff feel safe to contribute and develop their potential to the full Celebrate success and ensure criticism is delivered in a supportive and motivational way Treat mistakes initially as opportunities to learn – only 'blame' when mistakes are made repeatedly or through negligence Promote ways to share experiential learning and encourage development Identify your own barriers/gaps to progress and take action to limit the impact of this Take responsibility to promote and manage change
Being authoritative	Maintain your knowledge to an appropriate level and utilise to the benefit of clients and colleagues When dealing with external partners, be clear and professional in representing the needs of young people and PRP2 Ensure that PRP2's values, 'rules' and procedures are understood, communicated and adhered to Know when to say 'no' and take responsibility for doing so	Approach issues from a strategic standpoint – try to avoid reactive decision making When dealing with issues and considering new initiatives ensure that PRP2's vision, policy and partnerships are appropriately positioned and managed Ensure technical/work-related knowledge and skills are maintained at the appropriate level and utilised to the benefit of the organisation Be prepared to make and stand firm on decisions that are 'right',

Behavioural competency	Indicative behaviours - Staff	Indicative behaviours - Managers
		regardless of challenge and difficulty
		Set clear standards for staff and be seen to lead by example
		Know when and how to break rules as appropriate and which rules cannot be broken
		Ensure staff are aware of codes of conduct / procedures / authority levels etc and operate appropriately within those boundaries

Source: Documents provided by PRP2, 2008.

The Behavioural Competency Framework is used as a core part of the appraisal and supervision systems (setting objectives, reviewing performance etc.). According to the HR Director at PRP2, the annual performance appraisal takes place in February and a half-year appraisal happens in August. In the annual meeting, performance objectives are agreed for activities that are subject to planned change or improvement. Employees have between five and seven objectives at any one time and they should all conform to the SMART criteria. Staff and managers also discuss a development plan during the appraisal meeting. They should agree personal development objectives that aim at enhancing or maintaining current performance levels, address any knowledge or skills gaps, and improve career potential within PRP2. At the meeting, employees are given the opportunity to discuss career aspirations if they wish to move from their existing role. Managers may also give guidance on a lateral move into another area or role when appropriate and not just promotion to a more senior position.

The half-year appraisal, which is called the Interim Performance Review, should be used to summarise the employee's performance against the agreed performance plan

and behavioural competencies. Any changes to the performance objectives or the development plan should be recorded. The half-year appraisal helps to keep employees on course to achieving their objectives throughout the year. In the following annual meeting, the manager should summarise the employee's performance across the whole review period and incorporate information and evidence from the interim review. Following discussion with the countersigning manager, the manager should then allocate a performance rating to the employee. The employee is given a summary copy with an overall comment on their performance signed by their manager and the countersigning manager. Copies of the final document must also be sent to HR. An appeals procedure has been put in place for employees who are dissatisfied with the outcome of their appraisal meeting. At the time of interviews, PRP had been in place at PRP2 for three years, for all employees, and according to the documentation provided by the organisation, it is fair to say that most of the ACAS advice and guidelines had been put into practice.

4.3 PM1

The senior executive team is formed by a mixture of individuas with experience in the private, publi and nonprofit sector. The HR department has a number of HR specialists dedicated to different aspects of the HR function. In March 2006, PM1 set up a trading subsidiary to promote services such as Human Resources, IT and Finance consultancy to small and medium-sized enterprises in the non-profit, private and public sectors. PM1 is the smallest of the four organisations presented here. It has 161 employees working in three areas of the organisation: (1) Central Services including HR, Finance, IT, Fundraising and Communications, (2) Services Delivery, which includes all staff working in the provision of housing

services to homeless people, and (3) Matrix Services, which provides a range of specialist support, including welfare and benefits advice, essential skills and personal development training, employment coaching and advice. 83% of the staff work full-time, 7% work part-time and 10% are temporary. Managers account for 30% of all staff and 64% of the people working at PM1 are female.

Similar to other charities, the majority of PM1's contract funding comes from local authority SP funding (41.5%). It receives 29.1% from grants, donations and gifts, 24% from rents and 5.4% from other sources. In its first year of trading, the subsidiary to promote consultancy services to other organisations contributed £30K of gift aid to PM1. PM1's turnover in 2007 was £9.1 million.

4.3.1 The Pay Structure

The pay structure at PM1 is a traditional local-authority-style one. Job evaluation scores are cross-matched to scale points in a pay spine based on the National Joint Council (NJC) rates. The NJC salary scales are widely used in the voluntary sector in the UK. According to the HR Director of PM1, an incremental increase in line with the local government pay award is applied every year to all staff. In April 2008, the pay increase was 3.0%. Staff are eligible for a pay increase every year until they reach the top of their pay grade.

Table 4-10: Pay Scales at PM1

Pay Grade	Value incl London Weighting (£)	No of Staff on this Pay Grade	% of Total
Trainee	18,927 - 19,842	6	4%
Admin Assistant	19,236 - 21,084	3	2%
Administrator/Cook/ Night Worker	21,084 - 22,716	8	5%
Old Administrator Grade	21,552 - 23,994	5	3%
Main Grade / Senior Admin	24,690 - 27,054	58	35%
Old Riverpoint Project Worker	24,690 - 28,536	12	7%
Co-ordinator/Specialist	27,807 - 30,594	32	20%
Assistant Manager / Team Leader	29,292 - 32,112	10	6%
Manager	32,961 - 36,423	14	9%
Specialist Manager	38,088 - 41,415	5	3%
Head of Division	40,578 - 45,609	6	4%
Director	53,706 - 56, 403	1	1%
Director with Market Supplement	55,706 - 58,403	2	1%
Deputy Chief Executive	58,731 - 62,406	1	1%
Chief Executive	69,060 - 73,407	1	1%

Source: Documents provided by PM1, 2008.

4.3.2 The PM System

The PM system at PM1 has five key elements to it: setting clear performance expectations with each individual in the organisation; annual and probationary performance appraisals; regular support and supervision sessions with the line manager; induction into the organisation and the requirements of the job for newly recruited staff; and a personal development plan. Line managers at PM1 are required to make performance expectations clear to newly recruited staff members, to existing staff members who are transferred to a new post, and at every appraisal meeting (annual or probationary), when objectives and competency levels should be set, to be achieved in the new annual review period. Probationary appraisals take the same format as annual appraisals. The only difference is that probationary appraisals

130

have the additional purpose of making an assessment as to whether or not an employee should be confirmed in the post. Each employee is appraised against a competency profile and performance objectives. PM1 has a Competences Framework document with full details of the competency profile for each post and level. Each competence is defined and a list of example behaviours given, which are intended to describe what an effective demonstration of the competence would look like. The table below lists the competences used for the different positions at PM1 (Table 4.11).

Table 4-11: Competences for Staff at PM1

STAFF & TRAINEES	
Essential Competences	
Personal Contribution	• Personal effectiveness
	• Organisation and delivery of results
	• Proactivity and initiative
	• Creativity and Innovation
	• Problem solving and decision making
	• Analysing and interpreting written and numerical information
	• Self-development
Working with Others	• Communication
	• Managing self and relationships with others
	• Teamwork and cooperation
	• Negotiating and influencing
Organisational Contribution	• Customer/client focus and managing diversity
	• Building and using systems
	• Using IT

Developmental Competences (where applicable)

People Management

Project and Resource Management

Setting up Systems

Expertise

ASSISTANT MANAGERS, TEAM LEADERS & CO-ORDINATORS	
Essential Competences	
Leadership & Management	• People management
	• Customer and client focus and managing diversity
	• Project and resource management
	• Setting up systems
	• Building effective external relationships
Working with Others	• Communication
	• Managing self and relationships with others
	• Team-working influence
Personal Contribution	• Personal effectiveness
	• Using IT
	• Proactivity and initiative
	• Creativity and innovation
	• Problem solving and decision making
	• Analysing and interpreting written and numerical information
	• Expertise

Developmental Competences (where applicable)

Organisational Awareness and Strategic Thinking

Leadership

Management of Projects, Finances and Other Resources

External Awareness and Managing External Relationships

MANAGERS

Essential Competences

Leadership & Management	• Organisational awareness and strategic thinking
	• Leadership
	• People management
	• Management of projects, finances and other resources
	• Customer and client focus and managing diversity
	• External awareness and managing external relationships
Working with Others	• Communication
	• Managing self and relationships with others
	• Teamwork and cooperation
	• Influence
Personal Contribution	• Personal effectiveness
	• Using IT
	• Analytical thinking and judgement
	• Creativity and innovation
	• Expertise

Developmental Competences (where applicable)

Strategic Thinking and Planning

External Awareness

Drive to Deliver Results

Integrity

AREA MANAGERS

Competences

Leadership & Management	• Organisational awareness, strategic thinking and planning
	• Leadership
	• People management
	• Management of projects, finances and other resources
	• Customer and client focus and managing diversity
	• External awareness and managing external relationships
Working with Others	• Communication
	• Managing self and relationships with others
	• Teamwork and cooperation
	• Influence
Personal Contribution	• Drive to deliver results
	• Integrity
	• Personal effectiveness
	• Using IT
	• Analytical thinking and judgement
	• Creativity and innovation
	• Expertise

SENIOR MANAGERS

Competences

Direction	• Leadership
	• Strategic thinking and planning
	• External awareness
	• Drive to deliver results
Management	• People management
	• Management of projects, finances and other resources
	• Managing external relationships
Working with Others	• Communication
	• Managing self and relationships with others
	• Teamwork and cooperation
	• Influence
Personal Contribution	• Integrity
	• Personal effectiveness
	• Using IT
	• Analytical thinking and judgement
	• Creativity and innovation
	• Expertise

Source: Documents provided by PM1, 2008.

The performance objectives should describe specifically what the member of staff is expected to achieve. Managers should link the individual's objectives to the goals of

PM1 as a whole and to those of their own department. Each performance objective should follow the SMART criteria. Against each objective, a list of measures and standards should be agreed to indicate how the staff member and their line manager will know that the objectives are being met. The measures should relate to observable and objective results – outputs and/or outcomes – and may include quantitative measures such as percentage increase in membership or funds raised, qualitative measures such as positive feedback from external or internal customers, target deadlines for the completion of key stages that lead to the realisation of a project-related objective or target, or turnaround times for key processes, such as all invoices being processed within a given number of days of receipt. The measures used will vary depending on the post.

Every staff member at PM1 should have a full performance appraisal towards the end of their first six months in the post – the probationary appraisal – and further appraisals annually, thereafter. PM1 uses a 360-degree appraisal system to enable line managers to collect evidence from a variety of stakeholders working closely with the employee being appraised. Line managers have to collect evidence that demonstrates objectives and standards have been achieved, and feedback from the employee's key stakeholders, and enter this on appraisal feedback forms. There are four appraisal feedback forms for each employee: the upwards appraisal form is distributed to staff managed by a line manager who is being appraised; the peer appraisal form is distributed to team colleagues or other people on a similar level in other teams and with whom the employee works closely; the external/internal customers' form is distributed to people who depend on the services the staff member provides; the suppliers' form is distributed to those who work closely with employees. For external/internal customers and suppliers, the line manager should

agree with the appraisee a representative sample of 8-12 people to approach, rather than trying to get feedback from everyone. The line managers circulate the appraisal forms to stakeholders well in advance of the appraisal preparation and the HR director issues a letter to accompany each form, explaining the aims of the feedback each stakeholder is asked to provide and the core competences against which the appraisee's performance is being measured.

Once the line managers have collected all the evidence, they must start preparing for the appraisal meeting with their staff member. Both manager and employee are given a preparation form to fill in prior to the appraisal meeting. The form requests information on the performance standards and competency assessment of the appraisee, and whether the objectives have been fully or partly met, or not met. Employees should also give their reasons why any objectives have been partly met or not met. A date for the appraisal should be agreed and scheduled. The line manager and appraisee are required to exchange their preparation forms at least one day in advance of the meeting. At the appraisal meeting, they should discuss the appraisee's performance against competences and objectives, identify any obstacles to achievement and look at possible solutions, identify key strengths and areas for development, and discuss future objectives, setting a personal development plan for future development and training to meet identified needs. According to the HR Director, the appraising manager is responsible for ensuring that feedback from stakeholders is handled anonymously and in a sensitive manner, to avoid placing any participating employee in a situation that is uncomfortable or embarrassing. Appraisees get an appraisal rating for each of the competences they are measured against. Scores 1 and 2 mean below expectations / improvement required; score 3 means that the employee meets expectations and has achieved good performance;

employees who score 4 or 5 have exceeded expectations or been outstanding. PM1 does not produce a single final appraisal rating for its employees as the other organisations do.

The final appraisal report is an edited version of the appraising manager's initial preparation form. Manager and employee should agree on any changes to this initial assessment during the meeting, and a copy of the final report should be given to the relevant senior manager for checking and signing. After that, a copy of the final appraisal form is sent to the appraisee, and to the HR department to be placed in the employee's personnel file. There is also an appeals procedure for employees dissatisfied with the outcome of their appraisal meeting. In circumstances where, despite PM1's support and guidance, a staff member is unable to meet required performance standards, the matter is referred to a separate Capability Procedure. If managers come to the conclusion that underperformance is a result of the staff member's unwillingness to perform, rather than incapability, then the case is referred to the Disciplinary Procedure. Where an employee has been or is about to be referred to either of the above procedures, and an annual appraisal is due for them, the appraisal will normally be suspended until the matter has been resolved under those procedures. A member of the senior management team makes the final decision as to whether an appraisal should be suspended, and when it should be rescheduled for.

Another element of the PM scheme at PM1 is the Support and Supervision (S&S) sessions. Employees should have an S&S session with their line managers every four to six weeks. The purpose of the sessions is to assess progress against performance objectives and identify and resolve any obstacles to achievement.

Objectives may change during the year and the sessions are the place to review them. In the sessions, managers review the individual's personal development plan. They should try to identify new learning and development needs, evaluate the benefits of training and development activities already undertaken, and identify ways for the staff member to apply what they have learned to their work. The HR department suggests an agenda for discussion and general guidance in S&S sessions, for all appraising managers.

4.4   PM2

Board members and executive directors have a wide range of skills and experience coming from private, public and nonprofit organisations. PM2 has a broad HR department dedicated to different aspects of the HR function. PM2 is the largest of the four organisations presented here. It has 800 employees, of which 30% work in Central Services (Finance, Fundraising, Human Resources, Public Relations, IT, Training, Information and Quality departments). The other 70% work in Operational Services, which are services related to housing, care services, Tenancy Sustainment, work and learning services etc. 90% of its staff work full-time, managers account for 24.4% of all staff and 51.6% of staff members are female.

PM2's turnover in 2007 was £43.6 million and over 40% of its contract funding came from SP grants (£17.9m). £12.2m came from rents, £4.8m from central government, £3.8m from local government contracts, £3.7m from fundraising, and the remaining from grants for major repairs, interest income and other sources.

4.4.1 The Pay Structure

The system that PM2 has in place is a traditional local-authority-style pay structure. Job roles are attached to a pay spine, pay progression is service-related, and salary levels are based on the NJC rates and increased in line with the local government pay award. In April 2008, the pay increase was 2.45%. Staff are eligible for a pay increase every year until they reach the top of their pay grade.

Table 4-12: Salary Scale at PM2 2007-2008

Scale Point	Salary (£) incl. LW*	Scale Point	Salary (£) incl. LW	Scale Point	Salary (£) incl. LW
4	11,264.10	27	22,109.71	50	40,932.96
5	11,524.56	28	22,832.55	51	41,796.27
6	11,916.71	29	23,733.92	52	42,656.66
7	12,291.30	30	24,527.00	53	43,531.69
8	12,677.60	31	25,299.59	54	44,444.76
9	13,052.19	32	26,045.85	55	45,378.31
10	13,327.28	33	26,821.37	56	46,300.16
11	14,184.75	34	27,576.41	57	47,222.00
12	14,483.25	35	28,152.93	58	48,135.07
13	14,860.77	36	28,896.26	59	49,056.92
14	15,150.49	37	29,709.83	60	49,984.62
15	15,457.77	38	30,579.00	61	50,900.61
16	15,823.59	39	31,582.79	62	51,822.46
17	16,204.03	40	32,416.84	63	52,753.09
18	16,523.02	41	33,274.31	64	53,657.38
19	17,143.44	42	34,122.99	65	54,585.08
20	17,766.78	43	34,977.53	66	59,025.38
21	18,413.54	44	35,829.14	67	60,231.10
22	18,893.48	45	36,633.93	68	61,448.53
23	19,446.59	46	37,520.66	69	62,715.70
24	20,084.57	47	38,381.05	70	63,991.65
25	20,722.55	48	39,238.51		
26	21,395.64	49	40,069.64		

At the time of the interviews, the HR Director said that the existing pay structure and progression arrangements needed to be reviewed. The growth in the number of new jobs had meant that there was little internal consistency. Government funders, who provide most of the organisation's income, were putting pressure on the organisation to show value for money. There was an expectation for PM2 to have well-trained staff, make cost reductions and demonstrate performance. The HR Director was working with a consulting firm to implement a competency framework system to support staff development and performance.

Under the new system, PM2 was planning to introduce a job family structure for its front-line, support, middle management and senior management employees. Front-line employee pay would be linked to NVQ care standards, whereas support staff would have their pay based on their relevant professional qualification, e.g. CIMA (for Finance), or CIPD (for Human Resources). The starting salary would be pitched at the lower quartile of the London public sector market rate, with progression up to the median. Senior managers would be placed on spot salaries linked to the lower quartile. The HR Director said that the change would help employees to understand the behaviours and competences required to meet the organisation's values and how PM2 would reward them. The change was due to take place in 2009. However, the PM system presented in this thesis is based on the system that was in place at the time of the fieldwork in 2008.

4.4.2   The PM System

The PM system at PM2 consists of an annual appraisal that takes place between January and March, and supervision meetings that happen every four to six weeks. An interim appraisal also takes place half-yearly. Line managers are responsible for assessing the performance of their staff in a cascading process. Employees are assessed and new targets are established for the coming year. Between five and seven objectives are set and they should follow the SMART criteria. During the appraisal, employees have the opportunity to discuss training needs required to achieve objectives. The individual monthly supervision meetings between employee and line manager aim to discuss work issues as well as any personal issues. According to the HR Director, working with homeless people can be very stressful for many employees and, during supervision meetings, line managers are also able to assess whether the employee is suffering from burnout. In the meeting, the line manager and employee discuss how work is being carried out, any upcoming obstacles and any need for further training. The monthly meetings help staff to keep on track with targets established during the annual appraisal.

Table 4-13: Appraisal Ratings at PM2

Rating	Assessment
1	Exceeded
2	Achieved
3	Below
4	Not acceptable

Source: Interview with HR Director, 2008.

The rating system applied at the annual appraisal meetings is shown in Table 4.13. For each post, there is a group of competences and targets, against which the

employee's performance is measured. Employees who are underperforming are required to attend a meeting with their line manager to identify the reasons for their low performance and determine whether more training is required. There is also an appeals procedure for employees dissatisfied with the outcome of their appraisal meeting. During the interview conducted for this research, the HR Director admitted that, even though the organisation provides training to line managers on how to appraise staff, they were experiencing problems related to inconsistency in how appraisals were carried out within the organisation. According to the HR Director, this was one of the key drivers for the change mentioned above. Since the PM system at PM2 was to go through a process of change in 2009, the HR Director tried to emphasise the new system rather than the existing one. Thus, no documentation on the PM system or appraisals used as of 2008 was made available for this research. Nevertheless, the old PM system seems to have followed some of the important advice and guidelines outlined by ACAS. PM2 had a PM system that included annual appraisal meetings, with objectives set following the SMART criteria, interim appraisals, monthly supervision meetings and a discussion of training requirements aimed at helping staff to achieve the objectives set for them. These aspects are all consistent with the performance plans used in the other case organisations.

Conclusion

This chapter has offered a detailed description of the PM and PRP systems implemented in the four HAs discussed in this study. Despite differences in their pay structures, the interviews and documents provided by the HR directors indicate that the organisations are similar in the way they implement their PM and PRP systems

and that they follow many of the guidelines of best practice illustrated in the advisory booklets produced by ACAS. In the case of the PRP organisations, their PM systems used to support PRP are not naïve but rather sophisticated, and demonstrate that poor design cannot be blamed if the PRP fails to motivate these nonprofit employees to increase their performance. The next chapter investigates why Housing Associations implemented performance-related pay.

Chapter 5   Why Do Housing Associations Use Performance-related Pay?

Institutional theory is the rationale employed here to explain why HAs have introduced PRP, and the central argument is that reward decisions are not always associated with organisational fit, nor are they necessarily an economically rational choice, as posited by agency theory. Instead, institutional pressures play a significant role in shaping the reward decisions made by HAs.

DiMaggio and Powell (1991) posit that, when organisations are placed in an environment with increased uncertainty, they may model themselves on other organisations they perceive to be legitimate and successful. Diverging from accepted standard practices may increase the uncertainty within organisations. On the other hand, conforming to best practices legitimised in the sector is likely to provide a sense of security to these organisations and this may lead to an increase in the uniformity of pay practices within the sector. This view is consistent with the context in which HAs operate. HAs have experienced a long process of change, from having a secondary role in the provision of social services to being responsible for the large-scale delivery of public services in the country. This change, led by government reforms, has established a very regulated environment, with funding restrictions and increased market competition for contracts to provide social services. This climate has steered HAs towards a progressive conformity to private sector management practices (Walker 1998). Here, I investigate whether the same assumptions can be made regarding the reward decisions in the sector.

