

**PERFORMANCE RELATED PAY:
WHAT MAKES A SUCCESSFUL
SCHEME?**

**Thesis Submitted For The Award Of MBS
(Masters in Business Studies)**

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By Aisling Kelly (BA)

Supervisor: Kathy Monks

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I hereby certify that this material, which I now submit for assessment on the programme of study leading to the award of Masters in Business Studies is entirely my own work and has not been taken from the work of others save and to the extent that such work has been cited and acknowledged within the text of my work.

Signed: *Lisiny Kelly*

ID. No: 94971081

Date: 23-9-1996

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To My Family.

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LIST OF ABBREVIATIONS

CEO	Chief Executive Officer
Co.	Company
ESRC	Economic And Social Research Council
HRM	Human Resource Management
IPM	Institute Of Personnel Management
IRN	Industrial Relations News
NEDO	National Economic Development Office
NWA	National Wage Agreements
PM	Performance Management
PRP	Performance Related Pay
UK	United Kingdom
US	United States

ABSTRACT

The objective of the thesis is to evaluate a Performance-related Pay (PRP) scheme operating within a multi-divisional food manufacturing company and to identify the factors contributing to the successful operation of PRP schemes in general. An extensive review of the relevant literature is followed by an in-depth analysis of the PRP scheme. The research involved a combination of both quantitative and qualitative techniques. Semi-structured interviews were conducted with the HR director of the organisation who was involved in the design, implementation and administration of the scheme. A survey was then carried out involving 107 managers who were assessed according to the PRP scheme and this was followed by interviews with 16 of these managers. Further interviews took place with two HR directors from other organisations and a trade union official.

The thesis addresses the issues of PRP as an effective means of motivating staff and the difficulties involved in successfully implementing such schemes, particularly in the context of a multi-divisional organisation. The thesis also considers the wider context in which PRP operates, and the mechanisms required for continued effectiveness. The findings suggest that PRP schemes will be most effective when they are implemented as part of a wider performance management strategy incorporating supporting initiatives. Factors instrumental to an effective scheme include joint consultation in setting objectives, regular feedback on objectives, utilising objective measures of performance, the implementation of an appeals forum and observing the requirements of expectancy, goal-setting and equity theories.

INTRODUCTION

Over the last decade, Performance Related Pay (PRP) has presented us with one of the most widely discussed HR initiatives. PRP's widespread popularity receives much attention in the Personnel textbooks in the context of its advantages, disadvantages and guidelines for its introduction and operation. More recent textbooks, however, and the evidence provided by empirical research tend to present a less optimistic picture of the viability of the off-the shelf schemes promoted by the textbooks. They suggest that successful PRP schemes require supporting infrastructure which should be organisation specific. However, the textbook writers and the empirical researchers are agreed that a large number of issues surround the operation of PRP schemes. This study aims to address these issues through a combination of literature evidence and empirical investigation.

The research centres around an extensive examination of a PRP scheme in operation in a food manufacturing, multi-divisional organisation. The PRP scheme is examined within its wider organisational context. This case study research is accompanied by additional interviewing of HR directors involved in implementing and administering PRP in other organisations. This provides a broader perspective on factors contributing to the success of PRP. Hence, the central emphasis of the thesis, namely 'what makes a successful PRP scheme?', is addressed.

The first three chapters are concerned with the literature evidence on various aspects of PRP. Chapter one considers a wide scope of definitions of PRP and subsequently

documents the rise of the individualisation of the payment system. The concept of PRP is examined and factors affecting attitudes regarding PRP are addressed. It concludes with a description of the extent of coverage of PRP schemes both home and abroad. Chapter two addresses a wide range of objectives of PRP encompassing both their rationale and reality. More specifically, it provides an analysis of the wider rationales underlying the introduction of individualised pay systems and individual objectives specific to organisations. Chapter three provides a theoretical framework in which PRP can lie. The theoretical framework is accompanied by an additional framework, in the form of Performance Management (PM). Elements integral to such frameworks are described and subsequent implications of these arising for PRP are discussed.

