

## **WHEN PAY IS NO LONGER PERFORMANCE RELATED**

Performance related pay schemes are designed, apparently, to encourage individuals to compete against their colleagues, and are crudely linked to the concept that cash is the sole motivating factor. Such schemes were introduced, in the early part of this decade, as systems for awarding bonuses to individuals over and above normal annual pay increments. However, they were not designed to replace them - which is what many organisations appear to have done.

The main reason now given for the introduction of performance related pay schemes, in addition to holding down pay awards, is to assist senior management with the process of assessing the general ability of staff, at every level, categorising them, as being, for example, outstanding, good, satisfactory, adequate or unsatisfactory. The principle is fine because people have different work rates and get greater satisfaction out of one job than another; some are more decisive than others; and, some are quicker than others.

But, is it fair to devise schemes based on tests, results and assessments from line managers or supervisors? Is it fair to determine an annual pay award based solely on the whim or report from one person especially when personality enters the equation? Devising an acceptable assessment system is difficult and, no matter how hard organisations and individuals might try to be fair, all assessments are subjective.

In addition, performance-related pay schemes demand more time and effort from already busy managers. Subjective reports and interviews by supervisors and line-managers must be conducted thoroughly to ensure that any assessment is not clouded by personal opinions. In fact what often happens is that when people believe they have been unfairly assessed and their reward is less than people carrying out the same or a very similar task then productivity and output drops. Thus, when people are of an equal status or at a similar level of seniority or responsibility, then paying one clerk, machine operator, typist, builder, sales person or supervisor more than another (other than additional increments for length-of-service), leads to distrust and a reduction in the level of co-operation. The situation is exacerbated when your colleagues get a pay rise and you do not.

However, whilst it is widely accepted that pay is a motivating factor, most employees – and managers in particular - place far greater importance on job satisfaction, promotion prospects, a sense of achievement, reaching higher levels in companies, and on job security; motivation is a subjective package and not always pay related.

Whilst pay might provoke the desire to work harder, there is no proof that performance is improved at all. And, when performance payments are based on achieving pre-determined targets, members of staff concentrate on reaching those targets rather than achieving and maintaining quality standards and essential company objectives. Under those conditions all notion of teamwork disappears and is replaced by uncertainty, divisiveness and demotivation. Therefore, whilst the principle of performance-related pay might be acceptable to a few using performance-related pay as a motivator is unlikely to achieve the desired results rather it is likely to cause resentment.

Nonetheless, in manufacturing companies and in the construction industry, it is possible to set output objectives or completion deadlines as a baseline for bonus payments. It is possible to pay performance depending on the number of bricks or the number of tiles laid in a period, but that is not measuring quality; it is measuring speed of handling.

In other sectors it is possible to measure the amount of effort expended. For example, counting the number of items passing through an automated electronic-point-of-sale (EPOS) system, or the number of letters typed and despatched through a central secretarial support pool, or the number of telephone calls answered by switchboard staff during a given period. However, again this is not measuring efficiency or effectiveness it is measuring speed of response. This is fine if speed of response is what you want, but not relevant when and if the company's requirement is for quality service, accuracy and satisfying customer demands.

There are many professions that rely on inputs from external sources. For example, Fire, Police, Medical and other emergency services; in truth, these are the only types of organizations in which teamwork is paramount and works because everyone relies on everyone else to ensure that they carry out their part of the task to the best of their ability. Others, because their systems are interdependent, rely on an input from other internal sections of the same company. Indeed, because of the increasing use of Information Technology (IT), to transfer data and other forms of information, more and more organisations are interdependent. How then does one measure the separate contributions of other sections or groups, let alone the input from individuals?

Performance-related pay, then, not only has little to do with quality, efficiency or accuracy, but it also undermines morale, equality and commitment. And, where bonus differentials are low and where pay levels and pay rises are small, they are an unflinching formula for reducing motivation. The whole assessment process becomes an exercise conducted so that the organisation is seen to fulfil its obligations but it tends to be a waste of time and effort and increases contempt.

The fundamental weakness of management thinking of the past decade is the belief that people are motivated solely by pay. This is despite all the evidence to the contrary provided by research from such psychologists as, for example, McGregor, Maslow and Herzberg. These occupational psychologists, writing in the 1950's, showed that people are, generally, motivated by the desire to achieve; by the opportunity to develop their potential and, in the process, improve their position and status. And, they are motivated by the desire to contribute to and share in the success of an organisation; by the need to be treated fairly; and, by the need to be recognised and suitably rewarded.

The gradual erosion of organisational structures, career paths and promotion prospects - coupled with the fact that many companies (because of the short-term pursuit of profit) appear to have abdicated responsibility for providing training programmes as part of career development plans - has led to a loss of morale and, in many cases, a climate of fear because of the rapid turnover of personnel. How can an organization, supposedly, encourage such concepts as teamwork when on the other hand they have clearly divisive pay and promotion schemes? So, why proceed with such a discredited scheme?