The purpose of this chapter is to report on the data collected to address reasons why HAs have introduced PRP for their employees. This chapter presents the results

from four interviews with senior managers of the case HAs with PRP, and also interviews with four reward consultants operating in the housing sector. This chapter is intended to provide a complementary perspective to the main study of this thesis. In Chapter 6, the quantitative methods used relied strongly on measurement and, although consistent with the research question proposed in the main study, they did not capture the wealth of subjective experience that can be obtained through interviews (Yin 1994). The interviews used here aid our understanding of how reward decisions have been reached in HAs and point to the main drivers of the decision to implement PRP. How and why these decisions are reached is not an area of objectivity but a process that needs to be interpreted. As a result, an understanding of this could not be pursued through a survey.

5.1   The Interviews

Face-to-face interaction is the most complete method available for exploring the thoughts and perceptions of individuals (Lofland and Lofland 1995) and, although the participants in this research may have given subjective accounts of what influenced the decision to implement PRP, 'their accounts constitute their reality, and, arguably it is the way they view the world which shapes their future actions' (Chell 2004:58). Interviews appeared to be the most appropriate method of investigation for this chapter, and they followed the semi-structured format.

The decision to interview reward consultants was based on their expert knowledge in the field. Consultants have strong relationships with the senior management of organisations and can also play a significant role in reward decisions (Clark and Fincham 2002; Bender 2008). Their insights about the sector also provided an

alternative perspective to the organisations' responses regarding why they had made certain choices. This chapter provides a better understanding of why and how these HAs selected PRP as their pay systems. Semi-structured interviews lasting 45 to 60 minutes were carried out with reward consultants from four large reward consultancies with a knowledge of the housing sector. The interviews took place between September and November 2011. For reasons of confidentiality, the consultants are identified here by the numbers 1 to 4. Significant use of direct quotations is made so that the views of the participants can be heard through the presentation of the findings.

Consultant 1 is Head of Housing Group in the UK in a large global consulting firm. Reward is one the three main practice areas in which he works and the group has a stable client base of 50 HAs with which they work every year. Consultant 2 is the Chief Executive of a national consulting firm with long-standing experience in the voluntary sector. The firm has a client base of 200 organisations, 70% of which are HAs, spread across the UK. The consultancy offers a range of HR services to these organisations but the majority are focused on reward strategy solutions. Consultant 3 is the Managing Director of a national consulting firm. It works across the UK with over 300 organisations, including social housing and other nonprofit organisations, local authorities and the private sector. Its services cover recruitment and selection, remuneration and reward, talent management, governance and change management. Consultant 3 has a long history of working on remuneration in HAs. Consultant 4 is the Managing Director of a national HR consultancy firm based in London, offering a range of HR strategic consultancy to small and medium-sized enterprises and NPOs. Consultant 4 specialises in remuneration and performance management.

The interviews were conducted to collect evidence of the reward consultants' experience of organisational practices. The participants were asked about real examples of practices they had witnessed in their work as consultants in NPOs and, if applicable, HAs. An initial discussion of their approach to reward strategy was encouraged in order to establish their views on the best practice versus best-fit approaches to rewards. A discussion of who is responsible for the reward decisions in nonprofits and HAs was followed by a discussion of the factors that determine the decision to introduce PRP. The interview questions posed to the reward consultants are given in Appendix 4. Previous authors have suggested that, whenever possible, researchers should look to increase the sample size in qualitative research, in order to potentially identify a greater variety of similarities and/or differences across the sample (Miles and Huberman 1994). Other reward consultants were contacted at the time of data collection but, unfortunately, were not available for an interview. Given the time pressures on this research, the data collection was completed with these four consultants. The purpose here is to provide a complementary perspective to the answers offered by the senior managers of the HAs with PRP.

5.2   The Interviews in the PRP Organisations

In PRP1, interviews were held with the HR Director and the HR Manager, and at PRP2 the Chief Executive and the HR Director were interviewed. The interviewees discussed a range of factors that they took into account when deciding to implement PRP, and institutional pressures were identified.

5.2.1 PRP1

Market competition, the contract culture in the voluntary sector and organisational culture were identified as the main drivers of PRP in PRP1:

'There is a huge competition out there and we are required to be very very competitive to win contracts, to retain contracts. We're accountable to our commissioners, to local authorities for giving them value for money in the services we provide, and in order to do that we need to have switched-on commercially minded people and performance-related pay supports that. So, we need to talk business language...' (HR Director, PRP1).

On organisational culture, the following comments were made:

'No, we don't have any problem with PRP, organisationally. There might be some individuals within the organisation that are still having difficulty getting their head around it (PRP) and that is why one of the big projects within HR is the culture change project, where we are constantly reinforcing that message. If we cannot be successful in business because we are not efficient and we are not commercially minded, then we are not going to stay in business and we are not going to have customers to serve, and that is not where we want to be, really' (HR Director, PRP1).

It seems that the need to change the organisation's culture comes from the need to adapt to the new competitive environment in which HAs operate. There is pressure to demonstrate good value for money when competing for contracts to provide services on behalf of local authorities. Kerr and Slocum (1987) suggest that performance-based types of rewards are used in organisations with a 'market

culture'. They highlight that the market culture emphasises a contractual relationship between individual and organisation that is essentially utilitarian, since each part uses the other as a means of furthering its own goals. The market culture, rather than promoting a feeling of membership in the organisation, encourages a strong sense of independence and individuality, in which everyone pursues their own interests (Kerr and Slocum 1987). The implementation of PRP in voluntary organisations may be seen as a way of generating a sense of ownership, initiative and responsibility for decisions among employees. However the 'market culture' is in no way representative of the culture of NPOs. The quotation below suggests this view:

> *'Some managers are struggling in the new system because they've never really been pushed to operate in that way. It's not an easy thing. They need developing and supporting and they need their confidence building up to make pay decisions. And we need to be creating a culture where it is ok to take risks, it's ok to make mistakes and it's ok to take decisions. Not all managers want to do that. This decision making, some of them don't want to do it, some of them don't have the experience. Some of them, frankly, will never be up to it' (HR Director, PRP1).*

The HR Manager agrees with the director's views:

> *'We have never been so performance-driven as now and I think the organisation has taken a step towards aligning our pay system to this new climate. And for that, the whole culture needs to change. Local authorities have higher expectations of how we run our services in order to be effective with clients. This performance orientation is bringing a lot of changes in the organisation" (HR Manager, PRP1).*

It is interesting how the performance-driven environment dictates changes in the pay system and, subsequently, in the culture of the organisation, and not the other way around. Often, organisations recognise a need for a change in their culture, and then make use of HR practices to drive that change. When asked about who is responsible for reward decisions in the organisation, the HR Manager replied: *'Well, senior management really. I suppose our HR Director had a lot of influence in that as well since she came from the private sector and she has a lot of experience with these types of pay systems'* (HR Manager at PRP1). The HR Director in PRP1 had extensive experience working for the private sector and as seen above, was one of the decision makers, together with the senior team, pushing for the implementation of PRP in the organisation. Normative isomorphism can be identified in this case. Professionals are responsible for establishing normative elements in organisations and in the case of PRP1, it could be said that the HR Director is one to set standards, propagate principles and practices established in the private sector.

5.2.2 PRP2

In the interviews at PRP2, we discussed similar issues and also identified market pressures and the contract culture as the main drivers behind the introduction of PRP in the organisation. The interviewees also mentioned cost control and market benchmarks as influencing reward decisions:

> *'We did a bit of research about what is available out there and what sorts of pay systems are being used and we came to the conclusion that it (PRP) is right for us. We want to reward people according to what they are achieving and their performance'* (Chief Executive, PRP2).

The use of benchmarking to make reward decisions shows the mimicking behaviour discussed in the literature, which contributes to uniformity in pay decisions (Ogden and Watson 2008). Competition and the contract culture were also identified, as mimetic pressures faced by the organisation:

> *'We are under a lot of pressure to perform and, therefore, a business-like approach is essential to show that we are indeed performance-driven. Our pay system demonstrates what we value and what we aim for in the organisation' (Chief Executive, PRP2).*

The HR Director shared these views: '…because we are having to act in a far more competitive manner. We need to be far more competitive in what we do, we need to perform at a far greater level, and performance-related pay certainly supports the ability to do that.'

Another reason for the introduction of PRP pointed out by the HR Director at PRP2 was affordability. Traditionally, many voluntary organisations have linked pay to the Local Authority NJC scales. However, many organisations, and indeed HAs, have complained of the difficulties in maintaining this link since the annual funding they receive does not always cover the full cost of local authority pay increases (Cunningham and James 2009). Introducing PRP could therefore perhaps be a way for management to take control over annual pay rises:

> *'We simply could not afford paying people with annual increments any more. We got out of the NJC because it was becoming too expensive for us' (HR Director, PRP2).*

In both organisations, PRP1 and PRP2, the participants' views confirmed the institutional pressures on HAs that influence reward decisions. Even though the interviewees felt that PRP was a strategic decision that fitted the needs of their organisations, all of them identified increased competition for contracts to deliver public services as one of the drivers behind the choice of PRP, along with culture change and costs. In PRP1 normative pressures were also identified with the HR Director being one of the decision makers on the implementation of PRP. It seems reasonable to conclude that, in order to work in an uncertain environment with market competition and funding constraints, these organisations, under mimetic and normative pressures, make use of pay systems that are widely known for their performance orientation.

Non-PRP HAs are faced with the same market pressures and competition in the new contract culture. Despite the fact that the non-PRP HAs studied in this research had not opted to introduce PRP, one of them did indicate that they were reviewing their PM systems and exploring other options for their pay in order to cope with funding pressures. This was suggested in an interview with the HR Director at PM2:

> *'Government funders have an expectation for well-trained employees, cost reduction and performance (…) We are working with a consulting firm to implement a new competency framework system to contribute to our staff development and performance and we aim to, in the future, to be able to link our pay to a competency framework to encourage employees to develop their skills and gain new qualifications' (HR Director, PM2).*

PRP is one way of coping with institutional pressures. Nevertheless, other schemes may also be the result of mimetic isomorphism, especially when they are legitimised by consulting firms. The next section presents the results of the interviews with reward consultants in the sector, providing a complementary outlook to the organisation's responses. The reward consultants confirm that PRP is not necessarily a strategic choice, but may be the result of institutional isomorphism.

5.3   The Interviews with Reward Consultants

The participants all had a long background of consulting on reward strategy, combined with experience in the nonprofit sector. A range of factors influencing reward decisions were raised. Mimetic pressures, and to a lesser extent normative pressures, dominated the discussion of PRP in housing associations. Coercive pressures were not identified. To set the scene, each interview started with a discussion of the consultant's approach to reward strategy.

5.3.1   Best Fit versus Best Practice in Reward Strategy

Reward consultants provide paid advice to organisations on designing their reward strategies and therefore have the ability to influence pay decisions within the sector. Consequently, their views and approaches to reward strategy were investigated first, before I moved on to looking at the factors influencing the decision to implement PRP.

Consultant 1, who was the head of the housing group of a large global firm, remarked:

'Our approach to reward strategy is to put in place a recognition framework that makes sense for whatever the business is trying to do (…) So our approach tends to be not "here is the best pay structure in the world, please implement it". It tends to be "what are you trying to achieve out of your reward recognition framework?" '

Consultant 1 seems to be saying that the pay system should fit the purpose of the organisation. However, later in the interview, when issues of cultural fit to PRP were raised, the best practice approach to reward strategy became more evident:

'The issue is not whether it is private sector practice or commercial practice, it is about best practice for me. So all our research shows that you can get up to 30% better performance from an individual if you create the right environment for them to perform at their best (…) so for housing associations it is more about the right environment being created, where this organisation, housing association X, can attract people who care about the business and can deliver the services that the business needs. So if, in the new world, that includes being more careful with money, aka commercialism, then that is fine; measures should be put in place to incentivise people to behave in that way. Why do people call us? It is because they want to establish the right employer brand, and through the pay system. With the job advert, people think, "Do I want to go and work for that organisation?" So, "is the pay level right? Do I get access to the right level of benefits and total reward?" So, I don't think housing associations are becoming more private sector. I just think that they are becoming more sophisticated in being effective organisations. You look at the most admired companies in the world; they have performance-related pay. So it is not a commercial, public, private, it is a good, company'.

The above quotation suggests that consultants may be active in establishing normative pressures in organisations. Reward consultants, as do professional associations, attempt to influence the behaviour of others by setting standards, propagating principles and advising on benchmarks to gauge progress (Scott 2008). Nevertheless, the comments of the consultants in the other firms were more akin to the best-fit approach to reward strategy:

'We firmly believe that the business strategy should guide HR practices. In that sense, the reward strategy is only there to help the organisation to achieve its goals. We are aware of current best practice but we also understand that best fit is more important' (Consultant 2).

'We work with them to understand what would best make or motivate staff to achieve. There won't be one size that fits all [in] the reward strategy. We will flex and amend the reward strategy (…) So it's really starting with what the strategic objectives are, what they are trying to achieve and how their reward strategies best achieve it' (Consultant 3).

'We sit alongside the organisation and try to discuss their goals and what they are trying to achieve with their employees. We also discuss affordability. Then we try to identify what would best fit the needs of the organisation' (Consultant 4).

5.3.2 Who is Responsible for the Reward Decisions in the Organisations?

The question of who is responsible for reward decisions in NPOs is important so as to place in context the factors driving PRP. The consultants were consistent in saying that senior management, HR and occasionally the board generally pushed for the choice of PRP:

'I think the main stakeholder will be the chief executive, who says this is
right for the way in which the business strategy is going forward. But HR
tends to drive the programme' (Consultant 1).

Consultant 4 said, 'Senior management, most of the time, tends to make the decision' and Consultant 3 said, 'The board and senior management are usually involved in the decision'. Finally, Consultant 2 made the following remarks:

'In some organisations, senior management usually makes the decision
and I think that if there was a more mature board structure within these
organisations, that really challenged, "What's the value this (PRP) is
going to give to the organisation, and why they are doing it? How is it
going to work? Where is it going to position us strategically?", then I
don't think many organisations would have adopted what they adopted
(…) There are other organisations where this is actually driven from the
board because there are people from the private sector and therefore
they make the leap between their other working professional lives and
think it would work in this setting' (Consultant 2).

5.3.3   Drivers of PRP: Mimetic, Normative and Coercive Pressures

The reward consultants were asked to discuss the factors that NPOs, and where applicable HAs, take into account when deciding whether to implement PRP. They were asked to base their responses on real examples from their client base so as to try to keep their own views to a minimum. Consultants 2 and 3 responded as follows:

'I think there has been a frustration in some organisations that we
cannot change as quickly as we want to. And there is that idea that if we
change our pay structure to be performance-related pay, that will, by

definition, change the cultural outlook of our workforce and develop a more commercialised view about how we need to manage the business' (Consultant 2).

'What we've got to look at is what's going on in the external environment for housing associations at the moment. They are losing their grants; their income stream is under threat from government policy. For example, through housing, they are changing the housing benefits. So, they have to be more performance-driven, maintain a healthy turnover, a high standard of services to customers, to compete for scarce grants. They need to have that commercial drive and I think that may influence the choice of performance-related pay' (Consultant 3).

In both examples, it is clear that market competition and funding threats have somehow led HAs to opt for PRP in order to cope with the new climate. Another consultant said:

'The trigger tends to be a desire to modernise. I would say that the trend at the moment is that people are more concerned about getting a better return on their investment in terms of the money that they are spending on their employees. And performance-related pay is one measure of doing that' (Consultant 1).

Consultant 1 also suggested that recruitment at the senior level was an important factor influencing organisations' choice of pay system. PRP is widely used for executives and, in order to attract talented executives or those that suit the new look HAs are trying to portray, PRP is implemented. This suggests mimetic behaviour. Cultural change was also mentioned:

'I would say that attracting the right people, particularly at the managerial and senior level, is one factor. I think they want to be more competitive and the nature of the sector (housing), because it has become more commercial, more complex, more independent, requires a different sort of leader, an executive who may only be attracted by a variable pay package. Another key factor is the organisation wanting to reinforce what they stand for in terms of their employer brand, the behaviour that is acceptable in the organisation. So some of the ones that we have worked with specifically wanted to, for example, encourage innovation or commerciality alongside social purpose and, therefore, will reward the people who display that behaviour, so it starts to become the cultural norm' (Consultant 1).

Consultant 4 also commented on the use of PRP to achieve cultural change:

'Sometimes, what is around is that idea that we need to take a hammer to the system, smash it up, put something else in and inject some trauma into the organisation, which sounds a strange thing to say but I think some organisations have seen this (PRP) as a blunt instrument to effect cultural change in the organisation. I would say that there is a lack of sophistication in understanding the operating environment and just picking up one approach from one organisation and expecting it to work in the same way as in another organisation.'

According to some of the consultants, benchmarking is one of the tools senior managers in HAs use to make reward decisions:

'I think clients want to know what their options are and use us to advise them on the best option to deliver their strategy. Most clients have a look at PRP because it is out there on the market' (Consultant 1).

'So there is that sense of what's being done in the market, let's do some benchmarking research and find out what the competition is doing. Let's try and do something similar with that' (Consultant 3).

'Most strategic pieces of reward work that we are commissioned to undertake have part of their brief to at least explore whether performance-related pay is something that would be a benefit to the organisation, and this has to do with what is out there. But very few organisations really think about why they want performance-related pay' (Consultant 2).

Consultant 2 goes on to discuss some of the issues that HAs tend to overlook when trying to implement PRP:

'When you explore with these organisations why they want to go down performance-related pay, they will reach the conclusion that their workforce will be motivated in part through money. But then when you ask them how much money they've got, they haven't got any money. So you say well, okay, what is it that you are putting in the pot here for performance-related pay, one and a half percent? Well if you've got one and a half percent, this is not going to incentivise people in the way in which you believe it will. (…) And if you are placing your strategy around PRP, then in order to make that meaningful and have a chance of working, you're going to have to work on the premise that only a proportion of your workforce will get any money. But that also means that a large part or a proportion of your workforce won't get any financial gain. And then they start to think about, well, actually that's not the sort of organisation we want. We want a sense of pay equality and sending the right messages. So it all starts to unravel. Not to say they all agree. Some will still go down that path' (Consultant 2).

Consultant 3 expressed similar views: *'They (housing associations) will never be able to develop rewards for performance pay in the same way that the private sector has. They can copy the type of system but, in terms of the actual amount of cash, they'll never get anywhere near.'*

The quota system operated in organisations so that they can implement PRP was also discussed by the consultants. The suggestion was that PRP may not be a strategic decision after all. Due to the nonprofit nature of these organisations, the consultants explained, the lifecycle of PRP in HAs tends to be short: *'I think housing associations find it difficult to maintain the system. I would say that the lifecycle of performance pay in housing would be about two or three years if they are lucky'* (Consultant 3). Similarly, Consultant 4 commented,

> *'When they realise the situation midway down the road, that if we are making all our payments based on performance and we are not upgrading base pay, and it's not an issue at the moment, but we then find that in three or four years that our base pay rates are now much lower down the pay league, and we run into a problem around recruitment and potentially retention, certainly retention of talent. So the whole set of things is founded, for most organisations I think, on this copycatting phenomenon, if you like, about looking at different operating environments' (Consultant 4).*

Two consultants elaborated on the mimicking behaviour of organisations, and raised the issue of trends and fashions in reward decisions: *'It (PRP) comes and goes really. Some are introducing it, some are taking it away and some are looking at it. It depends on the trend at that moment'* (Consultant 1). Similarly,

'Despite the fact that there are still people out there implementing it (PRP), up until about three years ago it was a lot more popular. As soon as the banking crisis unfolded, the number of calls that we got saying, "well we've got performance-related pay for our executive team in particular and we would like to explore how we decouple ourselves from it?" And the reason why people wanted to decouple themselves from it was because it was no longer fashionable. Overnight it became so... whilst the money was clearly nowhere in the same league, but the principle was the same. Everybody is seeing on television, including residents and tenants, these bankers walking away with millions of pounds and organisations having to be bailed out. Suddenly we've got housing associations, okay, the sums are modest but the principle is the same, suddenly being paid at a time when our rents are going up and where the whole notion of performance for executives has been discredited. And society has taken a whole different view about the concept of performance-related pay' (Consultant 2).

The fact that some HAs decided to distance themselves from PRP because it was no longer fashionable reinforces the evidence in favour of mimetic isomorphism. Reward decisions are not based on organisational fit, but on best practices dictated by the market. The choice of PRP is consistent with the acceptance of the practice within the sector rather than being a strategic choice. Once PRP became discredited by the crisis in the banking sector, other more legitimised practices were pursued.

Coercive pressures on the reward decisions, exerted by government funders, were not identified during the interviews. One consultant said:

'I would be very surprised if funders were interested in whether organisations are introducing performance-related pay or not. They will establish whatever controls they need for organisations to perform but

they will have no view as to how performance is achieved. And I don't
think they would in any way be made confident if part of their rationale
for distributing funding was based on that' (Consultant 2).

Despite the fact the coercive isomorphism is not described by interviewees, and consultants are not convinced that organisations are being forced to adopt one model or another, it could be said that government regulations represent an invitation to comply with widespread performance models in the public sector. The New Public Management agenda to enhance performance in public services contributes to a performance culture that is likely to lead to the implementation of best practices, such as PRP, to fit the new performance environment proposed by government reforms.

5.4   Implications for the Main Study

Institutional pressures are the main driver of the decision to adopt PRP in NPOs, rather than the idea, based on agency and expectancy theory, that PRP is a suitable reward system. HAs introduce PRP, not because it fits the needs of their organisation, but because they believe it fits the image they would like to portray. They are less concerned with any concrete evidence that PRP will enhance efficiency, and more concerned with the legitimacy that the pay system may bring to the organisation.