Chapter four involves the examination of the chosen methodology. This documents the study in its entirety and the implications of utilising the particular methodology enrolled are discussed. Chapter five presents the findings incurring from the empirical research. This is followed by Chapter six which provides an in-depth data analysis of these findings. The purpose of this chapter is to explain the underlying reasons for the evident findings. Finally, Chapter seven draws out the conclusions from the research undertaken. The aim of this chapter is to address the initial purpose of the study. In doing so, it should contribute to the further understanding of what makes a successful PRP scheme.

Introduction

The aim of this chapter is to present an overview of PRP. The chapter begins by considering the variety of definitions of PRP, each one emphasising a different aspect to its nature. 'Group PRP', including group bonus and profit sharing schemes, are then compared to 'individual PRP', in relation to their merits and drawbacks. In discussing the concept of PRP, an examination of how this concept emerged is undertaken, by documenting the rise of the individualisation of the pay system. An historical background to the growth of PRP is described and the Irish experience is examined through the wider changes in work practices which generated the requirement for a flexible payment system. Finally, the extent to which PRP schemes operate for various categories of employees is examined.

Definitions of PRP

In the search for an appropriate definition of PRP, it would appear that there are many facets to its nature, as emphasis shifts according to the individual writer. McBeath and Rands (1989:133) define it as an intention 'to pay distinctly more to reward highly effective job performance than you are willing to pay for good solid *basic* performance'. Kanter (1987:60) argues its value by stating that the shift toward this type of payment system makes sense on the 'grounds of equity, cost, productivity and enterprise.' Gabris and Mitchell (1986:312) validate this viewpoint in suggesting that 'the logic that pay should be linked to performance makes a great deal of sense. Why

should highly productive employees maintain high productivity if no reward is in the offing?

Some definitions (Beaumont, 1993; Armstrong & Murlis, 1991) describe PRP in a broad framework including differing types of payment systems:

It is important to recognise that performance-related pay is a very heterogeneous set of measures, some of which have been around for a relatively long time. Under this broad heading, one can include individual piecework, payment by results, merit pay, group bonuses, payments linked to overall organisational performance and numerous variants of each of these (Beaumont, 1993:107).

Others are more inclined to narrow PRP's scope by emphasising its breakaway nature from traditional payment systems (Cannell & Long, 1991; Kinnie and Lowe, 1990):

PRP is similar to profit-related bonuses, but the specific targets to which PRP applies usually relate to individuals and not to groups, let alone the organisation as a whole. And the focus is often on "big objectives" or outputs rather than inputs such as skill and teamwork (Cannell and Wood, 1992:66).

It is argued by Kessler (1995) that PRP is distinguishable from 'merit pay' by the factors which constitute the determinants for the reward, for example merit pay bases pay on behavioural traits such as flexibility, co-operation or punctuality, whereas PRP relates pay to concrete individual targets or objectives. In contrast, Storey and Sisson (1993) argue that merit pay merely presents another form of PRP. In deciphering where PRP fits into the wider scheme of HRM practices, Kessler (1995:263) suggests that individual performance-related pay can be seen as a technique more in tune with the "harsh" approach to human resource management', as it has the potential to punish as it has to benefit.

Armstrong (1994), however, delivers a concise yet comprehensive definition of what he considers to be involved in PRP:

Performance related pay links pay progression to a performance and/or competence rating. The rating could be carried out during a performance review, or it could be conducted at a different time exclusively for PRP purposes (Armstrong, 1994:166).