But, do senior managers care about the future of their organizations or are those at the top selected for their hard-nosed attitude to improving the 'bottom-line' and increasing shareholder value in the shorter-term? What many in UK plc fail to appreciate is that there is little point developing new products or services, introducing new technology and plant or implementing performance-related pay schemes, if the people within the organisation are not happy, motivated, trained and rewarded.

The fundamental fact is that organisations consist of people; they exist only because of people, and their future depends on people - employees, customers and suppliers! Performance-related pay schemes might work in organisations where there is a culture of individualism, or where competition is part of the game, but not where teamwork is deemed to be an essential part of the company culture. Besides, where teamwork is important people should be rewarded the same to re-enforce team spirit and approach. It is only where superior skills are manifest that there should be any difference in remuneration.

The only gimmick currently on offer, it would appear, is to be seen to offer a broad salary package for each level within the company or organisation with the implicit suggestion that it is possible to progress through the band and reach the higher quartiles within a reasonable period of time. In truth, this tends to be a cynical ploy to encourage recruitment and nothing could be further from reality because, although this is rarely made clear, starting salaries tend to be non-negotiable.

Besides, there is no proof that performance-related pay schemes encourage people to work harder or longer, rather they merely exhort short-term competition. Second, performance-related pay could be used as a short-term motivator but not for longer-term planning. Third, unless there are only a few members in a group or section, it is not possible to produce a fair system of assessment, which ensures that individual effort is monitored continuously. Fourth, the introduction of performance-related pay suggests that senior management is of the opinion that their staff is not working to the best of their ability. Fifth, performance-related pay can be used at some later time as an excuse to reduce pay-banding; and, six, it can be used, by weak management, to strengthen their bargaining position by the threat of the withdrawal of bonuses.

That is why transparency in pay schemes and pay deals is paramount if for no other reason that to remove the stress from middle managers who have to use performance-related pay schemes to pay more to one person doing the same job as someone else in the same section. Transparency, as used within our naval and military organizations, is fair because it is clear that one man's basic pay is exactly the same as another apart from seniority and any additional payments for additional qualifications. Transparency is fair because the difference, provided it is not too great, between the highest and lowest paid for a particular job can be seen and might encourage those on a slightly lower band to put in a little more effort. Transparency is important because it would stop whispers and questions about who is paid the most within a group and possibly remove inter-group rivalries and could even remove the notion that those paid less should work less than others.

Charles Handy, when describing his 'shamrock-shaped' organisation for the future, makes no mention of performance-related pay, but suggests that flexibility is the only answer in an increasingly competitive market place.

But, just how flexible do workers have to be, and does this attitude not demand that organisations become completely flexible - responsive to the demands of their employees in terms of hours worked, length of holidays, time off in lieu of travelling time or hours worked? Unfailing loyalty, in most western companies, is no longer a safe policy for any employee, and individuals must now look out for any opportunity to improve their position, status and employment prospects, and move on when an organisation does not meet their demands.

For the time being then, flexibility appears to be a system devised to reduce the costs of employment to companies by replacing full-time employment opportunities by part-time positions; and performance-related pay schemes provide senior management with the means to reduce basic wages. Negotiating individual contracts and paying different rates for the same job is the fundamental principle of 'divide and rule'. That is because the amount of moneys available, over a given period of time, for staff pay increases has usually been pre-determined at the higher levels and diktats are issued indicating to lower line managers a narrow scope of flexibility for the award of increases. Companies spend a great deal of time and effort designing and implementing so-called performance pay schemes for the very simple reason that they are re-enforcing the control element.

Apparently there is not a great deal to be gained, for most of us, from a low-waged, low skilled, part-time and de-motivated workforce. So, why do companies insist on pursuing the discredited formula of performance pay schemes? I suspect it is because those at the higher levels have much more to gain from any performance-related scheme, because there is no one to measure the performance of the people at the top - especially if they set their own targets. And we should not overlook the fact that one man's five per cent, if he is at the top of the heap, is not the same as those at the bottom. It is a good deal cosier - especially if it involves perks such as share options.

A key challenge for all organisations, now and in the future, is how to develop and motivate people, in the absence of formal hierarchical management structures with promotion prospects and in the face of increasing job losses through programmes of downsizing, delayering, re-structuring and outsourcing, other than through pay!

What companies must do is to provide ways and means of motivating everyone in an organisation - and not just a select few. They must ensure that training and advancement programmes are made available to all their staff. They must ensure that training on the introduction of new technology and new systems is available to anyone who might need to use it. They must wake up to the fact that everyone contributes to the success, or otherwise, of an organisation and ensure that pay and reward schemes apply to everyone from top to bottom. They must look to fill internal vacancies with internal candidates before going outside to recruit. They must be as flexible, if not more so, than their staff, when it comes to pay, holiday entitlements, share option schemes, travelling expenses, holiday and flight schemes or even motor-car purchase schemes. Those companies that do not wake up to the changing demands of individuals will certainly not retain their 'higher-flyers'.

**KENNETH P ARMITAGE**

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