Evidence of mimetic isomorphism was found in all of the interviews with the reward consultants. The interviews also suggest the existence of normative pressures, where consultants and HR professionals play a significant role in setting standards and best practices in the sector. Coercive isomorphism was not mentioned

by interviewees but, even though government funders do not have a say in the choice of reward system, their policies and funding threats certainly contribute to an environment where mimetic isomorphism is more likely to take place. The findings are also consistent with the interviews with senior management at the PRP organisations. In both groups, management and consultants, similar issues were raised regarding the implementation of PRP. Market competition and restricted funding have made the housing environment a lot more uncertain for these organisations and, consequently, led to a conformity with best practices. The next chapter presentes the survey results of the use of PRP in Housing Associations and whether PRP contributes to motivate nonprofit employees. The results do not point to a successful outcome and, perhaps, the fact that institutional pressures are the main reason for the introduction of PRP helps to shed light on why it may not be an appropriate pay system for NPOs.

Chapter 6   Performance-related Pay in Nonprofit Organisations

This chapter presents the data analysis and a discussion of the use of PRP in housing associations in London. In this study, I compare NPOs using PRP with those using seniority-based pay systems. All four organisations investigated have well-established performance management (PM) systems in place and the aim here is to explore whether PRP motivates nonprofit employees to perform well at work any more than seniority-based pay in conjunction with PM does. PM is an integrated set of planning and review procedures that cascades down through the organisation to provide a link between the individual and the organisation's strategy (Rogers 1994). Moreover, it incorporates processes, attitudes and behaviours that together produce a coherent strategy for raising individual performance achievements (Mwita 2002). The link with pay is not essential to PM and the intention here is to establish whether or not PRP is appropriate for voluntary sector workers.

In Chapter 4, the PM systems of the organisations were described in detail, together with their pay systems. The Advisory, Conciliation and Arbitration Service (ACAS) provided an illustration of what is considered a soundly designed PRP scheme. An organisation must already have a system of PM in place, it must be possible to have informed, consistent and objective performance appraisals, and the employee must be capable of exerting control over the achievement of pre-set objectives, among other conditions (ACAS 2005; ACAS 2010). The ACAS reflects contemporary research and practitioners' views of good practice and, according to the details presented in Chapter 4, all four organisations follow the recommendations contained in the ACAS's standards of good practice for the implementation of PM and PRP

schemes. Satisfying the abovementioned conditions has been recognised as a necessary part of designing successful schemes and makes it possible, in this study, to eliminate poor design as a cause of failure of the PRP schemes.

Having said that, poor implementation explanations for the failure of PRP mask more fundamental deficiencies that are rooted in basic organisational differences between for-profit and nonprofit settings. These differences include budget, wage equity and public expectations embedded in NPOs that prevent the success of PRP (Perry, Engbers et al. 2009). The nonprofit environment has limited funding to invest in PRP, an organisational culture that emphasises wage equity (Leete 2000) and a weak link between objectives and performance with outputs that are difficult to measure (Weisbrod 1989). Moreover, the non-distribution constraint that defines nonprofit institutions is subject to rules and expectations regarding how financial resources may be used (Perry, Engbers et al. 2009:10). Because of these external expectations, when nonprofit executives are known to be earning large amounts of compensation they may face public backlash, such as the stories that were prevalent in the media in 2010 about the 'fat cats' of HAs earning more than the prime minister.

Nonprofit workers have a strong nonmonetary orientation (Light 2002) and are willing to exert themselves for reasons other than monetary compensation. Studies (Alvarado 1996; Theuvsen 2004; Devaro and Brookshire 2007:10) posit that nonprofit employees have different motivations for performing at work and their reward preferences, as well as their organisational environment, do not coincide with the motivational antecedents of PRP. The argument here is that such characteristics, inherent in NPOs, make it difficult to implement PRP successfully. In these

circumstances, the link with pay may cause more harm than good to the motivation of employees. For instance, wage equity may be a crucial component of maintaining employee motivation in the sector (Leete 2000) while PRP does the opposite, differentiating employees' pay on the basis of their work performance. The problem is that the subjective nature of the performance assessment in PRP may prompt perceptions of unfairness, particularly if employees believe that a quota system is being implemented due to the limited funding available for PRP. Since limited funding does exist in NPOs, as in the public sector (Pearce and Perry 1983; Marsden and Richardson 1994; Marsden and French 1998), there is a risk that quota systems and the manipulation of appraisal assessments may be used to restrict wages in these organisations (Prendergast 1999). This chapter explores these issues and their impact on the motivation of employees with the aim of finding out whether PRP is appropriate for nonprofit workers.

The research question in this chapter is whether PRP motivates nonprofit employees any more than PM without a link with pay. In order to address this question it is important to attend to a number of sub-questions such as whether the four organisations are motivationally similar when PSM, Affective commitment and Job Satisfaction of employees are compared; whether Perceived Fairness, Goal Setting, Quality of Appraisal and the existence of a Quota System influence the success or failure of PRP in organisations. The table below (Table 6.1) summarises the variables analysed in this study and the following sections will explain how the dependent and independent variables will be used here to help to address the research question.

Table 6-1: Summary of Variables Analysed

Dependent Variables	Independent Variables	Control Variables
MotivationDiscretion	Organisation	Trade Union
MotivationEffort	Perceived Fairness	Age
PSM	Goal Setting	Tenure
Affective Commitment	Quality of Appraisal	Salary
Pay Satisfaction	Quota System	Education
Job Satisfaction	Incentive Effect	Gender
	Appraisal Effect	Managers
		Full-time Employment
		Intention to Leave

6.1 PSM, Organisational Commitment, Job Satisfaction and the Reward Preferences of Employees in HAs

The first step, before investigating employees' motivations for performing at work, is to determine whether employees in all four organisations are motivationally similar when it comes to working for a NPO and whether they differ mainly with respect to the pay system used. PSM, affective commitment, job satisfaction and the reward preferences of employees will be examined here to show that employees are observationally equivalent across all four organisations. In other words, they present similar levels of PSM, commitment and job satisfaction, and they also rank intrinsic rewards in similar ways.

Public service motivation theorists (Perry and Wise 1990) assert that the motives of public and nonprofit employees are different to those of private sector employees. They argue that individuals who respond to incentives such as doing work that is helpful to others and being motivated by the good feelings they have about themselves as a result of the work they do have PSM. Perry (1997) suggests that the individual's PSM develops from exposure to a variety of experiences, such as

167

parental and religious socialisation, professional identification or political ideology, and that the greater the individual's PSM, the more likely he or she is to seek to work for a public or nonprofit organisation. This view is consistent with Rose-Ackerman's (1996) hypothesis of self-selection. Employees self-select themselves into NPOs in order to achieve their altruistic goals that are in line with the services provided by the NPOs. More recently, nevertheless, studies have pointed to the importance of the organisational environment in shaping the PSM of employees (Moyniham and Pandey 2007). As seen earlier, workplace characteristics such as job design influence PSM (Koumenta 2010). Given this, one could argue that pay systems might influence the PSM of the employees of NPOs. In other words, employees could be attracted to an organisation that offers PRP rather than altruistically self-selecting themselves. Therefore, it is necessary to establish first whether PSM varies across the organisations studied.

Affective commitment is another measure used here to compare employees across organisations. Affective commitment, as defined by Meyer and Allen (1997), implies a degree of emotional identification on the part of the employee with their workplace and work colleagues. Furthermore, it provides the strongest and most favourable correlations with attendance, performance and OCB (Meyer, Stanley et al. 2002). If organisations differ in the affective commitment of their employees, this could well explain differences in their motivation to perform at work, tainting the results of the motivational effects of PRP and PM. Job satisfaction is also employed here to compare the organisations. The satisfaction and attitudes of employees are important factors in determining their behaviour and responses at work, and it is through these behaviours that organisations can achieve effectiveness (Ostroff 1992). Some authors (Lawler and Porter 1967) argue that high satisfaction at work

will lead to low turnover and absenteeism because the satisfied worker is more motivated to go to work as his needs will be satisfied there. Likewise, job satisfaction leads to prosocial behaviours that include cooperation and collaborative efforts. Satisfied employees are more likely to engage in collaborative efforts and accept organisational goals (Ostroff 1992). However, whether or not an employee will produce up to his potential depends, in large part, on the way he feels about many aspects of the job, his co-workers and supervisors, his career and the organisation. Satisfaction and positive attitudes can be encouraged through the provision of a positive organisational environment that furnishes good communication, autonomy, participation and mutual trust (Argyris 1964). Because organisations vary in their ability to provide a positive work environment, and because employees have different views about many aspects of their jobs, it is essential to examine the job satisfaction of employees in all organisations.

A separate analysis of covariance (ANCOVA) was performed to test whether there are any statistically significant differences between the organisations in terms of the PSM, affective commitment and job satisfaction of their employees. ANCOVA is a type of linear regression analysis where effects and interactions are assessed on the dependent variable scores after the dependent variable has been adjusted for by the relationship between the dependent variable and one or more covariates (control variables). The first ANCOVA (Table 6.2) takes PSM as the dependent variable and the organisation as the independent variable. The covariates introduced into the analysis are gender, supervisory status, age, tenure, full-time employment, trade union membership, intention to leave, salary and education. These control variables are used in all of the statistical tests performed in this chapter. The Bonferroni test is

used here to apply an adjustment to the probability level, keeping it at .05 for all comparisons. The Bonferroni test is an adjustment made to P values when several dependent or independent statistical tests are being performed simultaneously on a single data set. The more hypotheses are being tested, the higher are the chances of identifying at least one significant result. Therefore, the Bonferroni test is used to reduce the chances of obtaining false-positive results when multiple results are being performed on a single data set. This is done by dividing the P value at the critical significance level .05 by the number of hypotheses being tested. The statistical power of the study is then calculated based on this modified P value (Napierala 2012). Affective commitment and job satisfaction are also taken as dependent variables and the organisation as the independent variable, with the same covariates as above. Table 6.2 shows that there is no statistically significant difference between the PSM, affective commitment and job satisfaction of the employees in the four organisations. The results suggest that employees in all organisations are motivationally, or perhaps observationally, similar when comparing their PSM, affective commitment and job satisfaction and they differ mainly with respect to their pay systems.

Table 6-2: Comparison of PSM, Affective Commitment and Job Satisfaction of Employees iv the Organisations: Analysis of Covariance

Organisation	PSM			Affective Commitment			Job Satisfaction		
	Mean	SD	N	Mean	SD	N	Mean	SD	N
PRP1	23.04	2.73	168	.12	1.0	170	.14	.98	175
PRP2	22.18	2.56	83	-.23	.85	99	-.14	.91	99
PM1	22.12	2.57	53	.07	.94	67	.14	1.05	72
PM2	22.70	2.94	105	-.04	1.07	111	-.09	.97	116
Total	22.66	2.75	409	-.005	.99	447	.02	.98	462

Note: PSM; $(F(3,408) = 1.533, p > .05)$; Affective Commitment: $(F(3,446 = 1.1216, p > .05)$;
Job Satisfaction: $(F(3,461) = 0.984, p > .05)$

A further step is taken in order to confirm the similarities of the employees in the four organisations. Employees have different personal preferences about the rewards that motivate them to do their best work, and it is well established in the literature that the reward preferences of employees across different sectors (public, private and nonprofit) will vary. Public and nonprofit employees display more of a preference for intrinsic rewards than their private counterparts. Since all organisations in this study are nonprofits, it is possible that the employees will display similar preferences. However, it is still important to investigate whether the incentive system impacts upon the reward preferences of the employees, and whether the employees in the PRP organisations show a preference for pay and other extrinsic rewards.

The measurement of reward preferences in this study employs a rank-ordering procedure, in which the individuals are asked to order rewards from most to least preferable. Selective orientation guides the measure of reward preferences used here, on the assumption that individuals generally do not value rewards equally (Wittmer 1991). The respondents were asked to rank nine reward items (intrinsic and

extrinsic) from 1 (most important to them) to 9 (least important to them). An analysis of variance (ANOVA) was performed to determine whether the difference between the means for the organisations is statistically significant (Table 6.3). The analysis of the control variables and their influence on reward preferences is shown in Table 6.4.

Much of the research on human resource management has focused on the types of policies and practices that might be bundled together to deliver higher organisational performance. Nevertheless, the employee's expectations and perceptions should be acknowledged and interrogated, and not ignored as is so often done in the literature (Deery 2002). This is also one of the reasons why this question was posed to employees in the NPOs. To explore whether their reward preferences are consistent to what the organisations believe to be the appropriate reward system.

Table 6-3: Ranking of Reward Importance by Organisation: Analysis of Variance

	PRP1 (N = 108)		PRP2 (N = 84)		PM1 (N = 57)		PM2 (N = 82)		F
	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank	(sig)
Higher pay	4.81	4	4.67	3	5.3	6	5.17	5	.085 (.481)
Doing work that is helpful to others	4.16	2	3.14	1	4.07	1	3.91	2	3.358 (.019)*
Recognition from organisation	5.54	7	4.94	5	5.96	8	5.79	8	2.485 (.061)
Job security	4.56	3	4.89	4	4.98	4	4.95	3	.466 (.706)
Career progression	4.94	5	5.21	7	5.09	5	5.2	6	.275 (.843)
Good feeling about yourself as a result of work	3.77	1	4.32	2	4.16	2	3.73	1	1.160 (.325)
Decision making and influencing organisation	5.79	8	6.11	8	5.65	7	5.96	9	.521 (.668)
Training and development	5.27	6	4.99	6	4.49	3	5.01	4	1.610 (.187)
Autonomy	6.16	9	6.73	9	5.3	6	5.27	7	6.055 (.001)**

Note: **$p<.01$, *$p<.05$

According to Table 6.3, there is at least one statistically significant difference between the four organisations in terms of the reward 'doing work that is helpful to others'. PM1 and PRP2 rank the reward in first place, whereas PRP1 and PM2 rank the reward in second place. There is also at least one statistically significant difference between the organisations when it comes to the reward 'autonomy'. Employees at PM1 and PM2 have a higher need for autonomy in the workplace than employees at PRP1 and PRP2, in order to be motivated. However, all of the organisations' employees rank autonomy as among the lowest rewards that motivate them to do their best job. Meanwhile, all of the organisations' employees rank the

intrinsic rewards 'doing work that is helpful to others' and 'good feeling about yourself as a result of the work' in the highest two rankings. Both groups of organisations, PRP and PM, display a preference for intrinsic and nonmonetary rewards to motivate them to do their best work, regardless of their pay systems. Ranking intrinsic motivators in a comparable way strengthens the argument that the employees across these organisations are observationally similar. The control variables analysed in Table 6.4 show that there are statistically significant differences between the organisations in terms of their trade union membership, age, tenure and salary. PM2 has the highest trade union membership, the longest tenures and the oldest employees among all four organisations. PM1 has the highest salaries of the four (Table 6.4).

Table 6-4: Control Variables by Organisation

	PRP1 (N = 108) Mean	PRP2 (N = 84) Mean	PM1 (N = 57) Mean	PM2 (N = 82) Mean	F (sig)
TU Member	.2952	.2262	.2321	.4938	5.912 (.001)**
Full-Time	1.14	1.07	1.07	1.12	.828 (.479)
Age	3.24	2.99	3.07	3.42	2.813 (.039)*
Tenure	2.47	2.86	2.77	3.05	3.304 (.021)*
Salary	3.45	3.05	3.73	3.43	3.885 (.009)**
Education	3.29	3.12	3.05	2.65	2.263 (.081)
Female	.6204	.6905	.5965	.5732	.885 (.449)
Manager	.3889	.3571	.3684	.4024	.142 (.935)
Intention to Leave	.26	.3896	.3333	.3210	1.135 (.335)

Note: **$p<.01$, *$p<.05$

6.2   Employees' Views of the Principle of PRP in NPOs

The next task was to gauge the views of the employees of the two PRP organisations on the principle of using PRP in NPOs. Table 6.5 highlights the results.

Table 6-5: Employees' Views on the Principle of PRP

	PRP1 (N = 267)			PRP2 (N = 129)		
	Agree %	Disagree %	Neither %	Agree %	Disagree %	Neither %
The principle of relating employees' pay to performance is a good one	61.5	16	22.5	57.6	19.2	23.2

Note: In the original questionnaire, this question offered response choices on a five-point Likert scale, from strongly disagree to strongly agree.

It is clear that the majority of employees in both organisations agree with the principle of PRP. However, an open question at the end of the survey gave the employees the opportunity to discuss any other issues they thought relevant and some of the examples of their comments presented below show that a few of them have strongly negative views about PRP. These views suggest that, despite the majority being in agreement with the principle of PRP, a minority believe that it is not an appropriate incentive to be implemented in their organisations, either because the system does not seem to recognise the measurability issues in the services provided or perhaps because the employees feel that money is not the main motivator that makes them work better or harder.

'I fully support the PRP system and agree that those who perform well should be rewarded and those that don't should not. I think increments based on length of service are unfair and do not promote performance and targets' (PRP1 employee).

'PRP1 is not a bad company. It is a shame they have to become more corporate in order to survive in the current climate. Corporate practices do not work in this sort of work. I don't blame PRP1; I think it is a reflection of the state of the country as a whole" (PRP1 employee).

'The idea of performance-related pay within this sector is utterly abhorrent. (…) Some staff have a tougher time with residents than others, which I guess this system does not take into account' (PRP2 employees).

'This kind of thing (PRP) has the capacity to warp people's motivation for doing a good job. I'm really glad the social housing sector has been professionalised over the last few years because it means negligent staff have nowhere to hide, and I've seen them leaving to be replaced by people who really care about vulnerable adults. Now we're being told that we don't care about them, just money. And the clients will suffer because support offered will be manipulated to make it look better than it is' (PRP2 employee).

In order to put a successful PRP scheme in place, an organisation needs to have well-designed PM and appraisal systems. Table 6.6 summarises the results of separate binary logistic regressions performed for PRP1 and PRP2 to investigate the impact of the quality of appraisals on the employees' views on the principle of PRP. Employees' opinions about the use of PRP in NPOs were measured by asking them whether they agreed or disagreed with the statement, 'The principle of relating

employees' pay to performance in NPOs is a good one', with possible responses on a five-point Likert scale from strongly disagree to strongly agree. The responses were transformed into a dummy variable taking values Pro (agree and strongly agree) or Con (disagree, strongly disagree and neither agree nor disagree) PRP. Pro-Con PRP was then used as the dependent variable, while Quality of Appraisal was the independent variable. Quality of Appraisal was measured by asking the employees if they thought their most recent performance appraisal had been a fair reflection of their performance and whether they believed their line managers knew enough about their work to assess their performance. Control variables included in the analysis were Trade Union membership, full-time employment, age, tenure, salary, education, gender, manager and intention to leave. In both organisations, Quality of Appraisal was found to have a positive statistically significant association with Pro-Con PRP. Employees who believed that the quality of appraisals in their organisations was high were in favour of the principle of using PRP in NPOs. At PRP1, salary was positively associated with a favourable opinion of the principle of PRP. At PRP2, age was negatively associated with the PRP principle. Since the majority of employees at both PRP1 and PRP2 agreed with the principle of PRP, it is fair to say that they also believe their organisations have good appraisal systems in place.

Table 6-6: Quality of Appraisal and Employees' Pro and Con Opinions about PRP in NPOs

	PRP1 (N = 257)		PRP2 (N = 125)	
	B	**SE**	**B**	**SE**
Quality of Appraisal	.406*	.181	.734*	.321
TU Member	-.550	.395	-.065	.581
Full-time dummy	-.330	1.000	-2.418	2.114
Age	-.209	.190	-.510*	.300
Tenure dummy	-.049	.171	.189	.273
Salary	.643*	.250	-.188	.353
Education	.105	.096	-.192	.154
Female dummy	.188	.371	-.250	.521
Manager dummy	.333	.533	.817	.752
Intention to Leave	-.790	.472	-.763	.576

Note: *$p < .05$

6.3   The Motivational Effects of PRP and PM in the Case Organisations

This section focuses on the main research question of this thesis: Does PRP increase the motivation of nonprofit employees to perform well at work any more than seniority-based pay in conjunction with PM does? Table 6.7 presents the survey items presented to the employees and the percentages of employees who stated that they were in agreement/disagreement with these motivational effects of PRP/PM.

Table 6-7: Overall Percentages Regarding Motivational Effects of PRP/PM by Organisation

Organisation		Agree %	Disagree %	Neither %
PRP1	PRP gives me an incentive to work beyond the requirements of my job	34.5	39.6	25.9
	PRP makes me want to show more initiative in my job	34.4	34.4	31.2
	PRP gives me a greater incentive to get my work priorities right	36.4	36.5	27.1
	PRP makes me willing to work harder	16.8	51	32.2
	PRP makes me willing to improve the quality of my work	24.5	46.6	28.9
	PRP makes me willing to increase the quantity of work I do	18.3	51	30.7
PRP2	PRP gives me an incentive to work beyond the requirements of my job	27.6	42.3	30.1
	PRP makes me want to show more initiative in my job	22.9	39.3	37.8
	PRP gives me a greater incentive to get my work priorities right	24.5	39.3	36.2
	PRP makes me willing to work harder	28.1	35.2	36.7
	PRP makes me willing to improve the quality of my work	29.1	36.2	34.6
	PRP makes me willing to increase the quantity of work I do	23.1	41.2	35.7
PM1	PM gives me an incentive to work beyond the requirements of my job	35.4	37.8	26.8
	PM makes me want to show more initiative in my job	45.7	25.9	28.4
	PM gives me a greater incentive to get my work priorities right	48.7	29.3	22
	PM makes me willing to work harder	33.3	42	24.7
	PM makes me willing to improve the quality of my work	46.9	29.6	23.5
	PM makes me willing to increase the quantity of work I do	26.9	40.3	32.9
PM2	PM gives me an incentive to work beyond the requirements of my job	34.4	38.8	26.9
	PM makes me want to show more initiative in my job	42.8	24	33.2
	PM gives me a greater incentive to get my work priorities right	53.8	24.2	22
	PM makes me willing to work harder	29.9	39.5	30.6
	PM makes me willing to improve the quality of my work	41.1	27.1	31.8
	PM makes me willing to increase the quantity of work I do	21.2	45.7	33.1

Note: In the original questionnaires, these questions offered response choices on a five-point Likert scale from strongly disagree to strongly agree. Valid percentages were used. N= 598.