The interpretation of PRP can be a difficult task when facing a multitude of contrasting and sometimes contradictory definitions. Essentially, PRP appears to be an individualised system of payment linking all or part of the rewards to the performance of an individual. It is based on assessment of performance, generally referred to as a performance appraisal. Though this definition basically separates PRP from traditional forms of payment, the actual concept of PRP is not essentially a new one. In fact, it has existed for decades in various other forms, such as piecework or even performance related bonuses at senior management level. The definition applied by Armstrong (1994) describes a process of evaluating an individual's performance and subsequently determining the most appropriate reward in terms of financial incentives. This is the most traditional form of PRP, however it is important to consider the alternative options. For example, Storey and Sisson (1993) indicate an increased focus on other aspects of PRP, including team pay through group bonus schemes and company-wide profit sharing.

Individual Versus Group PRP

Group bonus schemes aim to generate good teamwork, avoiding the extreme and damaging individualism that can occur with individual PRP. However, Kessler (1993)

shows, in his review of recent surveys conducted in the UK, that collective performance schemes which cover a unit or company are still relatively rare. In fact, he found that a mere 13 per cent of workplaces had schemes which covered the workplace as a whole. This could be a factor of the loss of direct incentive in group schemes as a result of the performance-reward link being perceived as remote. Nevertheless, group schemes do have an advantage over individual PRP as they appear to encourage co-operation and teamwork which is essential for employee involvement and communication. As Storey and Sisson (1993) point out, group schemes are additionally worthwhile for effective communication of key issues to employees, such as productivity, costs and quality.

Financial rewards are also given for overall corporate performance through the use of company-wide profit sharing. This type of scheme is based on company performance and applies to all workers of a company. Storey and Sisson (1993:148) view company-wide profit sharing schemes as involving 'linking pay or some element of pay to profits either in the form of direct cash payments or shares.' Organisational wide plans are regarded as useful for increasing co-operation and teamwork. The disadvantage is that the individual is further removed from the level of performance measured and rewarded, thus eroding the linkage between pay and performance. An organisational wide plan may be introduced to increase the perception of a linkage between individual effort and organisational effectiveness with the aspiration of producing increased co-operation. According to Beer, Spector, Lawrence, Mills and Walton (1984), in many organisational-wide pay plans the aim is to encourage

motivation and co-operation between people, though in many cases they are not part of a broader management philosophy regarding collaboration and participation.

The real aim of such plans, however, is often to involve employees in decisions that will improve the organisation's performance. Organisational-wide incentive plans which involve a philosophy of participation require high levels of labour-management co-operation. As Beer et al. (1984:146) points out, 'without that joint participation, commitment to the system will be low, as will its symbolic and motivational value'. He further indicates that participation can create a fundamental change in the psychological and economic ownership of the firm. Therein lies its primary motivational and satisfaction value. Storey and Sisson (1993) refer to the Advisory, Conciliation and Arbitration Service survey (1988) in commenting that such plans are by no means extensive, though there has been a significant increase in their usage since the 1980s. Only approximately 12 per cent of profit-sharing schemes were applied to both manual and non-manual workers. However, the majority of these schemes only affect non-manual workers.

The Concept of PRP

Although much debate surrounds the definition of PRP, the validity of the principle of PRP appears to be widely accepted in the literature. Two recent studies provide evidence of this. Marsden and Richardson's (1992) study of the Inland Revenue in the UK surveyed the views of 2,500 employees in relation to performance pay and its motivational effects. Kessler and Purcell's (1992) study of nine private and public sector organisations conducted over a three year period analysed the views of over

sixty senior and management figures. Their study addressed the issue of the reasons for implementing PRP systems and the reflection of these aims in practice. Marsden and Richardson's (1992) study revealed that 57 per cent of staff claimed to be in favour of the concept of PRP, while Kessler and Purcell's (1992) study also found strong support for the principle of PRP and further found that it was actually a more popular form of the determination of pay than traditional forms.

A large degree of this favourable response to the principle of PRP can be attributed to a view stated by Armstrong (1993:86) who suggests that 'it is fair to provide financial rewards to people as a means of paying them according to their contribution'. Clearly, PRP provides a tangible means of recognising achievements and thus provides employers with an opportunity to reward people according to their individual efforts, as opposed to the more traditional seniority based payment. Cannell and Wood (1992) suggest that it is actually the recognition element of PRP which provides the real motivation for performance.

