

Performance related pay and employee rewards management essay



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Performance Related Pay (PRP) has been defined by several scholars including Armstrong (2002: 261) and CIPD (2009). They suggested that PRP is a method of remuneration that provides individuals with financial rewards in the form of increases to basic pay or cash bonuses which are linked to an assessment of performance, usually in relation to agreed objectives. This definition captures what performance related pay is all about. In order to understand how PRP works in practice in relation to theories, it is been analysed with the help of the current practices which are prevalent in the organisations of repute. The organisation mentioned here is Mc Donald's which is also referred to as "McD", which is a private sector fast food chain with 31, 000 centres in 118 countries around the globe, McD uses performance related pay in order to motivate their staff, and also has different pay structures. The main aspects of performances related pay schemes have been identified as the nature of performance measures, assessment of the performance against fixed standards and how this is related to pay schemes (Kessler & Purcell, 1992; cited in Thorpe & Homan, 2000).

PRP started becoming popular by the early 1980s and have been a major factor in the pay and reward scenes for many organisations. PRP's effect is more than just motivation alone; it is a significant phenomenon in the change management philosophy of the modern organisations. Now they have much more expectations thrust upon them like improving quality and skills, changing the work culture and promoting co-operation apart from the normal roles like recruit, reward and retain employees (Cannel & Wood, 1992).

In recent years people have been the key source to competitive advantage and it is not surprising on how employers try buying employee commitment. However the question of if the methods adopted are successful is still debated. Motivational theories can be traced back to the time of Taylorism and the theories have evolved from scientific management to Hawthorne, Maslow amongst others. However the report will focus on Vroom's 1964 expectancy theory on which PRP is based.

According to CIPD (2009) there are three main objectives of PRP systems. Firstly it motivates employees to give their best performance by linking performance to the pay scales. Secondly PRP encourages the organisation to build up a strong high performance based organisational culture. Thirdly the fact of fair-trade policy. The better performed employee in the organisation gets the best monetary reward.

The Expectancy Theory points out that management needs to communicate and disseminate information to employees that efforts will be recognised and rewarded also it is management's responsibility to establish schemes to reward the behaviour they want. Furthermore, the theory also implies that " money is a significant motivator for most, and will usually alter our behaviour either by increasing or directing effort in specific directions to secure a higher salary or bonus payment. Also, it suggest that money is important not simply for its own sake, but because it is a means to achieve other ends" (Taylor 2000: 19).

The theory has three central concepts. The first is Performance Outcome Expectancy which implies employee working in a particular way will yield

foreseeable consequences while the Concept of Valence is the second. It examines the value derived from the outcome of behaviour and the final concept is Effort Performance Expectancy which examines employee's perception of the likelihood of achieving a desired objective (Marchington and Wilkinson 2005).

However PRP can not be discussed without looking at the " old pay" and " new pay". The " old pay" was more compatible with traditional organisations structures and employment relationship in the 1970's and 1980's. The concept was characterised to be bureaucratic, based on incremental progression, lacks horizontal integration with other HR activities and it detached pay from the strategic objectives of the organisation (Philbeam and Corbridge 2006: 231). The system faced lot of challenges because; pay had become a form of entitlement to employees, was not motivating and does not drive change. In contrast to the above, the main concerns of the old pay were fairness, consistency, equity and transparency but; was criticised for inhibiting organisational development in the twenty first century (Philbeam and Corbridge 2006: 231).

Lawler (1971) developed the " new pay" system which was in response to the issues raised in the old pay. It was the opposite of the old system which sets out to achieve challenges faced by the old system. The new pay was supposed to replace the old pay, he however stated that " the new pay doesn't necessarily mean implementing new reward policies or abandon the traditional ones; it means identifying new pay practices that enhance the organisations strategic effectiveness" (Lawler 1995: 1). It was also suggested that the new pay helps link the financial success of the employee and the <https://assignbuster.com/performance-related-pay-and-employee-rewards-management-essay/>

organisation, shows a connection between employee pay and performance and suggests that employees are rewarded when they exhibit a desirable behaviour (Tropman and McAdams 2001, Philbeam and Corbridge 2006). However, the new pay has since evolved giving birth to various forms of pay such as team based pay, competency pay, skills based pay et cetera.

Performance related pay varies between sectors and the 1998 IPD research shows that PRP is used by 72% of employers in the financial services and 41% in the public sector (Armstrong 2002: 266). Furthermore, the idea of linking a portion of pay directly to performance appraisal and to the achievement of specific performance objectives has proved particularly attractive to employers and such approaches are becoming popular in both the private and public sector (Taylor 2000: 19).