A separate covariance analysis (ANCOVA) was performed to compare the motivational effects of PRP and PM in the organisations. Since objective measures of performance were not available, the analysis in this study is confined to identifying whether PRP increases employees' willingness to perform better. The confirmatory factor analysis in Chapter 3 identified two motivation factors: MotivationDiscretion and MotivationEffort. MotivationDiscretion includes the following items:

The existence of PRP/PM gives me an incentive to work beyond the requirements of my job;
The system of PRP/PM makes me want to show more initiative in my job;
PRP/PM gives me a greater incentive to get my work priorities right.

MotivationEffort includes the following items:

PRP/PM makes me willing to work harder;
PRP/PM makes me willing to improve the quality of my work;
PRP/PM makes me willing to increase the quantity of work I do.

The respondents from all four organisations answered the same questions for the motivation scales, and the test of measurement invariance (MI) was performed across the different samples in order to make sure that the scales were measuring the same trait of 'motivation' (Chapter 3). Measurement equivalence was found in the motivation scales across all organisations. MotivationDiscretion and MotivationEffort were taken to be the dependent variables and the organisation was the independent variable. The covariates introduced were the same as those listed above and for all other statistical tests performed in this study. When using

MotivationDiscretion as the dependent variable there is only one statistically significant difference between the organisations ($F_{(3.479)} = 3.62$, $p < .05$) and the difference is only between the PRP organisations: employees in PRP2 are more motivated than employees in PRP1 (Table 6.8). When MotivationEffort was introduced as the dependent variable a statistically significant difference was found between organisations ($F_{(3.476)} = 3.76$, $p < .05$): employees at PM1 are more motivated to exert effort at work than employees at PRP1. It is fair to say that PRP does not motivate nonprofit employees to exert effort or discretion to perform well at work any more than PM with no links to pay does. In fact, in terms of MotivationEffort, the motivational effects of PM are stronger than the motivational effects of PRP.

Table 6-8: MotivationDiscretion and MotivationEffort across Organisations: Analysis of Covariance

Organisation	MotivationDiscretion			MotivationEffort		
	Mean	SD	N	Mean	SD	N
PRP1	9.60[a]	2.29	185	9.29[a]	2.43	185
PRP2	10.32[b]	2.19	104	9.77[ab]	2.46	107
PM1	10.10[ab]	2.44	71	10.18[b]	2.53	70
PM2	10.03[ab]	2.24	119	9.96[ab]	2.63	114
Total	9.94	2.29	479	9.68	2.43	476

Note: Means whose superscripts differ are statistically different according to the Bonferroni test.

Further evidence of the motivational effects of PRP and PM in the case organisations was obtained through asking managers for their views on the motivational effects of PRP and PM on their employees. Managers were asked about the following: whether PRP/PM makes many of their staff go beyond the requirements of the job; whether PRP/PM contributes to many of the staff sustaining

a high level of performance at work; whether PRP/PM contributes to increasing the quality of many of the staff's work; whether PRP/PM contributes to increasing the quantity of work done by many staff; whether PRP/PM contributes to staff getting their priorities right. These questions were combined into a single variable, termed Managers' Views (α = .91). An ANCOVA was then performed to compare the managers' views of the motivational effects of PRP/PM in the organisations (Table 6.9). The results show that there is a statistically significant difference between the organisations ($F_{(4.206)}$ = 8.313, p < .01). Managers at PM1 have a higher, positive opinion about the motivational effects of PRP/PM than those at PRP1 and PRP2. Also, PM2 managers have a higher, positive opinion about the motivational effects of PRP/PM than PRP2 managers.

Table 6-9: Comparison of Managers' Views of the Motivational Effects of PRP/PM: Analysis of Covariance

Organisation	Managers' Views		
	Mean	SD	N
PRP1	3.05[ac]	.81	55
PRP2	2.69[a]	.63	29
PM1	3.73[b]	.61	24
PM2	3.21[bc]	.69	44
Total	3.13	.77	152

Note: Means whose superscripts differ are statistically different according to the Bonferroni test.

Given the results on the motivational effects of PRP when compared with PM, an investigation was conducted of the variables perceived fairness, quota system, goal setting and quality of appraisals in the organisations to try to explain the differences between the motivational effects of PRP and PM.

At this stage, an ANCOVA was performed separately using the above variables as dependent variables to investigate the differences across the organisations (Table 6.10). For Perceived Fairness, employees were asked about the appropriateness of their pay given their contributions and whether their pay was fair compared to that of other employees in similar positions. The covariance analysis shows that there is a statistically significant difference between the organisations ($F(3.483) = 6.10$, $p<.001$): employees at PM1 have higher perceived fairness scores than employees at PRP1 and PRP2, and those at PM2 have higher perceived fairness scores than those at PRP2 (Table 6.10). PRP tends to lead to different pay for employees doing the same work if those employees are judged to have different performance levels. The problem is that employees may have different views to the organisation and thus perceptions of unfairness could diminish the association between the financial incentive and performance (Kanfer 1990). If PRP leads to feelings of unfairness, it is likely that PM without a link to pay may be more motivating for employees. Below are some comments made by employees during the survey process, illustrating perceptions of (un)fairness in the organisations:

> *'I welcome the changes to the pay structure and PRP but feel there are inconsistencies that create tensions and mistrust. The lack of transparency is an issue for staff, as is the fact that managers and senior managers benchmark salaries so differently' (PRP1 employee).*

> *'I think a reward system is good if there is a fair system of evaluation and there is non-competitive, good working environment that genuinely promotes equal opportunity and harmony' (PRP1 employee).*

'I think that, in theory, the reward policy at PRP2 should work. However, in practice I have found that it has not worked. Having worked extremely hard for the organisation and being graded 1 and 2 in my last appraisals, I find that I still have a very similar salary to other workers who do a lot less than myself – and for this reason I have been very demotivated' (PRP2 employee).

For the variable Quota System, employees were asked whether or not they agreed with the following statement: 'Even if my performance is good enough, I doubt I will receive an Outstanding (Grade 1) or Highly Effective (Grade 2)'. This statement was used to try to identify whether a quota system is in operation in the PRP organisations. However, the statement also applies to organisations without PRP: just because appraisals are not linked with pay does not mean that they are free from bias. For example, an employee in a PM organisation may think that they will not get a top grade in their appraisal because they do not have a good relationship with their manager.

The covariance analysis including Quota System as the dependent variable shows that there is a statistically significant difference between the organisations ($F_{(3.438)} = 44.128$, $p < .001$). The employees in the organisations with PRP have a stronger belief in the existence of a quota system for the appraisal grades distributed in their organisation than the employees in the PM organisations (Table 6.10). The lack of adequate funding for PRP in NPOs may lead to the implementation of quota systems to prevent organisations from running out of funding for pay awards to employees. Quota systems may well contribute to perceptions of unfairness in these organisations and weaken the motivational effects of PRP. Below are some of the employees' views of the quota system in PRP organisations:

'I am in favour of the PRP principle but if it is not applied properly it can become a disincentive (…) I have been putting 110% into my job in order to do a good job, then myself and several other high-performing colleagues were told we are graded as 'meeting objectives' as there can't be too many high-performing people in one project. This system therefore served as a disincentive to me. There is no point having a performance-related pay scheme if there is not enough budget to reward hardworking employees' (PRP1 employee).

'There were too many highly effective grades in 2006 and so the rewards were spread too thinly and were not meaningful. This had a negative impact on the way the system is perceived and brought up doubts about whether the majority of highly effective grades were at central office (…) My only real concern is that I do not feel PRP2 put enough money for people to become highly effective' (PRP2 employee).

46.6% of employees at PRP1 agreed (11.7% disagreed) and 62.3% of employees at PRP2 agreed (5.7% disagreed) that the amount of money an individual could get from the PRP award should be substantially increased. The perceptions these employees expressed about a quota system being operated in their organisations, and their dissatisfaction with the amount of money being offered, make it likely that two out of the three conditions of expectancy theory are not being met. However, it is interesting that 41.6% of employees at PRP1 and 32% of employees at PRP2 expressed no opinion on the amount of money being offered by the PRP award. These percentages seem high considering that the amount of money received has a direct impact on the salaries of the employees. The lack of opinion could perhaps be explained by the fact that employees do not feel that money is the main motivation for them to increase their performance. Some of the employees' statements suggest this view: *'I feel that my own work would still be the same standard regardless of*

the PRP and the same is true for much of the staff" (PRP2 employee). Another employee at PRP2 says: *'The reward system isn't a big factor in motivating me at work'*. At PRP1 an employee said: *'I don't think the pay system affects my performance because I am passionate about my job and I am highly motivated by the job itself'*. Another said: *'My experience shows that most of the staff in this sector are mostly already committed and know exactly what is required from them, in spite of benefits'* (PRP1 employee).

Goal setting was measured using items that asked about the SMART criteria followed in the appraisal meetings at the case organisations. The items describe preconditions for the successful introduction of PRP and PM systems. The items used in the goal-setting scale are as follows:

> *The objectives set were clear and measurable;*
> *The objectives focused on issues that I have direct control over;*
> *The meeting provided a good opportunity to discuss my development needs;*
> *I am in a position to achieve the objectives set for me;*
> *I understand how the objectives will be monitored and reviewed.*

Research suggests that PRP can reinforce organisational objectives for employees, enabling clearer goal setting in appraisal meetings (Cannell and Wood 1992). If PRP plays an important role in redirecting employees' efforts towards different goals, then it is expected that it is the link with pay that is responsible for improving goal setting in organisations. The ANCOVA including Goal Setting as the dependent variable shows that there is no statistically significant difference between the organisations ($F(3.435) = 1.322$, $p<.267$) (Table 6.10). The organisations have

developed similar systems of goal setting into their performance appraisals and PRP does not seem to improve goal setting any more than PM without a link to pay.

On the other hand, there is a statistically significant difference between the organisations when comparing the quality of their appraisals ($F(3.440) = 4.912$, $p <.01$). Employees at PRP1 have a lower perception of the quality of appraisals in their organisation than those at either PM1 or PM2. It is worth noting that PM1 has a 360° appraisal system in place. There is no statistically significant difference between PM1, PRP2 and PM2 (Table 6.10). As there is a statistically significant difference between the views of quota systems in the organisations, this is likely to impact upon the beliefs about the quality of the appraisals in the PRP organisations. If someone believes there is a quota system being operated in his/her organisation, he/she is more likely to believe that appraisals are not a fair reflection of performance.

Table 6-10: A Comparison of Perceived Fairness, the Quota System, Goal Setting and the Quality of Appraisals in the Four Organisations Studied: Analysis of Covariance

Organisation	Perceived fairness			Quota System			Goal Setting			Quality of Appraisal		
	Mean	SD	N	Mean	SD	N	Mean	SD	N	Mean	SD	N
PRP1	-.01[ac]	1.02	193	2.50[a]	1.12	184	21.09	3.48	176	-.15[a]	1.06	186
PRP2	-.31[a]	.89	104	2.60[a]	1.11	91	20.75	3.61	97	.01[abc]	.91	85
PM1	.47[b]	1.08	70	3.70[b]	.96	66	21.56	3.16	66	.29[b]	.87	68
PM2	.10[bc]	.97	117	3.77[b]	.88	98	20.24	3.56	97	.18[bc]	.95	102
Total	.02	1.02	484	2.98	1.20	439	20.90	3.50	436	.02	.99	441

Note: Means whose superscripts differ are statistically different according to the Bonferroni test.

The ANCOVA (Table 6.10) compares Perceived Fairness, Quota System, Goal Setting and Quality of Appraisal across the four organisations studied but it does not investigate the effects of these variables on the motivation of employees. For this purpose, multigroup structural equation modelling (SEM) using AMOS was performed. In this analysis, the above variables are used as independent variables (Tables 6.11 and 6.12). The multigroup analysis permits across-group variation to be assessed, in addition to analysing the peculiarities of each of the groups studied (Bou and Satorra 2010). In other words, it does not assume that all respondents come from identical organisations but acknowledges respondents' differences, within each organisation.

If employees believe there is a fair distribution of pay in their organisation and also perceive the quality of goal setting and appraisals to be high, they are more likely to experience the positive motivational effects of PRP. In the same vein, if employees believe there is a quota system for the appraisal grades, it is less likely that they will experience the positive motivational effects of PRP. The same is true for PM organisations. The dependent variable analysed here was MotivationDiscretion (Table 6.11).

Table 6-11: Multigroup Regression Results for MotivationDiscretion by Organisation

	MotivationDiscretion							
	PRP Organisations				Non-PRP Organisations			
	PRP1		PRP2		PM1		PM2	
	B	SE	B	SE	B	SE	B	SE
Perceived Fairness	-.011	.058	-.144	.086	.338***	.074	.174*	.069
Quota System	.011	.033	-.037	.042	-.112*	.046	-.080	.038
Goal Setting	-.151*	.017	-.130	.022	.262**	.026	.381***	.021
Quality of Appraisal	.139*	.055	.244*	.087	.371***	.087	.077	.073
Female	.005	.033	-.017	.042	-.057*	.046	-.043	.038
Manager	-.020	.092	.053	.137	.071	.123	-.052	.105
Age	.054	.036	-.065	.048	-.040	.056	.064	.046
Tenure	.013	.033	-.045	.042	-.146*	.046	-.115	.038
Full-time	.017	.092	.029	.137	.057	.123	-.041	.105
Salary	.058	.036	-.070	.048	-.041	.056	.072	.046
TU Member	.006	.118	.147	.166	-.260**	.173	-.129	.128
Intention to Leave	.004	.033	-.017	.042	-.055*	.046	-.038	.038

Note: N = 617, χ^2=1533.42, *df*=384, χ^2/*df*=3.99
***p<.001, **p<.01, *p<.05

The results in Table 6.11 show that there is a positive statistically significant association between Perceived Fairness and MotivationDiscretion in PM1 and PM2. Goal Setting was found to be negatively associated with MotivationDiscretion in PRP1 and positively associated with MotivationDiscretion in PM1 and PM2.

Quality of Appraisal was found to be positively associated with MotivationDiscretion in PRP1, PRP2 and PM1. Interestingly, Quota System was found to be negatively associated with MotivationDiscretion in PM1. Moreover, even though perceptions that a quota system is in operation in the PRP organisations are much higher than in the PM organisations, the perceived existence of a quota

system does not seem to impact negatively on the motivational effects of PRP for the nonprofit employees. At the time of the surveys, PRP1 had had PRP for all employees for a year and PRP2 for three years. Even though perceptions that there is a quota system do not seem to impact on the motivation of the employees, the question is whether this would remain the case in the long run. It is more likely that the longer perceptions of a quota exist, the more employees will start to feel the demotivational effects of PRP.

Next, MotivationEffort was introduced into the regression analysis as the dependent variable and the independent and control variables remained the same as above (Table 6.12). Perceived Fairness was found to be negatively associated with MotivationEffort at PRP2. This means that employees who have high Perceived Fairness in the organisation have a negative view of the motivational effects of PRP. Perceived Fairness was positively associated with MotivationEffort at PM1 and PM2, perhaps because of the developmental aspect of PM, opposite to PRP. Quota System was negatively associated with MotivationEffort at PM2. In other words, the belief that there is a quota system in place has a negative impact on the motivational effects of PM at PM2. As explained in Chapter 4, the HR Director at PM2 admitted that, even though the organisation provides training to line managers on how to appraise staff, they were experiencing problems related to inconsistency in how appraisals were carried out within the organisation. This could help to explain why Quota System was negatively associated with MotivationEffort at PM2. Goal Setting was again positively associated with MotivationEffort at both PM1 and PM2. No significant association was found between Quality of Appraisal and MotivationEffort in any of the organisations. The control variables Female, Tenure and Intention to

Leave were all found to be negatively associated with MotivationEffort at PM2 (Table 6.12).

Table 6-12: Multigroup Regression Results for MotivationEffort by Organisation

	MotivationEffort							
	PRP Organisations				Non-PRP Organisations			
	PRP1		PRP2		PM1		PM2	
	B	SE	B	SE	B	SE	B	SE
Perceived Fairness	-.070	.061	-.206*	.088	.238*	.085	.232**	.069
Quota System	.007	.034	-.069	.043	-.056	.053	-.131**	.038
Goal Setting	-.077	.018	-.021	.022	.301**	.030	.407***	.021
Quality of Appraisal	.085	.057	.089	.090	.158	.100	.145	.073
Female	.003	.034	-.031	.043	-.028	.053	-.071**	.038
Manager	-.042	.096	.041	.140	.003	.142	-.060	.106
Age	.037	.037	-.055	.049	-.032	.065	.034	.047
Tenure	.007	.034	-.083	.043	-.072	.053	-.188**	.038
Full-time	-.036	.096	.023	.140	.002	.142	-.047	.106
Salary	.040	.037	-.059	.049	-.033	.065	.038	.047
TU Member	.046	.123	.060	.170	-.174	.198	.062	.128
Intention to Leave	.002	.034	-.032	.043	-.027	.053	-.062**	.038

Νοτε:¨N = 617, χ²=1563.91, δφ=384, χ²/δφ=4.07
***p<.001, **p<.01, *p<.05

6.4 Pay Satisfaction in PRP/PM Organisations

During the interviews with HR Directors and Managers in the PRP organisations, one of the reasons given for the introduction of PRP in their organisations was that, under seniority-based pay, they were risking losing good employees who were at the top of their pay scale, because they had stopped receiving their annual incremental increase. They said that implementing PRP had addressed this issue and made their pay more competitive in the labour market. A Chi-square test was conducted for PM1 and PM2 (non-PRP organisations) to find out whether there was a statistically significant difference between employees at the top of their pay scale and employees who intended to leave the organisation. Obviously intention to leave may be related to other factors but this investigation could at least answer whether the HR managers' fears of losing good employees were reasonable.

The test results show that there is no statistically significant link between intention to leave and being at the top of the pay scale at PM1 (X^2 (1) = .719, p > .1). Being at the top of the pay scale does not imply that an employee intends to leave the organisation. The same is true for PM2 (X^2 (1) = .162, p > .1).

It is also relevant to investigate the employees' satisfaction with pay across the organisations, since the promise of an award for good performance in the PRP organisations is likely to increase employees' pay. The ANCOVA using Pay Satisfaction as the dependent variable (Table 6.13) shows that there is a statistically significant difference between the organisations (F(4.946) = 5.579, p < .01). PM1 employees have higher satisfaction with pay than either PRP1's or PRP2's. PM1 and PM2 are not statistically different but PM2 and PRP2 are statistically different: PM2

shows higher pay satisfaction than PRP2. This could be explained by PM1 and PM2 offering higher basic salaries than the PRP organisations. As seen earlier in Table 6.3, PM1 offers the highest salaries of all the organisations. Employees may prefer an increase in their basic pay over the possibility of receiving a bonus for achieving the required results, as Heneman and Young (1991) found in their study of PRP for school managers.

Table 6-13: Pay Satisfaction in the Organisations: Analysis of Covariance

Organisation	Pay Satisfaction		
	Mean	**SD**	**N**
PRP1	3.16[ac]	1.016	204
PRP2	2.88[a]	.936	110
PM1	3.58[b]	.896	73
PM2	3.32[bc]	.947	122
Total	3.20	.987	509

Note: Means whose superscripts differ are statistically different according to the Bonferroni test.

6.5 Appraisal Effect and Incentive Effect on the Motivation of Employees: Checking for Robustness

Because Quality of Appraisal is measured by asking employees if their most recent performance appraisal was a fair reflection of their performance and whether they believe that their line manager knew enough about their work to assess their performance, one could argue as to the possibility of halo effects when investigating the impact of Quality of Appraisal on the motivational effects of PRP. It could be that the positive motivational effects of PRP might be tainted by whether or not an employee believes in the quality of the appraisal system.

A multi-linear regression analysis was performed for the two organisations with PRP; MotivationDiscretion and MotivationEffort were used (separately) as dependent variables and the effect of a good appraisal as the independent variable. Appraisal Effect was measured by computing a binary variable from the variable Quality of Appraisal. The mean of Quality of Appraisal was computed across all employees and if an individual's score for Quality of Appraisal was smaller than the mean, then the binary variable Appraisal Effect was set to 0, otherwise to 1. In other words, the binary variable Appraisal Effect explains whether or not an employee believes that the quality of the appraisal system is high. The results (Table 6.14) show that there is no statistically significant association between Appraisal Effect and the motivational effects of PRP. A belief in the high quality of the appraisal system is not statistically associated with positive motivational effects of PRP. The results suggest that it is unlikely that halo effects could be tainting the motivational effects of PRP.