The fairness of the concept of PRP appears to be in little doubt:

Among the attractions of PRP is that, properly administered, it can be fairer than systems which reward employees merely for long service and do not discriminate between the good and the bad (Smith, 1992b).

Indeed, it is heralded by Brading and Wright (1990:1) as a means to: 'improve performance by converting the paybill from an indiscriminate machine to a more finely tuned mechanism, sensitive and responsive to a company's and employees needs'. However, there appears to be somewhat of a gap between the theory and assumptions of PRP and the actual realities and practice of it and it is this which

requires further consideration. Before exploring the practical intricacies of PRP, the differences in attitudes toward PRP and the development of incentive schemes, the precursors of PRP, is examined.

Differences in Attitudes Toward Pay Systems

Attitudes toward a pay system may be contingent on many factors, including individual employee ability, the nature of the job, the culture within the organisation, or indeed, the wider cultural society within which the organisation resides (Mamman, Sulaiman and Fadel, 1996). Hence, it is reasonable to assume that the differences in attitudes may be a function of many factors.

Mamman et al. (1996) conducted an extensive survey of attitudes towards payment systems within and across four countries, namely Australia, Hong Kong, Malaysia and Indonesia. Although their findings are strictly related to these individual countries, many of their propositions may be applied on a more global level. These include issues such as the difference in attitude between public and private sector employees, white- and blue-collar employees and varying age categories.

It was proposed by Mamman et al. (1996) that private sector employees would rank performance higher than those from the public sector, based on the assumption that a performance-based pay system is more likely to be used in a competitive market situation such as in the private sector (Gomez-Mejia and Balkin, 1992). Therefore, the assumption indicated that those who prefer a performance-based pay system would be more likely to be attracted to the private sector than to the public sector. However,

Brown (1994) notes that there has been widespread reaction against individual productivity pay schemes in the UK private sector, resulting in a quarter of such schemes being withdrawn. Furthermore, Martin (1994) also notes widespread evidence pointing to dissatisfaction with the negative aspects of PRP experienced by private sector organisations. However, he also indicates that the strongest reservations concerning PRP are expressed in the public sector. This may be a factor of the highly evaluative and arbitrary nature of the jobs of public sector professionals, which do not necessarily lend itself to measurement in any meaningful way (Pollitt & Harrison, 1992).

Mamman et al (1996) further argue that rewards are generally evaluated by employees on a social comparative basis. Bowey, Thorpe and Heller (1986) suggest that disputes regarding pay are often manifestations of more complex issues related to fairness and equity. Therefore, attitudes toward rewards are relative to what the employee considers a fair wage, and also through considering the wages of other employees in similar positions, perhaps even in other organisations.

A study by Dornstein (1985) found that while blue-collar workers appear to emphasise the unpleasant physical aspects of their work, such as the nature of their work and the physical working conditions, white-collar workers prefer pay allocations to be determined by educational attainment, degree of responsibility and authority. Furthermore, Mamman et al (1996) suggest that there is a significant preference for collective bargaining among public sector employees, as it enjoys more extensive

coverage in the public sector. Clearly, there may be extensive differences between how white and blue collar workers determine the appropriateness of their pay.

Finally, Mamman et al. (1996) propose that older respondents will rank length of service higher than younger ones. Traditionally, payment was largely determined on length of service to the organisation. Though this practice may be rapidly diminishing, there remains a propensity to consider seniority a major factor in the determination of pay.