Moreover, PRP has a beneficial effect on employee performance and the achievement of organisation objectives and goals (Lawson 2000: 311). A typical example is when the bank introduced PRP in 2008. Here, monthly targets were given to employees and those who met their targets at the end of the month were rewarded in cash to encourage them, this is also applicable in the trust but the competition is between doctors. This worked for sometime but led to mistrust between employees. Employees began working on customer relationships that were not assigned to them and blacklisting of fellow colleagues with customers and senior management became the norm. This is supported by Marc Thompson (1992) who stated that " new forms of pay can have a damaging impact on trust and working relations" (Armstrong 2002: 268).

Similarly, PRP motivates and de-motivates employees at the same time. This is supported by Marchington and Wilkinson (2005) who identified from their research that 83.4% of the sample believes that PRP de-motivates while the others believe otherwise. Employees who meet their target are motivated to put in more effort some who have not met their targets will try keeping up with the drive however in a situation where a staff has met 99% of its target and their effort is not rewarded will lead to de-motivation and this will have a ripple effect for other staff will take up the attitude of “ why put in more effort” when the organisation will not reward a colleague who met 99% of their target and this is applicable in both organisations. This also leads to lower job satisfaction on the part of the de-motivated employee and vice versa (Price 2007: 484). However, the employer prefers PRP because it enables them pay few people more money rather than promoting the hardworking staff who has not met their targets thereby saving cost. Again it depends on how effectively it works as a motivating tool to reflect organisational performance, employee development, loyalty, responsibility and the sense of achieving the organisational goals (LGE, 2008). .

However employers use PRP to attract and retain people to their organisations by offering them competitive financial rewards. The basic assumption of employment is that services are exchanged for benefits which could come in form of money. Moreover, in an industry such as the financial services where PRP is a norm and the pay is competitive, staff retention is substantially important because; it may lead to the loss of business when the employee is recruited by a competitor and is offered higher pay. At the present situation of credit crunch most of the organisations are looking to

reduce the number of employees as well as attract and retain only the employees who are high performing and multi skilled employees. Again high performing employees eight out of nine times is most likely to agree with the system of pay for performance and the organisations needs to put this scheme in order to attract and retain high performing employees (Thompson, 1992). In simple, establishing a standard for measuring and rewarding for high performance can assist in retaining the most industrious employees. On the other hand it causes unfairness to the other employees because they get to share the target of the staff that leaves the organisation. This leads to the employer requiring the employee to put in more effort to achieve the new target under the same scheme. The doctors in the trust are not faced with this pressure because their targets are not financial and it lies more towards overtime hours and on call visits.

One of the key concerns of the old pay was to promote fairness in the workplace. However PRP could lead to unfairness. PRP in both organisations is based on performance appraisal where the manager will recommend a staff for reward at the end of an appraisal period. In a situation where the manager recommends an average performer for PRP and does not recommend a top performer because the manager believes the employee has not done enough while it is evident to other managers and team members that it was the recommendation was a case of favouritism. This highlights a key issue affecting PRP which has been argued of not having a consistent method of judgement (CIPD 2009). The difference with the process in the bank is the entitlement of the employee to fill in their comment at the end of the appraisal and decide if the appraisal was fair or

not based on listed reasons. This also cements the fact that PRP leading to conflict and in this case a rocky relationship between the appraiser and the appraisee.

Furthermore, CIPD (2009) suggest “ that linking of pay awards to performance review process may inhibit an open and honest discussion of an individuals training and development needs”. This statement could be interpreted as PRP identifying developmental needs of the employee during appraisal process. Using the trust as an example the PRP scheme requires employees with the exception of doctors to present their continuous development plan (CPD) during appraisal period to show how they have developed, their future plans and the manager helps identify where the employee is lacking and how they can develop those areas. When compared to the process in the bank, there is no CPD presented during appraisal but the manager and employee identifies the areas where there is need for development to improve performance and make recommendations to management. However, both organisations only review the staff development at the next appraisal.

It is assumed that team working yields better results. UNISON suggests that efficient and effective service depends on cooperation from staff Labour Research Development (1994: 5). However PRP undermines team working because it does not put into consideration group efforts but it rather promotes individual working. The practice in both organisations promote team working but staff are only rewarded individually, which leads to uncooperativeness from team members, poor service delivery, de-motivation and it generally promotes poor performance.