Table 6-14: Appraisal Effect on the Motivational Effects of PRP

	PRP1 (N = 247)				PRP2 (N = 126)			
	Motivation Discretion		Motivation Effort		Motivation Discretion		Motivation Effort	
	B	SE	B	SE	B	SE	B	SE
Appraisal Effect	.082	.165	.012	.169	.380	.223	.205	.247
TU Member	-.123	.175	-.077	.180	.171	.249	.171	.282
Full-time	.099	.401	.394	.409	.282	.496	.087	.558
Age	.055	.083	.001	.087	.096	.116	.044	.132
Tenure	.059	.072	.069	.073	-.095	.109	-.057	.121
Salary	-.046	.099	-.067	.099	-.197	.142	-.269	.157
Education	.020	.043	.005	.044	.007	.064	-.059	.072
Female	-.078	.163	-.112	.166	.033	.225	.090	.250
Manager	.210	.224	-.009	.224	.290	.323	.376	.364
Intention to Leave	-.121	.204	.007	.209	-.152	.232	.141	.255

Note: PRP1 MotivationDiscretion (R^2 = .025; Adjusted R^2 = -.036) MotivationEffort (R^2 = .016; Adjusted R^2 = -.046); PRP2 MotivationDiscretion (R^2 = .119; Adjusted R^2 = -.011) MotivationEffort (R^2 = .074; Adjusted R^2 = -.059)

It is also important to assess the incentive effect on the motivational effects of PRP to determine whether employees who receive a PRP award are more likely to believe in the motivational effects of PRP. A multilinear regression analysis was performed in the two organisations with PRP and the incentive effect was measured by asking employees how their performance was assessed in their most recent performance appraisal. Employees at PRP1 were asked to choose between *excelled, highly effective, achieving well, meeting objectives, variable, underperforming, not proven.* Employees in the first three categories would have received an award. Employees at PRP2 were asked the same question and had a choice of *outstanding, highly effective, effective, developmental needs, significant shortfall, not proven, not assessed yet.* Employees in the first three categories would have received an award. The responses were transformed into a dummy variable: Gets PRP Award (Table 6.15).

Table 6-15: Incentive Effect on the Motivational Effects of PRP

	PRP1 (N = 247)				PRP2 (N = 126)			
	Motivation Discretion		Motivation Effort		Motivation Discretion		Motivation Effort	
	B	SE	B	SE	B	SE	B	SE
Gets PRP Award	.063	.216	-.112	.216	.524	.324	.444	.346
TU Member	-.169	.171	-.034	.178	.127	.238	.147	.261
Full-time	.497	.376	.682	.384	-.059	.418	-.179	.454
Age	.080	.083	.032	.087	.048	.110	.019	.121
Tenure	.080	.074	.058	.075	-.161	.122	-.160	.131
Salary	-.040	.099	-.050	.098	-.275*	.128	-.250	.137
Education	.029	.042	.005	.043	.026	.062	-.052	.066
Female	-.076	.162	-.109	.166	.248	.207	.159	.223
Manager	.133	.220	-.128	.220	.408	.297	.369	.323
Intention to Leave	-.075	.193	.076	.198	-.092	.215	.106	.228

Note:*$p < .05$; PRP1 MotivationDiscretion ($R^2 = .041$; Adjusted $R^2 = -.018$) MotivationEffort ($R^2 = .035$; Adjusted $R^2 = -.026$)
PRP2 MotivationDiscretion ($R^2 = .094$; Adjusted $R^2 = -.007$) MotivationEffort ($R^2 = .067$; Adjusted $R^2 = -.034$)

The results in Table 6.15 show that there is no statistically significant association between employees getting a PRP award and believing in the motivational effects of PRP. It can be argued here that getting a pay award does not seem to motivate employees in PRP organisations to exert their discretion or increase their efforts any more than employees who do not get the award.

Conclusion

In an attempt to investigate whether PRP is an appropriate incentive scheme for nonprofit employees, it was deemed necessary to first determine whether the employees in all the organisations studied were observationally similar. PSM, affective commitment, job satisfaction and the reward preferences of the employees were the dimensions used here to demonstrate that the employees in all four

organisations are in fact motivationally similar and differ mainly in relation to the pay systems used. The motivational effects of PRP/PM were then investigated in the organisations. Despite the majority of employees in the PRP organisations agreeing with the principle of PRP, PRP had failed to motivate the employees any more than PM without any links to pay. In fact, in terms of the variable MotivationEffort, the motivational effects of PM were found to be stronger than those of PRP. This result was confirmed by the managers' views of the motivational effects of PRP compared to PM. If the managers do not believe that PRP will increase the willingness of their employees to perform, it is unlikely that it will. It was found that the managers in the PM organisations have a higher positive opinion of the motivational effects of PM than the managers in the PRP organisations.

The reasons for the failure of PRP to motivate employees any more than PM could be explained by the fundamental organisational differences between for-profit and nonprofit environments discussed earlier. Limited funding to invest in PRP and an organisational culture that emphasises wage equity, for instance, could be responsible for the results presented here. It is clear that the employees of the PRP organisations investigated here displayed higher feelings of unfairness in relation to their pay systems and also believed that quota systems were in operation at their organisations. Opinions of the quality of the appraisals were also found to be higher in the non-PRP organisations. These differences between the two groups of organisations (PRP and non-PRP) suggest that characteristics inherent in NPOs could make the successful implementation of PRP in the long run difficult. The regression results further demonstrated that goal setting was negatively associated with MotivationDiscretion in PRP1. In the same vein, perceived fairness was negatively

associated with MotivationEffort in PRP2. Employees in PRP2 with positive views of fairness in their organisation do not believe in the motivational effects of PRP to increase their effort. This could be explained by the fact that employees may not see PRP as a system that could bring fairness to the organisation.

However, in PM organisations, the results appear to be quite different. Perceived fairness, goal setting and the quality of appraisals are all positively associated with the MotivationDiscretion effects of PM. MotivationEffort is positively associated with perceived fairness and goal setting. The only result that is difficult to explain is the fact that belief in a quota system is negatively associated with MotivationDiscretion in PM1 and negatively associated with MotivationEffort in PM2. No statistically significant association between the perception that there is a quota system and the motivation of the employees was found in the PRP organisations, despite the fact that the employees in the PRP organisations were more likely to believe that a quota system was being applied in their organisation. Quality of Appraisal was positively associated with MotivationDiscretion in the PRP organisations.

Whether the PM organisations displayed higher pay satisfaction, and the incentive effect on the motivational effects of PRP, was also investigated in this chapter. It was observed that getting a pay award did not seem to have motivated the employees in the PRP organisations to have exerted discretion or effort in order to perform well. The link with pay does not appear to increase the motivation of employees to perform any more then PM does. PM without a link to pay seems to achieve similar motivational effects to PRP, and in some cases, better effects. The results presented here advocate that PRP might not be an appropriate incentive for nonprofit workers.

The next chapter continues the investigation of PRP in NPOs with a larger sample of nonprofits. Chapter 7 uses the WERS 2004 database, containing a random sample of over 100 NPOs, to further investigate whether PRP can have any effect on nonprofit employees' attitudes.

Chapter 7 The Effect of Merit Pay on Worker Satisfaction and Commitment in the Nonprofit Sector – Evidence from the WERS 2004

The empirical analysis undertaken in this chapter is a continuation of the investigation in Chapter 6 and takes advantage of the Workplace Employment Relations Survey (WERS). Here, only the 2004 cross-sectional survey is analysed, as it is the only one that includes a separate category for nonprofit employment, information that is rarely assessed in large-scale surveys. The WERS 2004 allows a representative picture to be built of the relationship between nonprofit work and attitudinal outcomes such as job satisfaction and organisational commitment. It also makes it possible to explore the determinants of such outcomes in detail, as it contains information on large sets of control variables. The WERS 2004 has a sample of 107 NPOs with 1,325 nonprofit employees and its main contribution to this thesis is to provide a broader view, beyond the case study analysis, of the use of PRP in NPOs and its effect on the attitudes of the employees. These NPOs may have different attributes from the cases discussed in Chapter 6 but since they are all defined as NPOs it is reasonable to expect that they will display more similarities than differences. Here, I look at a larger sample of similar organisations to investigate whether the results are consistent with the results presented in Chapter 6, that PRP may not be an appropriate incentive scheme for voluntary sector workers.

7.1   Contents of Survey Instruments – Variables Analysed

Where possible, every effort has been made to use measures that are consistent with those used in Chapter 6. The dependent variables analysed in this chapter are organisational commitment, job satisfaction and pay satisfaction, also discussed in Chapter 6. With the WERS it is not possible to use the same motivation questions from the four cases in HAs, however, I can investigate whether patters of commitment and job satisfaction are similar in a wider sample of nonprofits and whether there is a relationship between PRP and the other variables used in the cases.

Employees were asked to indicate their level of agreement with a series of statements, with response choices on a five-point Likert scale ranging from strongly agree to strongly disagree (Table 7.1). The statements were compiled into a single variable for organisational commitment and another for job satisfaction. In WERS, managers are explicitly asked whether the employees in their organisation are paid by results or receive merit pay. Pay-by-results includes any method of payment where the pay is determined by the amount of work done or its value, rather than just the number of hours worked. When WERS asks managers about merit pay, they are shown a card defining it as 'related to a subjective assessment of individual performance by a supervisor or manager'. Merit pay is the independent variable of interest in this study. It is worth noting, however, that out of the 6,017 employees in WERS with merit pay, only 47.68% have their pay linked to the outcome of a performance appraisal. Therefore, an independent variable 'merit pay with appraisal' was also included in the analysis. This variable is the closest to the definition of PRP used in the analysis of the case studies from the housing sector, and consequently the most relevant for use in this chapter. Dummy variables for sector, nonprofit, public

and private were also generated and are introduced into the analysis as independent variables.

The control variables considered in the analyses are tenure, gender (male), age, education, manager, salary, trade union membership, size of workplace, amount of overtime and number of work-life balance policies on offer. Tenure, age, salary and size of workplace are measured in intervals, from which a scale is created. Gender and trade union membership are dummy variables. The work-life balance policies variable was generated by counting the number of schemes on offer in the work place. This ranged from none to seven. The offer of work-life balance policies in an organisation may well impact on the job satisfaction and commitment of employees (Benz 2005). Finally, education level was determined by consolidating all of the questions on education and training levels. The levels were equated to the National Qualification Framework (NQF) and assigned a number, with the highest number indicating the highest level of education. The WERS management and employee questionnaires were merged to give a full range of control variables and improve the validity of the results.

Table 7-1: List of Main Variables Used in WERS 2004

	WERS
Organisational Commitment (5-point Likert scale)	To what extent do you agree or disagree with the following statements about working here? I share many of the values of my organisation I feel loyal to my organisation I am proud to tell people who I work for
Job Satisfaction (5-point Likert scale)	How satisfied are you with the following aspects of your job? The sense of achievement you get from your work The scope for using your own initiative The amount of influence you have over your job The training you receive The amount of pay you receive Your job security The work itself
Pay Satisfaction (5-point Likert scale)	The amount of pay you receive
Merit Pay (dummy)	Do any of the employees in this establishment get paid by results (PBR) or receive merit pay (MP)? Answer: PBR = 1, MP = 2 (fperf). Shown card: 'Merit pay is related to a subjective assessment of individual performance by a supervisor or manager'.
Merit Pay with Appraisal (dummy)	Is individual employees' pay linked to the outcome of their performance appraisal? (fapppay)

7.2 A Comparison of Employees' Attitudes in Nonprofit, Public and Private Organisations

This thesis proposes that nonprofit workers differ from their public and private counterparts in terms of their values and their motives for working for their organisations (Rawls, Ullrich et al. 1975). Likewise, NPOs attract intrinsically motivated workers who are more likely to receive nonmonetary rewards for their work than for-profit employees (Hansmann 1980; Mirvis and Hackett 1983; Rose-Ackerman 1996; Borzaga and Dependri 2005). These attributes are substantiated by studies showing that workers in NPOs display higher job satisfaction linked to the meaningfulness of their work when compared to for-profit employees. The studies show that workers in NPOs are indeed more motivated than for-profit workers,

204

despite the fact that they are faced with excessive workloads, staff shortages and low pay (Light 2002; Benz 2005). Further to these findings, Almond and Kendall (2000) reveal that nonprofit workers in the UK are much more likely to work unpaid overtime than public and private sector employees, suggesting that nonprofit employees have higher levels of commitment to their organisations. The first step in this chapter is to investigate whether nonprofit employees display higher job satisfaction and commitment than public and private sector employees, to confirm the propositions made earlier in this thesis. Private and public sector organisations make more use of pay-by-performance incentive schemes than NPOs. Therefore, pay satisfaction is also compared between sectors to investigate whether private and public sector employees have higher pay satisfaction than nonprofit sector employees.

Using the WERS 2004 database, three separate linear multilevel regression analyses were performed with STATA using a random intercept model. Job satisfaction, pay satisfaction and organisational commitment were the dependent variables and dummies for private, public and nonprofit sectors the independent variables (Table 7.2). The multilevel model is best suited to this dataset since it allows group-level averages to be estimated. Job satisfaction and organisational commitment are statistically significantly higher among nonprofit workers than private and public sector ones (Table 7.2). Age, manager, salary and the number of work-life balance (WLB) policies on offer have a statistically significant positive association with job satisfaction and commitment. Overtime has a positive statistically significant association with commitment, that is, the higher the number of overtime hours worked, the higher is the organisational commitment of the employees. There is no

statistically significant difference between pay satisfaction and sector. The results presented in Table 7.2 largely confirm the traditional view discussed in this thesis, that nonprofit employees are more satisfied and committed to their work than their counterparts in the private and public sectors.

Table 7-2: Sector Effect on Attitudinal Outcomes: A Multilevel Regression Model

	Job Satisfaction		Pay Satisfaction		Organisational Commitment	
	B	SE	B	SE	B	SE
Private Sector	-.143***	.033	-.041	.051	-.275***	.041
Public Sector	-.117**	.035	-.087	.054	-.189***	.043
Tenure	-.030***	.003	-.054***	.006	-.047***	.005
Gender (male)	-.081***	.011	-.149***	.017	-.112***	.013
Age	.037***	.004	.018**	.006	.058***	.004
Education	-.024***	.002	-.022***	.004	-.008**	.003
Manager	.179***	.011	.084***	.018	.183***	.013
Salary	.021***	.002	.063***	.003	.023***	.002
TU Member	-.118***	.012	-.148***	.019	-.133***	.014
Size of Workplace	-.000***	-.000	-.000**	.000	-.000***	.000
N° of WLB Policies	.085***	.003	.086***	.004	.068***	.003
Overtime	.0003	.0008	-.005***	.001	.004***	.000
Sd(cons)	.238	.007	0.356	.011	.302	.008
Sd(res)	.617	.003	1.04	.005	.742	.004
ICC	.129	.007	.106	.006	.142	.007
Log. likelihood	-19467.865		-31003.838		-23375.982	
N° of employees	19918		20805		20081	
N° of organisations	1721		1726		1722	

Note: Nonprofit Sector is the base line. ***p<.001, **p<.01

7.3 Merit Pay and Appraisal Effect on the Attitudes of Employees in NPOs

This section investigates whether NPOs that make use of merit pay or merit pay with appraisals find that the job satisfaction and commitment of their employees

is any higher than in organisations without merit pay. Table 7.3 shows the number of employees in the nonprofit sector with merit pay and merit pay with appraisals according to WERS 2004.

Table 7-3: Number of Employees with Merit Pay and Merit Pay with Appraisals

	Nonprofit Sector
Merit Pay	225
Merit Pay with Appraisals	99

Source: WERS 2004

Three separate linear multilevel regression analyses were performed with STATA using a random intercept model for the nonprofit sector (Table 7.4). Job satisfaction, pay satisfaction and organisational commitment were the dependent variables and merit pay and merit pay with appraisals were the independent variables. The control variables were the same as those listed for the previous analysis. The results show that there is no statistically significant association between the use of merit pay and either job satisfaction, pay satisfaction or commitment in NPOs. The same is true for merit pay with appraisals. Neither merit pay nor the outcome of the performance appraisal is found to increase job satisfaction, pay satisfaction or the commitment of employees in the nonprofit sector. The number of WLB policies and salary both have a positive statistically significant association with all dependent variables. Age is positively associated with job satisfaction and organisational commitment and manager status is positively associated with job satisfaction. Education and amount of overtime worked are both negatively associated with pay satisfaction.

Table 7-4: Merit Pay and Appraisal Effect on Attitudes of Nonprofit Sector Employees: A Multilevel Regression Model

	Job Satisfaction		Pay Satisfaction		Organisational Commitment	
	B	SE	B	SE	B	SE
MP	-.072	.112	-.058	.211	-.083	.158
MP with Appraisal	.096	.147	-.021	.276	.182	.206
N° of WLB Policies	.088***	.009	.091***	.017	.090***	.012
Tenure	-.012	.014	-.028	.026	-.025	.018
Amount of Overtime	.001	.002	-.015**	.005	.003	.003
TU Membership	-.060	.042	.010	.077	-.083	.054
Gender	-.059	.039	.010	.071	-.061	.049
Age	.059***	.013	.040	.024	.072***	.016
Manager	.127**	.040	-.067	.073	.067	.050
Salary	.016*	.007	.040**	.012	.024**	.008
Education	-.015	.008	-.038**	.014	.006	.010
SizeWorkplace	-2.64e-05	3.12e-05	-6.21e-06	5.88e-05	-3.62e05	4.41e05
Sd(cons)	.205	.025	.392	.046	.302	.033
Sd(res)	.550	.011	1.01	.021	.686	.014
ICC	.122	.027	.129	.027	.162	.031
Log. likelihood	-995.21129		-1785.0254		-1284.2825	
N° of employees	1156		1208		1178	
N° of organisations	93		94		94	

Note: ***p<.001, **p<.01, *p<.05

The WERS also collects data on organisational performance using subjective measures of performance. These measures are financial performance, productivity and the quality of the product/service and they are framed in terms of the performance of the workplace relative to its competitors. I also investigated merit pay and the organisational performance of the employees of NPOs. However, due to a very small number of observations in the nonprofit sector, the results were

considered unreliable to be reported here. One explanation could be that managers in NPOs may not have data on these measures, or even make use of them, as it may be difficult to capture the performance of a NPO in the same way as for a for-profit organisation.

Conclusion

This chapter provides support for the results found in the study of housing associations presented in Chapter 6. There are 94 nonprofit organisations and over 1,100 nonprofit workers included in the analysis, bringing a much larger number of cases into the discussion. Here, it has been confirmed that nonprofit workers display higher job satisfaction and organisational commitment than workers in the public and private sectors, suggesting that nonprofit employees may indeed have different values and motivations than their public and private counterparts. Moreover, and perhaps more importantly, neither merit pay nor merit pay with appraisals has any statistically significant association with either job satisfaction, pay satisfaction or organisational commitment in NPOs. The use of merit pay in nonprofits does not contribute to any increase in job satisfaction, pay satisfaction or organisational commitment above that found in organisations without merit pay. These results are consistent with the findings in Chapter 6.

Chapter 8   Conclusion

This thesis set out to explore the use of PRP in housing associations in England. First, it investigated whether PRP could contribute to increasing the nonprofit employee's motivation to perform well at work. Second, given the system's innefectives in motivating employees, it inquired why housing associations have introduced PRP for their workforce. Housing associations are defined as independent NPOs providing support for people in housing need as well as key community services to society. They have been central, along with others in the nonprofit sector, in government reforms to promote and reinforce the sector's involvement in public service delivery. The long process of change, from having a secondary role in the provision of social housing to the extensive first-hand delivery of public services, means that housing associations have been subject to an increasingly demanding regime of performance management and inspection as a condition of providing services on behalf of the state. That is what makes them an interesting case to be studied. Performance management reforms, driven by the best value review, led to the explicit use of measures of performance that place greater emphasis on output controls. Now fully embedded in HAs, they encourage a business-like attitude to the management of their services.

As seen earlier, increased state regulation influences the way NPOs operate their human resource management and, consequently, conformity with private sector managerial practices has been identified. This concluding chapter uses the case study findings to provide summarised answers to the research questions. It reflects the framework of the research approach by focusing on incentive and institutional theory perspectives in order to address the suitability of PRP to NPOs. After reviewing the

key findings of the results presented in the last three chapters, this chapter will then discuss the contributions of this thesis to the literature and to practice. Finally, the limitations of the thesis will be discussed, and directions for future research outlined.

8.1   Summary of Key Findings

8.1.1   Does PRP Increase the Motivation of Nonprofit Employees to Perform Well?

It is never possible to be completely certain of how successful a pay scheme will be before it is in place; nevertheless, there are ways of assessing its chances of fitting and succeeding in an organisation. This was the initial step taken in this thesis. First, I looked at the incentive and nonprofit sector theories to try to establish a framework suitable for analysing PRP in NPOs. The compelling logic for linking pay to performance as a means of motivation is based on several assumptions: that organisations can accurately measure individual outputs, that individual outputs contribute to organisational performance, and that pay can be administered in a way that provides an incentive to the employees receiving it. These assumptions are difficult to satisfy in practice, particularly in relation to the nonprofit environment. There is considerable uncertainty associated with the translation of agent behaviour into outcomes, even more so in the case of NPOs where there is a multiplicity of potentially conflicting objectives generated by a diversity of stakeholders. The services provided by NPOs are often intangible, making measuring the fulfilment of organisational goals more difficult. Moreover, funding constraints, and difficulties attracting volunteers and donors, suggest that performance might not only be related to employees' efforts. Additionally, the non-distribution component of nonprofits explains the unique characteristics of their employees and how NPOs are able to

produce socially desirable outcomes and attract an intrinsically motivated workforce willing to exchange extrinsic rewards for the opportunity to contribute to a social cause. In NPOs, workers are motivated by aspects of the job itself, as well as the opportunity to accomplish moral and ideological aspirations by doing work that is helpful to others. The behaviour of nonprofit workers can help to diminish the effort-monitoring problem highlighted in the incentive literature, as they have different motivations that fit well with the characteristics of NPOs.