The Individualisation of Payment Systems

An Historical Background to the Growth of Incentive Schemes: The UK and US Experience

The concept of using incentives to induce and influence performance reaches back to earliest recorded history. However, for most of this period the use of incentives was symbolised by myths such as the donkey driver who used the carrot and stick. According to Peach and Wren (1992:11), it was the early 19th century that saw the rise of serious and methodical thought concerning modern incentives and it was during the industrial revolution that the incentive found a more sophisticated economic rationale. The drive for efficiency and performance by the factory system led to a more complex set of incentive programmes. The rise of social science challenged the new economic model through the development of theories concerning job performance and de-emphasised financial rewards (Peach and Wren, 1992). In addition, the development of motivation theory and organisational behaviour theory led to a broader understanding of the rationale behind financial incentives.

Nevertheless, Mason (1991) would argue that the 'pay for performance school' of thinking first discovered its real widespread attraction in the world of sport, when Babe Ruth, on being asked how he could justify making more money than President Hoover, replied, "I had a better year than he did"! According to Kenneth (1991, as cited in Mason, 1991), compensation theorists immediately recognised that the concept of linking compensation to such clear criteria had some real advantages over the compensation systems generally in use at that time!

Leaving the popular myths aside, it becomes clear that the real foundation for modern wage incentive plans is popularly attributed to Frederick W. Taylor (Louden, 1944). Taylor began his study in 1880, presented his results in 1895, and published them in 1911. A large proportion of Taylor's results focused on the issue of 'soldiering', which concerned the restriction of output. Taylor felt that it was the job of management to design incentives to overcome this phenomenon. This was to be done through the use of time study, which essentially described the process of determining the output and standards of a job. He was not a believer in profit sharing as he felt that employees would realise that *all* shared in the profits regardless of their contribution. In countering the loss of this type of incentive, he suggested the use of rate setting, allocating higher rates to those who achieved a certain standard.

Scientific management, as it came to be known, expanded on Taylor's work and produced a litany of incentive programs, which inspired Blum (1949:138) to make the following comment:

From the point of view of the industrial psychologist, it is extremely difficult to differentiate among the various financial incentive systems. In some respects the only essential difference is who obtains the consulting fee.

The use of group based plans were also introduced in this era, the most famous of which were the Scanlon and Rucker plans. However, 'the transition from the era of economic incentives to one which included other inducements can be illustrated by the Hawthorne studies' (Peach and Wren, 1992:19). Although there is some debate surrounding the inconsistencies between the empirical evidence and the published results, the Hawthorne studies highlighted the need to consider social collaboration in industry, through de-emphasising the role of the 'economic man', which had effectively been the most prominent role of the worker until this period.

Smith (1992a) draws conclusions from early evidence in stating that pay was managed quite badly across all sectors of the economy in British organisations, despite the growth of the personnel function throughout the 1950s-1970s. Consequently, successive Conservative and Labour governments intervened in the process of wage and salary determination 'from Sir Stafford Cripps's policies for restraint in the late 1940s, through official and unofficial incomes policies in the 1960s, 1970s and 1980s culminating in Profit-related Pay introduced in the 1987 Budget and revamped in the 1991 Budget' (Smith, 1992a:170). The purpose of these initiatives was aimed at pursuing micro-level issues in an effort to reap macro-level benefits and, through encouraging the use of incentive payments, it was hoped that corporate performance would benefit, rippling further implications for the wider economy.

The rise of PRP as it is known today, however, is often cited as a 1980s phenomenon (Purcell & Ahlstrand, 1994; Dwyer, 1994). Nevertheless, Smith (1992b) argues that:

PRP is not just a phenomenon of the last decade; about a third of the schemes surveyed by NEDO and the IPM were more than 10 years old. But the Thatcher years' emphasis on the individual, the work ethic and industrial efficiency saw their strongest growth.

It is attributed to the perceived need to shape industrial relations strategies to firm and specific business strategies, and the apparent collapse of collective bargaining (the proportion of all employees formally covered by collective bargaining fell from 73 per cent in 1973 to 47 per cent in 1990). The parallel loss of union power allowed British managers to make fundamental changes to bargaining structures than would have been the case in the past.

