

Essay on advantages and disadvantages of individual performance related pay

[Business](#), [Company](#)



Introduction

As the term suggests Performance Related Pay or PRP is the pay offered according to the performance, it can be individual, group or company. PRP often leads to enhanced performance of the employee and reciprocate by improving the performance of the company. It provides extrinsic motivation through financial rewards to the individual employees, group, company performance (Corby, S. et al, p. 6). PRP aims to spread the wages equally, so that the objectives of the business can be fulfilled completely. PRP is also covers way to check the output by the employee and the behavior towards customers as well (businesses like supermarkets and showrooms etc). The employers want to improve their companies' image and use it as a strategy to be put forward, as it is a way to achieve the desired goal. PRP has gained significant importance over a decade in the private sector.

Discussion

What is PRP?

Pay Related Performance is a kind of payment system which depends on the employees' performance. The financial incentive is usually given after completing the assignment, in a specified time (Edwards and Wajcman, pp. 5). The monetary compensation is connected to the output that the employee, group or organization has presented. Money is the main remuneration by which an employer can extract the best of his workers. It also increases the productivity and the qualitative/quantitative aspect of the business.

It can be appreciated as a way to motivate the workers and the managers

alike. PRP started off from the private sector but now it has started to find its way into the public sector as well (Marsden and Richardson, pp. 261). The PRP methodology can be used to boost the morale of the team, individual and/or company, and it can be used to apply and, in some cases to achieve the objectives of a company.

Since the beginning of industrial development, the culture of favoritism and biasness was spreading across all fronts of the global market, including small shop owners to big-league organizations. The PRP tends to reduce the effect of the hostile employees, making the business environment a better place to work. Since it is related to the hard work of the employees along with an opportunity to work extra hard to earn it (Kessler, Purcell, pp. 23). It helps the employees to have the will to work harder, in order to earn the incentive, and by doing so, improve their performance and develop the organization. The performance related pay improves the work on the workers' level and the organizational level.

Objectives for PRP

As Pfeffer (1998, pp. 204) suggests the objectives for PRP can be noted as follows

The core element of performance pay management strategy is to bring human capital strategies in alignment with the organizations goal, its mission, and its objectives through conducting various analyses, by making proper plans and making appropriate investments and managing the programs that are associated to human capital. PRP planning is said to be such a process through which an organization layouts the rational framework

of human capital programs, policies and practices in order to achieve a common target that is incorporated with the strategic plan of the organization. Implementing the strategic human capital plan is considered to be the most important step by the organization so as to create a highly efficient, performance based organization by acquiring, motivating, recruiting and rewarding those individuals or group of individuals who comes under the head of high performers and workforce of top quality. This strategic human capital plan in transformed in to the roadmap so as to achieve continuous level of improvement in the output and also becomes the essential framework for the purpose of transforming corporate operations and culture of the organization in its best interest (Boxall et al, pp. 250). Even though the content of the strategic human capital plan along with its structure and format will vary from one organization to another organization, there are some core elements that are always included and should be included in the PRP strategic plan. This plan should consist:

- **A clear and understandable strategic direction.**

- Goals outcomes/goals of stakeholders and customers of human capital management.
- Pre-determined objective and strategies in order to achieve the goals.
- Implementation plan.
- A plan related to communication or change management (if required)
- A system of accountability.

The Link between 'Performance' and 'Pay'

In the schematics of PRP, the employee has to work hard to earn his

incentive. If a worker thinks of the monetary gains as the best part of his job, then he has to perform well on a regular basis and/or produce high quality work. The employer has to amplify the culture that the fiscal reward is present only on the basis of production of high quality work. According to Kessler and Purcell (pp. 25) the workers tend to work harder and produce better results if they comprehend a direct relationship between work and bonus.

Advantages of PRP

PRP has proved to be one of the most successful payment methods. It is beneficial for employees and employers both.

Paying the Right People

With the help of PRP, the workers earn their pay by working hard. The employees know that if they work hard, the result will be monetary reward and encouragement from the employer, both (Boxall et al, pp. 247).

Distinguishes the Languid Workers from the Hard Workers

This scheme can be used, by the employer for discern between the employees who work their best and who doesn't. It makes the job of the manager/employer easy to differentiate between the various kinds of workers.

Improvement in Individual Performance

PRP gives the employee a chance to improve and to work on his/her own performance. It clearly shows where a worker stand in the hierarchy of the

office. The employee can work on his/her best and try to improve upon the quality (and in some cases quantity) of the work that he/she produces.

Improvement in Organization's Performance

The employer can apply this payment method to ensure that the company's objectives are not evaded by the employees. It can also be used to make sure that the overall performance of the company is not degrading. A successful company always moves towards good, better and best. The employers can use PRP to attain the level of performance that will lead their company to triumph.

Retention of Hard Working Employees

The employer can visibly see the people who are hard working and can distinguish between them (Marsden and Belfield, lse. ac. uk). The employer can decide, depending of the performance of the employees, which person is hard working and will be an asset to the company. While the one who lets the team down, can be let-go-off. In this manner, the company can keep the image and performance going at the ever-competing rate of the corporate world.

Increase in Productivity

The employees are able to increase their pay by performing well in the company. The employers can increase their productivity by improving on the workers. The PRP encourages the labor to work hard, increase productivity of the company and to take the company to the next level.

Objectives of the Company are reinforced

PRP induces the employees with the sense of belonging in the company. The objectives, the goals and aims of the company are revised and brought forward in a different light every time the company seeks to pay the employees as per their performance.