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Marchington and Wilkinson (2005: 341-342) states that with emphasis PRP places on “ individual performance-leads to a short-termist approach whereby individuals look for quick returns from small scale projects rather than addressing more fundamental problems”. This shows PRP motivates better in short term compared to long term. The McDonald company lives up to the philosophy of “ Pay for Performance” when it comes to rewarding their employees. While examining the situation in McD, it was noted that the organisation keep broadband pay data both internally and externally of the employees base salary after screening their performance which actually helps the employees to review their performance. McD offers TIP or ‘ Target Incentive Plan’ which is an incentive pay plan offered at corporate and regional employees helping them to link their pay to the performance in the sector they work. Kohn (1993) states that “ by and large, rewards succeed at securing one thing only: temporary compliance. When it comes to producing lasting changes in attitudes and behaviour, however, rewards, like punishment are strikingly ineffective..... there is no firm basis that paying people more will encourage people to better work or even in the long run, more work” (Armstrong 2002: 272).

PRP is introduced to organisations to improve performance and ‘ maybe’ promote staff development during the process. However, it has been noted that with the existence of PRP in an organisation, there is a lesser drive for self development. People want to develop themselves initially to get be able to earn more money while a lesser percentage wants to improve their knowledge. PRP ensures people get the money, but de-motivates the staff on the long run while not accomplishing the initial goal which is to improve

performance. Kohn (1993, 1998) suggests that “ extrinsic rewards can erode intrinsic interest and that there is no firm basis for the assumption that paying people more will encourage people to better work or even in the long run more work” (Armstrong 2002: 272).

Critique of the Performance Related Pay System

Having examined performance related pay as a motivational instrument, it was noted that it is a widely used instrument in private and public sector organisations both nationally and internationally. It has proved overtime as a valid instrument for motivation but it has been criticised by various authors CIPD (2009) inclusive which states “ it has proved in some circumstances a rather crude instrument and the 1990’s witnessed a number of challenges to the theory”. It was also criticised of not been the only or even an effective motivator.

According to Brown & Heywood (2002) PRP increases the stress factor among the employees. most of the line managers having the view that staffs tends to put more pressure on themselves as they get motivated by the rewards and incentives which are put forwarded for individual performances and achieving set targets. The employees feel pressurised by the fact that their promotions and appraisals are heavily linked by the performance based approach. Because of this the workers tend to feel more stressed and can even lead to the breakdown of a staff member.

Beer (1984) corroborates this while suggesting that when pay is tied to performance, it reduces the intrinsic motivation which comes when individuals are spontaneously involved in work because they are given

freedom to manage and control their jobs also, it signals that it is management that is in control which reduces the individual's feeling of competence and self determination (Armstrong 2002: 272). Several academics have criticised PRP as an instrument which promotes jealousy among staff which can lead to organisational conflict. However, Oswald (2002) disagrees with this and suggested that if salaries were confidential, then there is no way it can lead to conflict also he suggested that people should be paid on merit and effort (Wright 2004: 122). PRP is measured using performance appraisal systems but the decisions of line managers makes reduces the viability of the process. PRP undermines team working and works more as a de-motivator rather than a motivator this is supported by Thompson (1993), Marsden and French (1998). While Pfeffer (1998) states that it is time consuming, undermines team working and it undermines the performance of both the organisation and individual in reality (Wright 2004: 118).

Conclusion

The search for a positive relationship between PRP and performance as been described as " looking for the holy grail" (Fletcher and Williams 1992, Price 2007) while CIPD (2009) said it was the " holy grail" of the 1990's. Having examined PRP has a motivator, on reflection it shows it is a motivating instrument which is more applicable and effective in some industries compared to the others. Also, even though it has been criticised by several authors for its weaknesses, it shows that every theory has a weakness and its weakness has given birth to other forms of performance related pay thereby giving hope to more research on how performance can be improved

in an organisation. The Labour Research Department (1999: 2) quoting a personnel manager who stated “ money is really a de-motivator” and a company that states “ the constant measuring of people against each other fed into staff’s sense of job insecurity by generating ‘ evidence’ of failure to meet jobs”. However, with its negative effect on performance, motivation, team working and the fact that the process could be subjective and expensive organisations are still applying it and trying to modify appraisal methods in order to get it right. Likewise the manager – employee relationship is considered the main important factor in determining the success of PRP in an organisation (Thompson, 1992).

However, Armstrong (2002: 287) states that “ PRP has a limited power to provide incentive through financial means alone should be recognised, but that does not mean it should be rejected out of hand. It does work as a reward process in some circumstances and it does satisfy the basic principle that it is equitable to reward people who do well more than those who do badly”.