Another way of assessing the chances that PRP will succeed in NPOs is to look at the success or failure of similar PRP schemes in other organisations. In this thesis, the public sector was used as a benchmark to evaluate how well PRP may fit and consequently succeed in NPOs. NPOs have some inherent features shared by public sector organisations, which are more likely to make PRP problematic. The multiplicity of stakeholders, the often-intangible objectives, as well as budget constraints, are some of the features of both nonprofit and public sector organisations. The empirical research on PRP in the public sector presented here signals the challenges involved in making PRP viable in NPOs. The results of the study of nonprofit housing associations in this thesis are consistent with the theoretical framework presented in Chapters 1 and 2.

The main research question of this study is whether PRP can motivate nonprofit employees to perform well at work. In order to answer this question effectively, a series of measures were taken to attenuate possible biases. Organisations from the same geographical area were invited to participate in the study. Selecting all cases from London helped to minimise differences in labour characteristics and the level of pay of employees. All of the organisations chosen have a very similar client base and

compete for contracts to provide services in the same London boroughs. Two organisations without PRP agreed to take part in the study, and functioned as a control group, which allowed for a comparison of the motivational effects of PRP and the motivational effects of PM that is not linked to pay. The PM and PRP schemes in the organisations were also reviewed to determine whether they included structural features that would, on theoretical and empirical grounds, make PRP more likely to succeed. The interviews with managers and the documents gathered suggested that the schemes were indeed well implemented in the organisations, and followed many of ACAS's advice regarding good practice.

In the survey, PSM, affective commitment and job satisfaction were the measures used to determine whether employees in the four organisations were motivationally similar to one another and differed mainly with respect to the pay system used. The reward preferences of the employees was also examined and the results showed that employees in the four HAs were observationally equivalent, that there were no statistically significant differences in their PSM, commitment or job satisfaction, and that they also ranked intrinsic rewards in similar ways. These measures were paramount in attenuating possible biases in the examination of the motivational effects of PRP.

The motivational effects of PRP/PM were then investigated in the organisations. Motivation refers here to a willingness or preparedness to do something, and the statements used to measure the motivational effects of PRP and PM were in line with what the managers in the organisations believed were the behaviours expected of employees as a result of the PRP and PM systems. The CFA of the measure of motivation confirmed the existence of two factors in the scale: MotivationDiscretion

and MotivationEffort. They are consistent with the different types of employee behaviour necessary to increase performance in the organisations. Specifically, they refer to a willingness to exert discretion or judgement when performing tasks, and a willingness to exert effort, such as working harder or increasing the quantity of work done (Katz 1964; Gagne and Deci 2005).

The variables MotivationDiscretion and MotivationEffort were compared across the organisations and the results suggested that PRP did not increase the employees' motivation any more than did PM without any links to pay. In fact, in terms of the variable MotivationEffort, the motivational effects of PM were found to be stronger than those of PRP. The managers in the PM organisations also reported a higher positive opinion of the motivational effects of PM on their employees than did the managers in the PRP organisations regarding PRP. Moreover, and perhaps most importantly, in the PRP organisations, the results showed that employees who received the PRP award were no more motivated to perform well than were employees who did not receive the PRP award.

The results also demonstrated that employees in the PRP organisations had higher scores for perceived unfairness and believing that a quota system was in place, and significantly lower opinions regarding the quality of appraisals in their organisations, than those in the PM organisations. These results are consistent with the view that fundamental organisational differences between for-profit and nonprofit environments do exist. Budget constraints in NPOs are more likely to contribute to an imposed quota on the number of high appraisal grades issued to employees. In fact, the employees in the PRP organisations indicated suspicions of this in the open question at the end of the survey. The results showed that the organisations differed

significantly in terms of measures of perceived fairness, quota systems and the quality of appraisals, but goal setting was not found to be significantly different between organisations. Despite the results in the PRP organisations, only perceived fairness and goal setting had negative associations, with MotivationEffort and MotivationDiscretion, respectively. In the PM organisations, perceived fairness, goal setting, and the quality of appraisals were all positively associated with motivation. The quota system was the only odd result. Even though perceptions that a quota system was in operation were found to be much higher in the PRP organisations than in the PM organisations, the perceived existence of a quota system did not seem to impact negatively on the motivational effects of PRP for the nonprofit employees. However, it did show a negative association with MotivationDiscretion in PM1 and a negative association with MotivationEffort in PM2. Nonetheless, these results do not affect the conclusion of this thesis, that PRP had not motivated the nonprofit employees in the case organisations any more than PM had.

The results presented in Chapter 6 lead to the natural question of whether one can generalise from the four cases studied in this thesis. Chapter 7 attempted to answer this question and continued the investigation of the use of PRP in NPOs in a larger sample of nonprofits. The WERS 2004 has a sample of 107 NPOs and provided a broader view, beyond the case study analysis, of the use of PRP in NPOs and its effect on the attitudes of the employees. Although it was not possible to use the same motivation questions used in the HAs, using the variables organisational commitment, job satisfaction and pay satisfaction, which were also used in the cases, allowed me to explore whether these attitudinal outcomes are similar in a wider sample of nonprofits, and whether there is a relationship between PRP and these variables, thus offering a comparison with the case results.

The results of the investigation using the WERS database were consistent with those in Chapter 6. First, a comparison of attitudinal outcomes in the private, public and nonprofit sectors confirmed that nonprofit workers display higher job satisfaction and organisational commitment than workers in the public and private sectors, suggesting that nonprofit employees may indeed have different values and motivations than their public and private counterparts. Second, the results showed that the use of PRP in nonprofits did not contribute to any increase in job satisfaction, pay satisfaction or organisational commitment, above that found in organisations without PRP. The results of the larger sample of nonprofits from the WERS thus supported the claims made in Chapter 6.

8.1.2 Why Do HAs Use PRP?

I embarked on an investigation of why housing associations have introduced PRP. In particular, what influenced their decision to implement PRP for their employees? These questions were posed in an attempt to challenge agency theory explanations for the use of PRP in NPOs. The analysis of the data from the interviews presented in Chapter 5 showed that the need to conform with market practice in order to gain legitimacy was one of the reasons why HAs had introduced PRP for their employees. Government reforms coupled with performance-based regimes have contributed to an environment of restricted funding and increased competition for contracts to provide public services, and consequently have altered the management of human resources in HAs. The results point to HAs conforming with best practice in pay decisions in order to cope with the uncertain climate.

Other reasons for choosing PRP were also discussed in the interviews. The need to change the culture of the organisation and cost control were raised by both senior management in the PRP organisations and reward consultants. However, these reasons are deeply rooted in the need to cope with the uncertain environment in which HAs now operate. The desire to change the organisation's culture is influenced by tighter controls and performance standards being introduced for HAs by funding bodies. The choice of PRP is in line with the emergence of performance measures in the sector because PRP sends a strong message to employees about the importance that their employer places on performance. HAs have tried to change their culture in order to adopt, mimic and maintain organisational legitimacy through an alignment with political concerns and a shift in business focus (Hofstede 1997).

Cost control could be interpreted in the same way. Two of the HAs studied here explained that they had moved away from the NJC scales due to finding them unaffordable. Funding restrictions, a result of government reforms, has meant that HAs cannot afford local authority pay increases, and implementing PRP was seen as a way of taking control of the pay bill. This is further evidenced by the small pay increments offered to employees in the PRP awards. The PM organisations had, on average, an annual incremental increase of 3% for all employees, while the PRP organisations had annual pay increases between 1.25% and 5%, with only a very small percentage of employees receiving the top amount of 5%. NPOs are known for their budget constraints, and small pay awards are a consequence of that. However, under PRP, they are not required to make any extra payments on top of the basic award, which covers the cost of living. In addition, the amount of money in the PRP fund will vary annually, depending on funding, fundraising etc. In this way, the PRP

organisations are not tied to pay increments they are unable to afford, and are more in control of their wage bills.

Benchmarking mechanisms were also identified in the interviews. Senior management and reward consultants suggested that benchmarking was common practice in the sector, and a relevant tool used to aid reward decisions in housing associations. PRP was said to be implemented in housing associations because it fits the type of organisation they would like to become, and because it matches the best practice being implemented elsewhere, regardless of the different operational environments involved. The results presented in Chapter 5 pointed to the powerful influence of mimetic and normative pressures in the introduction of PRP in HAs, while the consideration of the alignment of principal and agents' interests did not appear to be a factor influencing the reward decisions in the organisations.

8.2   Contributions to the Literature and to Practice

Research examining performance in NPOs has mainly been carried out at the organisational level and has concentrated on the healthcare system (Gray 1999; Brown 2002; Chou 2002; Ballou 2005). At the employee level, most studies focus their attention on executive pay (Baber, Daniel et al. 2002; Gray and Benson 2003; Bender 2004). This thesis advances the previous work on NPOs by addressing the issue of motivation and performance for the average nonprofit worker. Moreover, this research contributes to the incentive literature and sheds light on how far incentives can be applied more generally in different operating environments.

Expectancy theory (Vroom 1964) is a common justification for the use of PRP, whereby motivation is determined by the employee's belief in his capabilities, his perception of instrumentality between behaviour and outcome, and the value of this outcome for him. These conditions are, perhaps, more easily implemented in situations where rewards can be closely linked to performance, and where financial incentives are abundant. The nonprofit sector presents a different operating environment, where financial rewards are less abundant, and multiple goals, other than profit making, make it difficult to closely link pay to performance. This thesis proposes that the characteristics of the nonprofit sector indicate that expectancy theory conditions cannot be fully implemented in these types of organisations.

In addition, expectancy and agency theories advocate that the employee is not able to internalise the employer's goals, and that linking the employee's pay to his performance at work is the only way that the interests of the employee and the employer can be aligned. The theories assume that the worker is a rational maximiser of personal utility, and applying PRP in the nonprofit sector relies on the assumption that nonprofit employees will, invariably, focus their efforts on extrinsic rewards. The study of HAs has allowed me to investigate these assumptions more closely within the nonprofit environment. Nonprofit employees ranked their reward preferences similarly in all four case organisations, and intrinsic rewards were ranked among the highest. The investigation of the larger sample of nonprofits using WERS also shed light on how the motivations of nonprofit and for-profit employees differ and, furthermore, on how PRP does not appear to contribute to positive attitudinal outcomes in the nonprofit sector.

Another important contribution of this study is the adoption of institutional theory as an alternative to explain the use of PRP in housing associations. The results of this research add to the general body of evidence about why organisations use PRP. The uncertainty and turbulence that constitute the operating environment of the HAs make the introduction of PRP more symbolic than instrumental. It is used to accommodate institutional pressures and signal to funding bodies a more business-like attitude. This study of PRP in HAs supports a number of findings in the literature with respect to the influence of institutional pressures on reward decisions (Eisenhardt 1989; Bender 2004; Fernandez-Alles 2006). This research work suggests that the consideration of reward decisions in NPOs goes beyond the monitoring and control conceptualised in agency theory.

Eventhough managers in the PRP organisations said that they implemented the new system to motivate their employees to perform better in the workplace, much of the drive behind the changes in pay can be explained by institutional pressures faced by these organisations. The evidence suggests that the new pay arrangements were clearly seen by PRP1 and PRP2 as sending important messages about the type of company they wanted to be. Managers were less concerned with any concrete evidence that PRP had enhanced motivation, and more concerned with the legitimacy that the pay system could bring to their organisation. This view is reinforced by the ineffectiveness of PRP as a motivator for employees.

Evidence of institutional isomorphism was found in the interviews with managers and reward consultants. Market competition, restricted funding, normative pressures from HR members and consultants have led to the implementation of PRP in housing

associations. This exploration of why HAs introduced PRP provides additional insight into the existent body of work on pay systems.

This thesis advances the literature by offering an important dimension in the study of motivation and performance in NPOs. It argues that mimetic, normative and coercive pressures lead to the choice of PRP in this sector, rather than the expectancy and agency theory considerations that make PRP a suitable pay system for nonprofits. Moreover, the combination of theories, incentive and institutional, has led to a more complete understanding of institutionally driven behaviour in HAs, and the consequences of the use of PRP in NPOs. This work also makes an empirical contribution by providing evidence on the practices and responses of housing associations regarding how they react to government reforms and market-based competition. The strength of the case study approach, based on real events, gives a direct insight into how pay decisions work in practice.

This thesis also presents some implications for practice. The results may prompt managers in organisations to reflect more carefully on what is influencing their reward decisions, and point out that they need to be assessing the risks rather than conforming passively to 'best practices'. Not only reward decisions, but also human resource practices more generally, need to be investigated closely so as to try to provide a good fit to the characteristics of NPOs and their employees. The results may also provide funding bodies and government officials with a better understanding of the impact of reforms and regulatory intervention on the operating environments of NPOs and their implications for human resource management in these organisations.

8.3 Limitations of this Thesis and Future Research

Despite the interesting findings and attempts to abbreviate possible weaknesses, a number of limitations of this study must be acknowledged. The main limitation arises from the sampling of the organisations. Several NPOs were contacted at the end of 2007. Initially, seven came forward for a first meeting to discuss the research aims and potential implications for the participating organisations. Three organisations, due to time constraints, and one that was going through a process of organisational change at the time, declined the invitation to participate in the study. The other four organisations agreed to take part in the study after the initial meeting. It is clear that this is not a random sample of organisations, and we should translate these findings to other nonprofits with care. However, I chose them because they provided a suitable context for the key investigation of this thesis, into how PRP functions in NPOs.

Additionally, extending the investigation to a larger sample of nonprofits, provided by the WERS 2004 database, allowed me to explore whether the answers found in my cases were also consistent with the answers found in other NPOs. The results from the WERS made it possible to address, at least to a certain extent, the sampling issue and questions of generalisation. Another important point that deserves consideration is that, if PRP fails to motivate employees in housing associations, a type of organisation that has become more professionalised and performance-driven due to government reforms, it is unlikely that it will succeed in other types of nonprofits that are perhaps less performance-driven than HAs.

Another limitation of this quantitative research is the use of self-report questionnaires. Spector (1994) suggests that these can lead to contamination effects, as employees respond to items with potential biases, such as trying to portray a different image from the reality. To try to address the problem, this research promised complete anonymity in order to combat issues of social desirability. The second research question, the investigation of why NPOs use PRP for their employees, leads to another limitation of the study. Other authors (Miles and Huberman 1994) have suggested that, in qualitative research, one should try to increase the sample size in order to try to identify a greater variety of similarities and/or differences across the sample. In this thesis, four interviews with management, two in each PRP organisation, were carried out. In addition to those, four reward consultants with experience in the nonprofit sector were interviewed to provide a complementary perspective to the answers offered by the senior managers of the HAs. Other reward consultants were approached and invited to take part in the study but were not available for interview. The important fact here is that, although the choice of consultants was intended to be purposeful and provide a complementary perspective to the answers of the managers, there might be some element of bias in the findings due to the self-selecting nature of participation in the study. The question of whether or not these results can be replicated in other NPOs is an avenue for future research.

The institutional change that is part of the new governance structure shows significant challenges, such as cuts to public funding and many NPOs struggling to keep services open. This new context provides a compelling argument for further research in NPOs, to deepen our understanding of how these organisations are establishing human resource practices to deal with this time of austerity. Further

studies including other types of NPOs may also help us to learn about how other nonprofits cope with market competition. Studies on how NPOs are able to balance their structure of intrinsic and extrinsic rewards could also further the literature on incentives, and to achieve that, a wider sample of nonprofits, and perhaps the inclusion of a comparative sample of for-profit organisations, may be necessary.

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Appendices

APPENDIX 1

Means, Standard Deviations and Correlations

Variables	Mean	SD	N	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
1.MotivationDiscretion	.0	1	582																							
2.MotivationEffort	.0	1	579	.778																						
3.Goal Setting	.0	1	521	.119	.119																					
4.Perceived Fairness	.0	1	576	.104	.063	.354																				
5.Quality of Appraisal	.0	1	536	.181	.140	.627	.317																			
6.Quota system	.0	1	531	.099	.052	.247	.252	.387																		
7.Affective Commitment	.0	1	532	.106	.066	.313	.272	.274	.136																	
8.PSM	.0	1	482	.062	.100	.124	.022	.038	-.021	.302																
9.Job Satisfaction	.0	1	549	.134	.094	.550	.517	.467	.263	.517	.128															
10.Pay Satisfaction	.0	1	609	.128	.082	.259	.766	.299	.259	.300	.025	.532														
11.Managers' Views	.0	1	183	.178	.210	.396	.323	.339	.185	.365	.197	.440	.318													
12.Appraisal Effect	.529	.499	536	.177	.134	.462	.242	.801	.294	.165	.064	.350	.215	.272												
13.Pro_conPRP	.602	.490	382	-.018	-.035	.250	.117	.262	.132	.148	-.019	.296	.126	.403	.248											
14.Gets PRP Award	.351	.477	373	.074	.024	-.212	-.218	-.135	.104	-.206	-.028	-.236	-.191	-.298	-.021	-.091										
15.Trade Union Member	.352	.478	604	-.073	-.023	-.132	-.013	-.104	.029	.040	.145	-.070	.010	-.018	-.054	-.143	.117									
16.Full Time Employment	.926	.260	602	-.019	-.037	-.005	-.021	-.025	-.054	.010	-.037	.018	-.040	-.055	-.028	.009	-.023	-.031								
17.Age	3.34	1.035	599	.062	.042	-.094	-.015	-.067	.019	.221	.116	-.015	.021	.060	-.052	-.104	-.019	.292	-.018							
18.Tenure	2.82	1.266	597	-.030	-.004	-.063	.002	-.006	.044	.079	.013	-.055	.052	.039	.083	-.032	.144	.277	-.085	.355						
19.Salary	3.29	1.125	583	-.017	-.066	.011	.184	.075	.119	.202	.052	.176	.225	.051	.061	.184	-.053	-.023	.146	.254	.200					
20.Education	2.96	1.786	603	.063	.039	.063	.051	-.026	.003	.017	-.005	.059	.081	.064	-.047	-.022	.049	.030	-.035	.089	-.032	.035				
21.Gender (Female)	.597	.490	611	-.003	-.016	-.019	.012	.041	.016	-.103	-.127	.046	.009	-.048	.041	.034	-.073	-.049	-.127	-.224	-.105	-.072	-.050			
22.Manager	.320	.466	612	.016	-.053	.038	.094	.081	.107	.181	-.016	.149	.157	-.140	.102	.206	.000	-.045	.044	.096	.171	.643	-.010	-.061		
23.Intention to Leave	.274	.446	579	-.082	-.062	-.195	-.159	-.204	-.089	-.414	-.066	-.411	-.168	-.252	-.138	-.121	.192	-.080	-.053	-.111	.018	-.014	-.066	.006	.029

APPENDIX 2

Survey Questionnaires

Reward System at PRP1

Thank you very much for your help answering this survey. The questionnaire should take no longer than 15 minutes to fill in. Please send the completed questionnaire as soon as possible.

_ _

1. I would like to start by asking you why did you take your current job? (Please choose all that apply).

It pays well compared with similar jobs.

It was an opportunity to contribute to an important cause.

It was the first job that came along at that time.

It was convenient for personal reasons.

It was a career opportunity within the sector.

Other

_ _

2. Which of the following statements best describes how you think of your current job at PRP1? (Please choose one).

A long term job I would like to stay in.=1

An opportunity for career advancement within PRP1.=2

Part of a career or profession that will probably take me to different organisations.=3

A job I will eventually leave because is not part of my career.=4

I don't know.=5

Other=6

_ _

3. Please tell me whether you agree or disagree with the following statements:

To me, before anything, good citizens should think of society.

Serving the community interest is an important drive in my daily life.

I voluntary contribute to my community.

To me, helping people who are in trouble is very important.

I rarely think about the welfare of other people whom I do not know personally.

Without solidarity our society is certain to fall apart.

Fighting poverty is an important duty of the homelessness sector.

To me, patriotism includes seeing to the welfare of others.

Much of what I do is for a cause bigger than myself.

I am prepared to make sacrifices for the good of society.

I feel people should give back to society more than they get from it.

Making a difference in society means more to me than personal achievements.

Everybody is entitled to a good service, even if it costs a lot of money to provide it.

It is important that nonprofit organisations account for all the costs they make.

Efficient management is essential for nonprofit organisations.

_ _

4. People have different personal preferences about rewards that motivate them to do their best work. Please rank the following rewards from 1 to 9 in order of how important they are to you with "1" being the most important and "9" being the least important to you.

Higher pay than you have now.

Doing work that is helpful to other people.

Recognition from your organisation (awards, praise etc).

Job security.

Career progression.

A good feeling about yourself as a result of your work.

Making decisions and exerting an important influence on your organisation.

Training and development of your abilities and skills at work.

Having autonomy at my job.

_ _

5. Please tell me how satisfied or dissatisfied are you with the following aspects of your own job at PRP1?

What you earn.

Doing work that helps other people.

The recognition you get from PRP1 (awards, praise etc).

Your job security.

Your career prospects at PRP1.

A good feeling about yourself as a result of your work.

Making decisions and exerting an important influence on PRP1.

Training and development of your abilities and skills at work.

The autonomy you have at your job.

_ _

6. I would now like to ask you some questions about the reward system at PRP1. Please tell me whether you agree or disagree with the following statements.

I am paid adequately for my responsibilities and experience.