Removal of Favoritism and Biasness

The reigning culture of favoritism leads to a hostile environment in the office. The layout of PRP allows the employers to have a non-biased perspective of their employees. On the other hand, the workers feel that they are not being ignored or distinguished from the hand-picked few of the employer (Pfeffer, pp. 213). All the employees who work hard are ensured that they will get the due encouragement and reward for their efforts. The managers also are at peace with the concept of people working for the company, not for the sake of work only. Biasness is diminished by PRP and workplace environment grows to be better, resulting in better results and increased efforts.

Clarifies the Criteria of the Employer

The PRP is the best method to look into the employers' mind. The employers send out a clear message that the employees have to attain a certain level of efficiency and proficiency (in their field), in order to survive in the company (Edwards and Wajcman, chap. 5). The criteria is set by the employers so that the quality of the products can be maintained and to work on them. The employees then keep a clear mind in order to achieve those goals, knowing that they have to strive for the best for keeping a position in the organization.

Stimulates Focus

The employees and the employers both start to focus at the task at hand. The driving force of the employees is the monetary gain and the employers their image in the corporate world. The employers have to work to retain their image while the employees have to work to retain their positions in the company. The employers need to re-assess the objectives and work on the weaker aspect of their organization (Corby et al, pp. 9). PRP reminds the employers to review their efforts in the fragile parts of their organization and take it as a whole.

Career Boost

The employees tend to work harder, monitoring their own performance and propelling their careers forward. The employees who work hard have a great career before them and they have a sense of achievement when their work proves their word.

Disadvantages of PRP

PRP has shown its significance in the commercial world, but it has flaws which need to be overcome.

Increases the Work of the Managers Twofold

PRP does have advantages but one of the most negative effects of it is that the managers, supervisors or company owners have to work double in order to keep the regulation of PRP in control (Boxall et al. pp. 251). The managers are overburdened and most of them feel that it is another obligation that they have to take care of.

Conflicts between Employees

The employees, who are competing with each other, feel animosity against each other and the environment can lead to hostility. It is observed that the workers keep angst on behalf of the other employees and it leads to devastating effects on the workplace.

Implementation of PRP

The thought behind PRP does not need any effort but implementation of the program needs efforts, physical, manual and financial also (Marsden and Belfield, lse. ac. uk). The program has needs which a manager or the employer has to work hard to get. The implication of PRP can be very positive but the implementation takes toll on time and effort both.

Performance, Not effort

Some of the employees have observed that their efforts are not accounted for, only the results are appraised (Pfeffer. pp. 211). This is another drawback of the performance related pay. The workers need to be appreciated, not only for their production and performance, but for their efforts as well.

Recession

Every organization has to suffer, and should always keep in mind, recession. If PRP is implemented in any company and the recession takes toll on the employer, the owner may not be able to give the workers their due share. It can result in resignation of the staff. Leaving a position, is not only detrimental to the employee, but to the employer also.

Stressful Working Environment

It is suggested that PRP leads to a stressful working environment. The employees have to be on their toes all the time. Every day they have to strive for the very best. The employees perceive it as constant work. They no longer can work at the median level. The ever-present doubt of getting sacked remains in the heart of the worker.

Concept of Team-Work is Demolished

PRP is a great tool for the individual's performance assessment. But it is detrimental to the concept of teamwork. PRP, as the term indicates, the reward on the basis of performance. Teamwork is neglected in the PRP and individual is given more attention. The essence of team work is neglected in the run for individual efforts and performance. This drawback of PRP is one of the most influential in the organization.

Managers as Judges

Although the culture of favoritism is pushed aside by PRP but the biasness may remain there. The managers are the judges of the performance of an employee. If a manager has a grudge against any employee, then it results in the judge being too subjective, or finding unnecessary flaws.

Staff Moral and Motivation

Every staff needs a boost of moral and motivation. PRP needs to be done on a regular basis in order to enhance the motivation (Kessler and Purcell. pp. 23). This needs time and financial back-up both, which is difficult for the employee.

Discrimination between Highest Paid and Lowest Paid

All the employees work on various levels in an organization but PRP tends to differentiate clearly between the highest paid and the lowest paid. In an environment where PRP is not applied, the differentiation is intricate. PRP clarifies the differences between the most and the lowest paid employee, which can result in mutiny and hostility.

PRP leads to Unhealthy Competition

The employees are in a continuous struggle to leave their peers behind. This scenario can lead to conflicts within the workers. Unhealthy competition creates havoc in the workplace and has a very deteriorating effect on the company's persona.

PRP and Team Collaborative Efforts

An individual's performance is easy to assess in PRP. The difficulty arises when a group of people work together and the employee has to reward them with financial assets. In this scenario, the person who contributed the least can also benefit from the efforts of the others in his group (Corby et al. pp. 12). This aspect of PRP is still in conflict and the scheme does not work for team collaboration.

Conclusion

Most of the organizations strive along with performance management whereas organizations that are ranked as high-performance organizations are about 2.5 times more efficient as compared to the organizations that are ranked as low-performance organizations. The reason is so that high-

performance organizations adopt a purpose driven approach which helps in merging their tactical and strategic approaches in order to manage the performance of the organization and also to make assurance of meeting their daily objectives that is linked to the overall goal of the organization. Therefore, for organizations that is running operations on small scale or is ranked as low-performance organizations, keeping performance management enacted is important to overcome the performance pay related issues. PRP should not always be seen as the quick and easy way to move the company to the top. It has flaws and it has merits both. The employers and employees, both, should not take PRP for granted. The merits can be limitless but the demerits should also be kept in mind. Performance related pay should be used as a tool to improve the overall morale of the staff and to give rewards to the people who really put in efforts. Performance Related Pay is a notion which is growing by day, the employers should analyze their organization before applying it on their system.

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