In comparison with people in similar jobs in other charities, I feel my pay is reasonable.

In comparison with people in similar positions at PRP1, I feel my pay is reasonable.

The current pay system has a positive effect on employee productivity.

I am satisfied with the benefits provided by PRP1.

The benefits package that I receive is not as good as most available in the nonprofit sector.

_ _

7. Do you intend to leave PRP1 in the next 12 months?

Yes=1

No=0

_ _

8. I would now like to ask you about the Performance-related Pay at PRP1. Please tell me whether you agree or disagree with the following statements:

The principle of relating employees' pay to performance in nonprofit organisations is a good one.

The idea of Performance-related Pay is fundamentally unfair.

247

Communications between staff and management have been improved as a result of Performance-related Pay.

The trouble with Performance-related Pay is that a good appraisal by the line manager is often overruled by someone higher up.

People get a good appraisal mark not so much because of their performance but because managers want to reward their favorites.

Staff are denied the appraisal mark they deserve because there is not enough money to pay a high award to everyone.

Performance-related Pay has made managers set work targets more clearly.

Performance-related Pay has meant that good work is at last recognized and rewarded.

Performance-related Pay has helped to undermine staff morale.

_ _

9. I would like to know how the existence of Performance-related Pay affects you personally. Please tell me whether you agree or disagree with the following statements:

The existance of Performance-related Pay (PRP) gives me an incentive to work beyond the requirements of my job.

PRP reduces my wish to cooperate with management.

The system of PRP makes me want to show more initiative in my job.

The existance of PRP encourages me to give sustained high performance at work.

PRP gives me a greater incentive to get my work priorities right.

The PRP system has no effect on the quality of my work because my work is already at the appropriate standard.

PRP gives me an incentive to express myself at work with greater clarity.

PRP gives me an incentive to be more effective in my dealings with clients (the homeless).

PRP has made me willing to work harder.

PRP has significantly raised my motivation at work.

PRP has made me willing to improve the quality of my work.

PRP has made me willing to increase the quantity of work I do.

_ _

10. I would like to ask you about the link between pay and the Performance Development Review. Please tell me whether you agree or disagree with the following statements:

Linking Pay with the Performance Development Review results in a fairer allocation of pay.

The link undermines my confidence in the Performance Development Review.

The link makes me take the Performance Development Review more seriously.

The link is problematic because it is hard to relate the work done in homeless norprofit organisations to individual performance.

_ _

11. I would now like to ask you about your most recent Performance Development Review. Please tell me whether you agree or disagree with the following statements:

The meeting with my line manager helped to establish specific objectives for the coming year.

The objectives set were clear and measurable.

The objectives focused on issues which I have direct control over.

The meeting helped to relate my objectives to wider objectives at PRP1.

The meeting provided a good opportunity to discuss my development needs.

I am in a position to achieve the objectives set to me.

I understand how the objectives will be monitored and reviewed.

_ _

12. I would now like to ask you about your most recent Performance Development Review related to your annual appraisal result. Please tell me whether you agree or disagree with the following statements:

I am satisfied with my most recent appraisal result.

My most recent Performance Review was a fair reflection of my performance.

I understand why I was given my most recent appraisal result.

Even if my performance is good enough, I doubt I will receive an Excelled (E).

The amount of money an individual gets from a Performance-related Pay award should be substantially increased.

My line manager knows enough about my work to assess my performance accurately.

I have trust in the effectiveness of the Performance Development Review at PRP1.

The Performance Review is only a matter of ticking boxes.

The Performance Review helps to identify low performers and deals with the problem effectively.

‒ ‒

13. Are you an appraiser? (If you appraise staff).

Yes=1

No=0

‒ ‒

14. I would now like to ask you about the impact of Performance-related Pay on your staff. Please tell me whether you agree or disagree with the following statements:

The existance of Performance-related Pay has made many of the staff to work beyond the requirements of their job.

PRP has contributed to many staff giving sustained high performance at work.

PRP has contributed to increase the quality of work of many of the staff.

PRP has contributed to increase the quantity of the work of many staff.

PRP has contributed to staff to get their work priorities right.

PRP has made many of the staff more committed to their work.

PRP has reduced autonomy and participation of employees.

‒ ‒

15. I would like to ask you how was your performance assessed in your most recent Performance Development Review. Please choose one of the following options:

Excelled (E) = 7

Highly Effective (H) = 6

Achieving Well (A) = 5

Meeting Objectives (M) = 4

Variable (V) = 3

Under Performing (U) = 2

Not Proven (N) = 1

‒ ‒

16. I would like to ask you what would you have given to yourself in your most recent Performance Review. Please choose one of the following options:

Excelled (E) = 7

Highly Effective (H) =6

Achieving Well (A) =5

Meeting Objectives (M) =4

Variable (V) =3

Under Performing (U) =2

Not Proven (N) =1

——

17. I would now like to ask you about the training and development at PRP1. Please tell me whether you agree or disagree with the following statements:

I receive the training and development I need to perform my job well.

I am satisfied with the training and development I receive at PRP1.

I have the opportunity to discuss with my manager the training and development I need to improve my performance.

I have the opportunity to discuss with my manager the training and development I need to progress on my career at PRP1.

——

18. I would now like to ask you about your general feelings towards PRP1. Please tell me whether you agree or disagree with the following statements:

I would be happy to spend the rest of my career at PRP1.

I feel as if PRP1's problems are my own.

I feel "part of the family" at PRP1.

Being at PRP1 means a great deal to me.

I feel as if my project's problems are my own.

I feel "part of the family" at my Project.

One of the major reasons I continue to work for PRP1 is that leaving now would require considerable personal sacrifice; another organisation may not match the overall rewards I have here.

Even if it were to my advantage, I do not feel it would be right to leave PRP1 now.

——

19. Finally, I would like to ask you some personal information. I stress again that it will be treated as strictly confidential.

Are you Male or Female?

Male.=1

Female.=0

——

20. Are you a manager?

Yes.=1

No.=0

——

21. Where do you work?

Housing and care West. = 1

Housing and care Central. = 2

Housing and care East. = 3

Homelessness and Tenancy Sustainment. = 4

Central Support functions (including Maintenance, Business Development, HR, Strategy and Performance, Finance, IT, Office services). = 5

Housing Management. = 6

——

251

22. Are you:
Full-time staff. =1
Part-time staff. = 2
Temporary staff. = 3

_ _

23. How old are you?

Under 20 = 1
20-29 =2
30-39 =3
40-49 =4
50-59=5
60 or more=6

_____

24. How long have you been working for PRP1?

Less than 1 year. = 1
1 to less than 2 years. =2
2 to less than 5 years. =3
5 to less than 10 years. =4
10 years or more. =5

_____

25. What is your current annual salary?

£16,121 - £18,720 =1
£18,721 - £22,360 =2
£22,361 - £28,080=3
£28,081 - £35,360=4
£35,361 - £45,240=5
£45,241 - or more=6

_____

26. What is your highest qualification?

Certificate = 1
BA/BSc = 2
MA/MSc/MBA = 3
PhD = 4
No academic qualification = 5
Other = 6

_____

27. Where was your previous job?

Charity/Nonprofit sector. = 1
Private sector. =2
Public sector.=3
Self-employed.=4
This is my first job.=5

_____

28. Are you a member of a trade union?

Yes=1
No=0

_____

29. I f you have any additional comments about the reward system at PRP1, or any other issue you consider to be important to this survey, please add them here. Your comments are of great value for this study. Thank you.

Reward System at PRP2

Thank you very much for your help answering this survey. The questionnaire should take no longer than 12 minutes to fill in. Please send the completed questionnaire as soon as possible.

_ _

1. I would like to start by asking you why did you take your current job? (Please choose all that apply).

It pays well compared with similar jobs.

It was an opportunity to contribute to an important cause.

It was the first job that came along at that time.

It was convenient for personal reasons.

It was a career opportunity within the sector.

Other

_ _

2. Which of the following statements best describes how you think of your current job at PRP2? (Please choose one).

A long term job I would like to stay in.

An opportunity for career advancement within PRP2.

Part of a career or profession that will probably take me to different organisations.

A job I will eventually leave because is not part of my career.

I don't know.

Other

_ _

3. Please tell me whether you agree or disagree with the following statements:

To me, before anything, good citizens should think of society.

Serving the community interest is an important drive in my daily life.

I voluntary contribute to my community.

To me, helping people who are in trouble is very important.

I rarely think about the welfare of other people whom I do not know personally.

Without solidarity our society is certain to fall apart.

Fighting poverty is an important duty of the homelessness sector.

To me, patriotism includes seeing to the welfare of others.

Much of what I do is for a cause bigger than myself.

I am prepared to make sacrifices for the good of society.

I feel people should give back to society more than they get from it.

Making a difference in society means more to me than personal achievements.

Everybody is entitled to a good service, even if it costs a lot of money to provide it.

It is important that nonprofit organisations account for all the money they receive.

Efficient management is essential for nonprofit organisations.

_ _

4. People have different personal preferences about rewards that motivate them to do their best work. Please rank the following rewards from 1 to 9 in order of how important they are to you with "1" being the most important and "9" being the least important to you. Please use all numbers between 1 and 9 only once each.

Higher pay than you have now.

Doing work that is helpful to other people.

Recognition from your organisation (awards, praise etc).

Job security.

Career progression.

A good feeling about yourself as a result of your work.

Making decisions and exerting an important influence on your organisation.

Training and development of your abilities and skills at work.

Having autonomy at my job.

_ _

5. Please tell me how satisfied or dissatisfied are you with the following aspects of your own job at PRP2?

What you earn.

Doing work that helps other people.

The recognition you get from PRP2 (awards, praise etc).

Your job security.

Your career prospects at PRP2.

A good feeling about yourself as a result of your work.

Making decisions and exerting an important influence on PRP2.

Training and development of your abilities and skills at work.

The autonomy you have at your job.

_ _

6. I would now like to ask you some questions about the reward system at PRP2. Please tell me whether you agree or disagree with the following statements.

I am paid adequately for my responsibilities and experience.

In comparison with people in similar jobs in other charities, I feel my pay is reasonable.

In comparison with people in similar positions at PRP2, I feel my pay is reasonable.

The current pay system has a positive effect on employee productivity.

I am satisfied with the benefits provided by PRP2.

The benefits package that I receive is not as good as most available in the nonprofit sector.

_ _

7. Do you intend to leave PRP2 in the next 12 months?

Yes

No

_ _

8. I would now like to ask you about the Performance-related Pay system at PRP2. Please tell me whether you agree or disagree with the following statements:

The principle of relating employees' pay to performance in nonprofit organisations is a good one.

The idea of Performance-related Pay is fundamentally unfair.

Communications between staff and management improved as a result of Performance-related Pay.

The trouble with Performance-related Pay is that a good appraisal by the line manager is often overruled by someone higher up.

People get a good appraisal mark not so much because of their performance but because managers want to reward their favorites.

Staff are denied the appraisal mark they deserve because there is not enough money to pay a high award to everyone.

Performance-related Pay makes managers set work targets more clearly.

Performance-related Pay means that good work is at last recognized and rewarded.

Performance-related Pay helps to undermine staff morale.

_ _

9. I would like to know how the existence of Performance-related Pay affects you personally. Please tell me whether you agree or disagree with the following statements:

The existance of Performance-related Pay (PRP) gives me an incentive to work beyond the requirements of my job.

PRP reduces my wish to cooperate with management.

The system of PRP makes me want to show more initiative in my job.

The existance of PRP encourages me to give sustained high performance at work.

PRP gives me a greater incentive to get my work priorities right.

The PRP system has no effect on the quality of my work because my work is already at the appropriate standard.

PRP gives me an incentive to express myself at work with greater clarity.

PRP gives me an incentive to be more effective in my dealings with clients (the homeless).

PRP makes me willing to work harder.

PRP significantly raises my motivation at work.

PRP makes me willing to improve the quality of my work.

PRP makes me willing to increase the quantity of work I do.

_ _

10. I would like to ask you about the link between pay and the Performance Appraisal. Please tell me whether you agree or disagree with the following statements:

Linking Pay with the Performance Appraisal results is a fairer allocation of pay.

The link undermines my confidence in the Performance Appraisal.

The link makes me take the Performance Appraisal more seriously.

The link is problematic because it is hard to relate the work done in homeless norprofit organisations to individual performance.

_ _

11. I would now like to ask you about your most recent Performance Appraisal meeting. Please tell me whether you agree or disagree with the following statements:

The meeting with my line manager helped to establish specific objectives for the coming year.

The objectives set were clear and measurable.

The objectives focused on issues which I have direct control over.

The meeting helped to relate my objectives to wider objectives at PRP2.

The meeting provided a good opportunity to discuss my development needs.

I am in a position to achieve the objectives set to me.

I understand how the objectives will be monitored and reviewed.

_ _

12. I would now like to ask you about your most recent Performance Appraisal result. Please tell me whether you agree or disagree with the following statements:

I am satisfied with my most recent Performance Appraisal result.

My most recent Performance Appraisal grade was a fair reflection of my performance.

I understand why I was given my most recent Performance Appraisal grade.

Even if my performance is good enough, I doubt I will receive an Outstanding (Grade 1) or Highly Effective (Grade 2).

The amount of money an individual gets from a Performance-related Pay award should be substantially increased.

My line manager knows enough about my work to assess my performance accurately.

I have trust in the effectiveness of the Performance Appraisal System at PRP2.

The Performance Appraisal is only a matter of ticking boxes.

The Performance Appraisal at PRP2 helps to identify low performers and deals with the problem effectively.

_ _

13. Are you an appraiser? (If you appraise staff).

Yes

No

_ _

14. I would now like to ask you about the impact of Performance-related Pay on your staff. Please tell me whether you agree or disagree with the following statements:

The existance of Performance-related Pay (PRP) makes many of the staff to work beyond the requirements of their job.

PRP contributes to many staff giving sustained high performance at work.

PRP contributes to increase the quality of work of many of the staff.

PRP contributes to increase the quantity of the work of many staff.

PRP contributes to staff to get their work priorities right.

PRP makes many of the staff more committed to their work.

PRP reduces autonomy and participation of employees.

_ _

15. I would like to ask you how was your performance assessed in your most recent Performance Appraisal. Please choose one of the following options:

Outstanding (1)

Highly Effective (2)

Effective (3)

Development Needs (4)

Significant Shortfall (5)

Not Proven (6)

I have not been assessed yet.

_ _

16. I would like to ask you what would you have given to yourself in your most recent Performance Appraisal. Please choose one of the following options:

Outstanding (1)

Highly Effective (2)

Effective (3)

Development Needs (4)

Significant Shortfall (5)

Not Proven (6)

I have not been assessed yet.

_ _

17. I would now like to ask you about the training and development at PRP2. Please tell me whether you agree or disagree with the following statements:

I receive the training and development I need to perform my job well.

I am satisfied with the training and development I receive at PRP2.

I have the opportunity to discuss with my manager the training and development I need to improve my performance.

I have the opportunity to discuss with my manager the training and development I need to progress on my career at PRP2.

_ _

18. I would now like to ask you about your general feelings towards PRP2. Please tell me whether you agree or disagree with the following statements:

I would be happy to spend the rest of my career at PRP2.

I feel as if PRP2's problems are my own.

I feel "part of the family" at PRP2.

Being at PRP2 means a great deal to me.

I feel as if my project's problems are my own.

I feel "part of the family" at my Project.

One of the major reasons I continue to work for PRP2 is that leaving now would require considerable personal sacrifice; another organisation may not match the overall rewards I have here.

Even if it were to my advantage, I do not feel it would be right to leave PRP2 now.

_ _

19. Finally, I would like to ask you some personal information. I stress again that it will be treated as strictly confidential.

Are you Male or Female?

Male.

Female.

_ _

20. Are you a manager?

Yes.

No.

_ _

21. Where do you work?

Central House

CP Partnering

Services

_ _

22. Are you:

Full-time staff.

Part-time staff.

Temporary staff.

_ _

23. How old are you?

Under 20

20-29

30-39

40-49

50-59

60 or more

_ _

24. How long have you been working for PRP2?

Less than 1 year.

1 to less than 2 years.

2 to less than 5 years.

5 to less than 10 years.

10 years or more.

——

25. What is your current annual salary?

£16,121 - £18,720

£18,721 - £22,360

£22,361 - £28,080

£28,081 - £35,360

£35,361 - £45,240

£45,241 - or more

——

26. What is your highest qualification?

Certificate

BA/BSc

MA/MSc/MBA

PhD

No academic qualification

Other

——

27. Where was your previous job?

Charity/Nonprofit sector.

Private sector.

Public sector.

Self-employed.

This is my first job.

——

28. Are you a member of a trade union?

Yes

No

——

29. I f you have any additional comments about the reward system at PRP2, or any other issue you consider to be important to this survey, please add them here. Your comments are of great value for this study. Thank you.

Reward System at PM1

Thank you for your help answering this survey. The questionnaire should take no longer than 15 minutes to fill in. Please send the completed questionnaire as soon as possible.

‒ ‒

1. I would like to start by asking you why did you take your current job? (Please choose all that apply).

a) It pays well compared with similar jobs.

b) It was an opportunity to contribute to an important cause.

c) It was the first job that came along at that time.

d) It was convenient for personal reasons.

e) It was a career opportunity within the sector.

f) Other

‒ ‒

2. Which of the following statements best describes how you think of your current job at PM1? (Please choose one).

A long term job I would like to stay in.

An opportunity for career advancement within PM1.

Part of a career or profession that will probably take me to different organisations.

A job I will eventually leave because is not part of my career.

I don't know.

Other

‒ ‒

3. Please tell me whether you agree or disagree with the following statements:

a) To me, before anything, good citizens should think of society.

b) Serving the community interest is an important drive in my daily life.

c) I voluntary contribute to my community.

d) To me, helping people who are in trouble is very important.

e) I rarely think about the welfare of other people whom I do not know personally.

f) Without solidarity our society is certain to fall apart.

g) Fighting poverty is an important duty of the homelessness sector.

h) To me, patriotism includes seeing to the welfare of others.

i) Much of what I do is for a cause bigger than myself.

j) I am prepared to make sacrifices for the good of society.

k) I feel people should give back to society more than they get from it.

l) Making a difference in society means more to me than personal achievements.

m) Everybody is entitled to a good service, even if it costs a lot of money to provide it.

n) It is important that charities account for all the costs they make.

o) Efficient management is essential for charitable organisations.

‒ ‒

4. People have different personal preferences about rewards that motivate them to do their best work. Please rank the following rewards from 1 to 9 in order of how important they are to you with "1" being the most important and "9" being the least important to you.

a) Higher pay than you have now.

b) Doing work that is helpful to other people.

c) Recognition from your organisation (awards, praise etc).

d) Job security.

e) Career progression.

f) A good feeling about yourself as a result of your work.

g) Making decisions and exerting an important influence on your organisation.

h) Training and development of your abilities and skills at work.

i) Having autonomy at my job.

_ _

5. Please tell me how satisfied or dissatisfied are you with the following aspects of your own job at PM1?

What you earn.

Doing work that helps other people.

The recognition you get from PM1 (awards, praise etc).

Your job security.

Your career prospects at PM1.

A good feeling about yourself as a result of your work.

Making decisions and exerting an important influence on PM1.

Training and development of your abilities and skills at work.

The autonomy you have at your job.

_ _

6. I would now like to ask you some questions about the reward system at PM1. Please tell me whether you agree or disagree with the following statements.

I am paid adequately for my responsibilities and experience.

In comparison with people in similar jobs in other charities, I feel my pay is reasonable.

In comparison with people in similar positions at PM1, I feel my pay is reasonable.

The current pay system has a positive effect on employee productivity.

I am satisfied with the benefits provided by PM1.

The benefits package that I receive is not as good as most available in the charity sector.

_ _

7. Are you already on the top of your pay scale? (if you do not receive anymore annual incremental increases).

Yes = 1

No = 0

_ _

8. Do you intend to leave PM1 in the next 12 months?

Yes = 1

No = 0

_ _

9. I would like to know how the existence of Performance Management (annual appraisal, supervision etc) affects you personally. Please tell me whether you agree or disagree with the following statements:

The existance of Performance Management gives me an incentive to work beyond the requirements of my job.

Performance Management reduces my wish to cooperate with management.

The system of Performance Management makes me want to show more initiative in my job.

The existance of Performance Management encourages me to give sustained high performance at work.

263

Performance Management gives me a greater incentive to get my work priorities right.

The Performance Management system has no effect on the quality of my work because my work is already at the appropriate standard.

Performance Management gives me an incentive to express myself at work with greater clarity.

Performance Management gives me an incentive to be more effective in my dealings with clients (the homeless).

Performance Management makes me willing to work harder.

Performance Management at PM1 is only a matter of ticking boxes.

Performance Management reduces my autonomy and participation in my work environment.

Performance Management contributes to increase my motivation at work.

Performance Management makes me willing to improve the quality of my work.

Performance Management makes me willing to increase the quantity of work I do.

Performance Management at PM1 identifies low performers and deals with the problem effectively.

_ _

10. I would like to ask you about your most recent Annual Appraisal at PM1. Please tell me whether you agree or disagree with the following statements:

The meeting with my line manager helped to establish specific objectives for the coming year.

The objectives set were clear and measurable.

The objectives focused on issues which I have direct control over.

The meeting helped to relate my objectives to wider objectives at PM1.

The meeting provided a good opportunity to discuss my development needs.

I am in a position to achieve the objectives set to me.

I understand how the objectives will be monitored and reviewed.

_ _

11. I would now like to ask you about your most recent annual appraisal results. Please tell me whether you agree or disagree with the following statements:

I am satisfied with my last appraisal result.

My most recent annual appraisal was a fair reflection of my performance.

I understand why I was given my most recent appraisal result.

Even if my performance is good enough, I doubt I will receive a 4 or 5 (Exceeds expectations/Outstanding).

My line manager knows enough about my work to assess my performance accurately.

I have trust in the effectiveness of the annual appraisal system.

_ _

12. Are you an appraiser? (If you appraise staff).

Yes = 1

No = 0

_ _

13. I would now like to ask you about the impact of Performance Management (annual appraisal, supervision etc) on your staff. Please tell me whether you agree or disagree with the following statements:

The existance of Performance Management (PM) causes many of the staff to work beyond the requirements of their job.

PM contributes to many staff giving sustained high performance at work.

PM contributes to increase the quality of work of many of the staff.

PM contributes to an increase in the quantity of work many staff do.

PM contributes to staff to get their work priorities right.

PM makes many of the staff more committed to their work.

PM reduces autonomy and participation of employees.

— —

14. I would now like to ask you about the training and development at PM1. Please tell me whether you agree or disagree with the following statements:

I receive the training and development I need to perform my job well.

I am satisfied with the training and development I receive at PM1.

I have the opportunity to discuss with my manager the training and development I need to improve my performance.

I have the opportunity to discuss with my manager the training and development I need to progress on my career at PM1.

— —

15. I would now like to ask you about your general feelings towards PM1. Please tell me whether you agree or disagree with the following statements:

I would be happy to spend the rest of my career at PM1.

I feel as if PM1's problems are my own.

I feel "part of the family" at PM1.

Being at PM1 means a great deal to me.

I feel as if my project's problems are my own.

I feel "part of the family" at my Project.

One of the major reasons I continue to work for PM1 is that leaving now would require considerable personal sacrifice; another organisation may not match the overall rewards I have here.

Even if it were to my advantage, I do not feel it would be right to leave PM1 now.

— —

16. Finally, I would like to ask you some personal information. I stress again that it will be treated as strictly confidential.

Are you Male or Female?

Male. = 1

Female. = 0

— —

17. Are you a manager?

Yes. = 1

No. = 0

— —

18. Where do you work?

Central services.=1

Services delivery.=2

Matrix services.=3

— —

19. Are you:

Full-time staff.=1

Part-time staff.=2
Temporary staff.=3

_____

20. How old are you?
Under 20=1
20-29=2
30-39=3
40-49=4
50-59=5
60 or more=6

_____

21. How long have you been working for PM1?
Less than 1 year.=1
1 to less than 2 years.=2
2 to less than 5 years.=3
5 to less than 10 years.=4
10 years or more.=5

_____

22. What is your current annual salary?
£16,121 - £18,720=1
£18,721 - £22,360=2
£22,361 - £28,080=3
£28,081 - £35,360=4
£35,361 - £45,240=5
£45,241 - or more=6

_____

23. What is your highest qualification?
Certificate=1
BA/BSc=2
MA/MSc/MBA=3
PhD=4
No academic qualification=5
Other=6

_____

24. Where was your previous job?
Charity/Nonprofit sector.=1
Private sector.=2
Public sector.=3
Self-employed.=4
This is my first job.=5

_____

25. Are you a member of a trade union?
Yes=1
No=0

_ _

26. I f you have any additional comments about the reward system at PM1, or any other issue you consider to be important to this survey, please add them here. Your comments are of great value for this study. Thank you.

Reward System at PM2

Thank you for your help answering this survey. The questionnaire should take no longer than 12 minutes to fill in. Please send the completed questionnaire as soon as possible.

— —

1. I would like to start by asking you why did you take your current job? (Please choose all that apply).

It pays well compared with similar jobs.

It was an opportunity to contribute to an important cause.

It was the first job that came along at that time.

It was convenient for personal reasons.

It was a career opportunity within the sector.

Other

— —

2. Which of the following statements best describes how you think of your current job at PM2? (Please choose one).

A long term job I would like to stay in.=1

An opportunity for career advancement within PM2=2

Part of a career or profession that will probably take me to different organisations.=3

A job I will eventually leave because is not part of my career.=4

I don't know.=5

Other=6

— —

3. Please tell me whether you agree or disagree with the following statements:

To me, before anything, good citizens should think of society.

Serving the community interest is an important drive in my daily life.

I voluntary contribute to my community.

To me, helping people who are in trouble is very important.

I rarely think about the welfare of other people whom I do not know personally.

Without solidarity our society is certain to fall apart.

Fighting poverty is an important duty of the homelessness sector.

To me, patriotism includes seeing to the welfare of others.

Much of what I do is for a cause bigger than myself.

I am prepared to make sacrifices for the good of society.

I feel people should give back to society more than they get from it.

Making a difference in society means more to me than personal achievements.

Everybody is entitled to a good service, even if it costs a lot of money to provide it.

It is important that charities account for all the money they receive.

Efficient management is essential for charitable organisations.

— —

4. People have different personal preferences about rewards that motivate them to do their best work. Please rank the following rewards from 1 to 9 in order of how important they are to you with "1" being the most important and "9" being the least important to you. Please use all numbers from 1 to 9 only once each.

Higher pay than you have now.

Doing work that is helpful to other people.

Recognition from your organisation (awards, praise etc).

268

Job security.

Career progression.

A good feeling about yourself as a result of your work.

Making decisions and exerting an important influence on your organisation.

Training and development of your abilities and skills at work.

Having autonomy at my job.

_ _

5. Please tell me how satisfied or dissatisfied are you with the following aspects of your own job at PM2?

What you earn.

Doing work that helps other people.

The recognition you get from PM2 (awards, praise etc).

Your job security.

Your career prospects at PM2.

A good feeling about yourself as a result of your work.

Making decisions and exerting an important influence on PM2.

Training and development of your abilities and skills at work.

The autonomy you have at your job.

_ _

6. I would now like to ask you some questions about the reward system at PM2. Please tell me whether you agree or disagree with the following statements.

I am paid adequately for my responsibilities and experience.

In comparison with people in similar jobs in other charities, I feel my pay is reasonable.

In comparison with people in similar positions at PM2, I feel my pay is reasonable.

The current pay system has a positive effect on employee productivity.

I am satisfied with the benefits provided by PM2.

The benefits package that I receive is not as good as most available in the charity sector.

_ _

7. Are you already on the top of your pay scale? (if you do not receive anymore annual incremental increases).

Yes=1

No=0

_ _

8. Do you intend to leave PM2 in the next 12 months?

Yes=1

No=0

_ _

9. I would like to know how the existence of Performance Management (annual appraisal, supervision, monthly managerial meetings etc) affects you personally. Please tell me whether you agree or disagree with the following statements:

The existance of Performance Management gives me an incentive to work beyond the requirements of my job.

Performance Management reduces my wish to cooperate with management.

The system of Performance Management makes me want to show more initiative in my job.

The existance of Performance Management encourages me to give sustained high performance at work.

Performance Management gives me a greater incentive to get my work priorities right.

The Performance Management system has no effect on the quality of my work because my work is already at the appropriate standard.

Performance Management gives me an incentive to express myself at work with greater clarity.

Performance Management gives me an incentive to be more effective in my dealings with clients (the homeless).

Performance Management makes me willing to work harder.

Performance Management at PM2 is only a matter of ticking boxes.

Performance Management reduces my autonomy and participation in my work environment.

Performance Management contributes to increase my motivation at work.

Performance Management makes me willing to improve the quality of my work.

Performance Management makes me willing to increase the quantity of work I do.

Performance Management at PM2 identifies low performers and deals with the problem effectively.

_ _

10. I would like to ask you about your most recent Annual Appraisal at PM2. Please tell me whether you agree or disagree with the following statements:

The meeting with my line manager helped to establish specific objectives for the coming year.

The objectives set were clear and measurable.

The objectives focused on issues which I have direct control over.

The meeting helped to relate my objectives to wider objectives at PM2.

The meeting provided a good opportunity to discuss my development needs.

I am in a position to achieve the objectives set to me.

I understand how the objectives will be monitored and reviewed.

_ _

11. I would now like to ask you about your most recent annual appraisal results. Please tell me whether you agree or disagree with the following statements:

I am satisfied with my last appraisal result.

My most recent annual appraisal was a fair reflection of my performance.

I understand why I was given my most recent appraisal result.

Even if my performance is good enough, I doubt I will receive a 1 or 2 (Exceeded or achieved).

My line manager knows enough about my work to assess my performance accurately.

I have trust in the effectiveness of the annual appraisal system.

_ _

12. I would like to ask you how was your performance assessed in your most recent Annual Appraisal. Please choose one:

Exceeded=4

Achieved=3

Below=2

Not acceptable=1

_ _

13. I would now like to ask you what would you have given to yourself in your most recent Annual Appraisal. Please choose one:

Exceeded=4
Achieved=3
Below=2
Not acceptable=1

_ _

14. Are you an appraiser? (If you appraise staff).

Yes=1

No=0

———————————————————————————————

15. I would now like to ask you about the impact of Performance Management (annual appraisal, supervision, monthly managerial meetings etc) on your staff. Please tell me whether you agree or disagree with the following statements (respond only if you appraise staff):

The existance of Performance Management (PM) causes many of the staff to work beyond the requirements of their job.

PM contributes to many staff giving sustained high performance at work.

PM contributes to increase the quality of work of many of the staff.

PM contributes to an increase in the quantity of work many staff do.

PM contributes to staff to get their work priorities right.

PM makes many of the staff more committed to their work.

PM reduces autonomy and participation of employees.

———————————————————————————————

16. I would now like to ask you about the training and development at PM2. Please tell me whether you agree or disagree with the following statements:

I receive the training and development I need to perform my job well.

I am satisfied with the training and development I receive at PM2.

I have the opportunity to discuss with my manager the training and development I need to improve my performance.

I have the opportunity to discuss with my manager the training and development I need to progress on my career at PM2.

———————————————————————————————

17. I would now like to ask you about your general feelings towards PM2. Please tell me whether you agree or disagree with the following statements:

I would be happy to spend the rest of my career at PM2.

I feel as if PM2's problems are my own.

I feel "part of the family" at PM2.

Being at PM2 means a great deal to me.

I feel as if my project's problems are my own.

I feel "part of the family" at my Project.

One of the major reasons I continue to work for PM2 is that leaving now would require considerable personal sacrifice; another organisation may not match the overall rewards I have here.

Even if it were to my advantage, I do not feel it would be right to leave PM2 now.

———————————————————————————————

18. Finally, I would like to ask you some personal information. I stress again that it will be treated as strictly confidential.

Are you Male or Female?

Male.=1

Female.=0

———————————————————————————————

19. Are you a manager?

272

Yes.=1
No.=0

_____

20. Where do you work?
Central services.=1
Operational services.=2

_____

21. Are you:
Full-time staff.=1
Part-time staff.=2
Temporary staff.=3

_____

22. How old are you?
Under 20=1
20-29=2
30-39=3
40-49=4
50-59=5
60 or more=6

_____

23. How long have you been working for PM2?
Less than 1 year.=1
1 to less than 2 years.=2
2 to less than 5 years.=3
5 to less than 10 years.=4
10 years or more.=5

_____

24. What is your current annual salary?
£16,121 - £18,720=1
£18,721 - £22,360=2
£22,361 - £28,080=3
£28,081 - £35,360=4
£35,361 - £45,240=5
£45,241 - or more=6

_____

25. What is your highest qualification?
Certificate=1
BA/BSc=2
MA/MSc/MBA=3
PhD=4
No academic qualification=5
Other=6

_____

26. Where was your previous job?

273

Charity/Nonprofit sector.=1
Private sector.=2
Public sector.=3
Self-employed.=4
This is my first job.=5

_ _

27. Are you a member of a trade union?
Yes=1
No=0

_ _

28. I f you have any additional comments about the reward system at PM2, or any other issue you consider to be important to this survey, please add them here. Your comments are of great value for this study. Thank you.

Cover Letter to Managers

Date, Year

Dear (name of manager),

I am doing a PhD at the LSE and I am writing to ask your help in a study of reward systems in charities in the UK. I have contacted four organisations in the homeless sector, (names of organisations), to take part in the study. Your organisation has been very kind in supporting my research work and (name of HR Director) has provided me with your contact details. This research gives an opportunity to charity employees to discuss reward/payment systems in the sector and will influence future research in this field.

Within the next few days all employees at (Organisation name) will receive an email with a link to an online survey which they can complete and send it to me at the LSE. I would like to ask for your help in distributing the cover letters in this pack to all your employees and to encourage them to complete the online survey. I kindly ask you to distribute the letters before the end of this week, as the survey will be running from the week commencing 17 September. The cover letter explains the aims of this research and asks for their contributions. All questionnaire responses will be treated as strictly confidential and all the responses will be directed to me. A report with the findings of the research will be available and all employees can have a copy of the report if they wish to.

I would like to take this opportunity to thank you in advance for your help during the process of data collection and If you have any further questions please do not hesitate to contact me on mendesde@lse.ac.uk. Your support is very much appreciated and of paramount importance for the success of this study.

Thank you very much for your time and I look forward to receiving your responses.

Best wishes,

Bethania Mendes de B. Antunes
Employment Relations and Organisational Behaviour Group
London School of Economics and Political Sciences/LSE
Houghton Street
WC2A 2AE

Cover Letter to Employees

Date, year

Dear (Organisation name) Employee,

I am doing a PhD at the LSE and I am writing to ask your help in a study of reward/payment systems in charities in the UK. The research work I am developing at the LSE aims to contribute to a better understanding of the process of formulation and implementation of reward systems in nonprofit organisations and whether they motivate staff to achieve organisational goals. The Charity sector is very much in evidence in the UK and increases in size, scope, roles and responsibilities. Therefore it is of paramount relevance to study what directions are taken by the sector in terms of payment systems.

Four organisations in the homeless sector are taking part in the research. (names of organisations taking part). They have been chosen for their importance and contributions made to the homeless sector. Your organisation has been very kind in supporting my research work and I would like to ask for your help in completing the online survey. This research gives an opportunity to charity employees to discuss reward/payment systems in the sector and will influence future research in this field.

Within the next few days you will receive an email subject **'Reward Systems at (Organisation name)'** with a short introduction of the study and a link to the survey which you can complete it online. I will be sending the online survey to all organisations taking part in the study and I hope very much that you will find the questions relevant and interesting. All questionnaire responses will be treated as strictly confidential and managers at (Organisation name) will not have access to the data collected. All the responses will be directed to me at the LSE.

I would like to take this opportunity to thank you in advance for your contribution and emphasize how important your answers are for the success of this study. If you have any further questions please do not hesitate to contact me on mendesde@lse.ac.uk. A report with the findings of the research will be available and if you are interested in a copy please do email me.

I hope that you will all wish to complete the survey questionnaire. Thank you very much for your time.

Best wishes,

Bethania Mendes de B. Antunes
Employment Relations and Organisational Behaviour Group
London School of Economics and Political Sciences/LSE

Houghton Street
WC2A 2A

Survey Email to Employees

Dear (name of organisation) Employee,

I would like to ask for your help in a study of reward systems in charities in the UK. This study aims to contribute to a better understanding of the process of formulation and implementation of reward systems in charities and whether they motivate staff to achieve organisational goals.

Four organisations in the homeless sector are taking part in this research. (name of organisations taking part). You have been chosen for your importance and contributions made to the homeless sector. This research gives an opportunity to nonprofit employees to discuss reward/payment systems in the sector and will influence future research in this field.

Below is a link to the survey which you can complete online. Once you click on the link it should take you no longer than 12 minutes to complete it. All questionnaire responses will be treated as strictly confidential and managers at (organization name) will not have access to the data collected. All the responses will be directed to me at the LSE.

 [S]

I hope very much that you will find the questions relevant and interesting and I would like to take this opportunity to thank you in advance for your contribution and emphasize how important your answers are for the success of this study.

Thank you very much for your time,

Bethania Mendes de B. Antunes
Employment Relations and Organisational Behaviour Group
London School of Economics and Political Sciences/LSE
Houghton Street
WC2A 2AE

This link is unique to you. Please do not forward it.

Letter to Participating Charities

(Name of HR Director)

HR Director

(Address)

Re: Bethania Mendes de Brito Antunes (200524663)

Date, year

Dear Ms (name of HR Director),

I am writing to confirm that Ms Bethania Mendes de Brito Antunes is currently registered as a PhD Student in the Employment Relations and Organisational Behaviour Group, Department of Management at the London School of Economics and Political Science. Ms Antunes supervisor is David Marsden.

The purpose of Bethania's research is to analyse the reward systems adopted in charities in the United Kingdom and its relevance in retaining and motivating employees to achieve organisational goals. The research will involve interviews and a survey questionnaire for members of staff in the charities wishing to take part. Any material distributed to staff in the charities will be agreed previously with the HR managers.

The research conducted will be for academic purposes only. Any information disclosed by organisations participating in the case studies will be treated as confidential and documents provided by the organisations will not be shared with the other charities taking part. The results of the research will be shared with the organisations and a final report will be provided to the charities.

The research work to be undertaken will not involve any costs for the charities.

Should you require any additional information please do not hesitate to contact me 020 7955 7791.

Yours Faithfully,

Emma Anderson
Programme Administrator

APPENDIX 3

Interview Questions (General Guidance) – HR Directors and HR Managers

1. Background: title, role, responsibilities

2. Organisation: Business, services offered

3. What is the reward system you have in place at the moment?

4. Why have you chosen this pay system?

5. What drives the choice of a pay system and who is responsible for making the decision?

6. Do you make use of benchmarking to access what other organisations in the sector are having in terms of pay system? Does that influence your decision?

7. Has the pay system been developed in consultation with key stakeholders (management, staff, unions)?

8. Is it linked to the organisation's current needs and goals?

9. In your opinion is the reward system congruent with the organisation's culture?

10. In your opinion is the reward system effective? Why? How?

About Performance Management

11. How long have you had Performance Management for? Why have you decided to implement PM?

12. What are the identifiable performance measures for the organisation?

13. Who assesses and manages performance?

14. Are they close enough to employees (especially those out in the field) to be able to judge performance effectively?

15. Is there sufficient management capability to manage performance and motivation well?

16. Do you think there is trust in the current performance management process?

17. PM could be a way to have tighter/strict control over employees. Do you think employees would have less autonomy or participation in the organisation once you have performance management?

18. How often do you have appraisals or performance reviews? What is the coverage? What is the appraisal method (competences/targets/360 degree etc)?

19. Do you have meetings between line managers/supervisors and all the workers for whom they are responsible? If yes, how frequent are these meetings? Which issues are discussed?

20. Do you believe there is good communication between hostels/projects and head office?

21. Do employees have any involvement in the process of decision making of issues related to their work?

22. Are employees given the training and development needed to help improve performance?

23. Do you believe employees have the right skills for the demands of the work?

24. Would you say that employees here are satisfied with their: remuneration system, training opportunities, working conditions?

25. In your opinion, why do you think people come to work for charities?

26. Where was your previous job? (charity, public, private sector)

27. Would you say that the values of charity workers are different from private sector employees? How?

28. From your experience in recruiting, where do employees come from? (charity, public, private sector).

29. Do you take measures to attract and contract people with charity work experience?

30. Are employees led to expect long-term employment at Broadway?

31. What is the annual staff turnover?

32. In your opinion, what are the reasons for staff turnover? (e.g. Pay, lack of career opportunities, poor working conditions, poor training)

33. Would you believe that pay responses are the only way to keep people?

34. Have other strategies, such as improved training and development, and improved working conditions been tried?

Interview Questions (General Guidance) – Line Managers

1. How long have you been working for this organisation? Same position? Was a career decision to work for a charity?

2. Do you enjoy working here?

3. In your opinion, why do you think people come to work for charities? (Apart from mission attachment what else?) Why do they come to work for this organisation?

4. Would you say that the values of charity workers are different from private sector employees? How?

5. Where was your previous job? (charity, public, private sector)

6. Do you think employees here are led to expect long-term employment?

About Rewards/Performance Management

7. In your opinion is the reward system used here effective? Why? How?

8. Would you say that employees here are satisfied with the remuneration system?

9. About Performance Management? Who assesses and manages performance?

10. Are they close enough to employees (especially those out in the field) to be able to judge performance effectively?

11. Do you think managers are capable of managing performance well?

12. What are the identifiable performance measures for the organisation?

13. Do you think there is trust in the current performance management process?

14. Do you think Performance Management could be a way to have tighter/strict control over employees? Do you think employees would have less autonomy or participation in the organisation once you have performance management here?

15. Are there meetings between line managers/supervisors and all the workers for whom they are responsible? If yes, how frequent are these meetings? Which issues are discussed?

16. Do you believe there is good communication between hostels/projects and head office?

17. Do employees have any involvement in the process of decision making of issues related to their work?

18. Are employees given the training and development needed to help improve performance?

19. Do you believe employees have the right skills for the demands of the work?

20. Would you say that employees here are satisfied with their training opportunities, working conditions?

21. Do you think staff turnover here is high?

22. In your opinion, what are the reasons for staff turnover? (e.g. Pay, lack of career opportunities, poor working conditions, poor training)

23. Would you believe that pay responses are the only way to keep people? What other strategies could be used to keep and motivate people?

APPENDIX 4

Interview Questions – Reward Consultants

Role and background

What is your approach to reward strategy?

Who is responsible for reward decisions in the organisation? (Board, CEO, Senior Management)

What factors do nonprofit organisations take into account in determining their pay system? (More specifically PRP)

Why do you think those factors are important to the organisations?

What do you think it leads organisations to change their pay system? Examples of your own clients?

Any other factors we have not discussed here that could influence the choice of PRP system?