Pay Developments in Ireland

Individualised pay in Ireland evolved at a slower pace than elsewhere. Although incentive pay was probably long established, the 1970s period marked its formal introduction and endorsement. The National Wage Agreements (NWA) of the 1970s included the ideas of standard wage round increases, standard phasing and standard deviations. According to O' Brien (1981), this had the effect of maintaining temporal order in the wage round system, a feat which was not considered possible by decentralised bargaining. However, the Employer-Labour conference attempted to come to terms with the fact that NWA increase norms would, if implemented in full, place a very heavy financial burden on certain employers. As a means of counteracting this, procedures were devised under which employers could plead inability to pay by revealing past, current and prospective financial details. The NWA

system finally collapsed due to the private sector refusing to match the proposed terms for 1982/83, as they felt the proposals to be excessive. The 'going rate of increase' (also referred to as the 'wage round increase norm') acted as a major influence on local bargaining. As such, unions focused on attaining this going rate of increase, as opposed to the 'going wage rate' for a particular category, and individual company arguments based on company performance became of secondary importance. Though companies tried to rely on special claims procedures, the Employer-Labour conference began to realise that a final solution was still very much in the distance. Eventually, the problem escalated to the extreme, until the then Minister of Finance protested that the cost of special claims actually exceeded the cost of the NWA norms (Budget Statement, 1981:21-27). O' Brien (1987:114) reflects on this in stating that 'while anomaly claims can be rationalised on social or equity grounds they fly in the face of economic realities'.

Nineteen eighty two witnessed the return to decentralised pay determination. However, it did not return to the industry-level bargaining groups of the 1960s. Various industry groupings (for example, co-operatives, bakeries, hotels, etc.) became a means to fix only wage increases whereas previously they had fixed wage rates. In the face of international competition, companies depended on their performance to survive. Therefore, as Ireland is an open economy and company performance is the key to survival, inevitably performance became the focus for pay determination. As Gunnigle, Patrick, Morley and Turner (1994:62) reflects: 'viability and economic performance became the key criteria shaping pay.' However, economic circumstances continued to deteriorate and by 1987 it became apparent that action was required to

restrain public and private sector pay; such action was 'viewed as a prerequisite to economic recovery and was to change fundamentally the face of pay bargaining in Ireland' (Gunnigle et al., 1994:62).

A budget deficit of £144 million coupled with continually deteriorating public finances, of which public sector pay was a contributory component, caused NESC (cited in Gunnigle et al., 1994:62) to comment that 'continuation of current policies [was] not a viable option', which gave legitimacy to centralising pay determination. October 1987 saw the publication of the 'Programme for National Recovery' and centralised bargaining furthered the revival of regional and industry bargaining.

As O' Brien (1987:115) has pointed out 'performance ...bears heavily on what is negotiable by way of pay and conditions'. Hence, the 1980s became the period in which pay determination evolved to focusing on the individual firm. Grafton (1988) points out that Ireland has shifted from a preoccupation with the productivity bargaining of the 1960s, measured day work in the 1970s, to PRP in the 1980s.

In recent years there has been a further development in the employer-employee relationship, which is centred around the increased emphasis on individualism. Gunnigle et al. (1994) note that those on the upper level of an organisational hierarchy have traditionally received individual pay packages as a consequence of their perceived direct impact on organisational performance as well as their non-union status. However, manual categories have rather a low figure for this type of practice largely due to the difficulty in measuring their impact on overall organisational

performance. European trends have been moving in the direction of national determination for manual categories; further up the hierarchy pay determination tends to be more individualised. However, in the Irish context, 'economic and managerial factors, coupled with the strength of the trade union movement, have shaped the face of pay bargaining carried out at all levels' (Gunnigle et al, 1994:63).

According to O' Brien (1987), a number of significant changes have taken place. The first involves the difference between collective bargaining in the 1960s and that of the 1980s. Typically, a union's offer in collective bargaining had little connection with what the firm actually could afford to pay. It was largely justified on factors such as comparability, equity and the cost of living, as opposed to the actual economics of the company. Furthermore, the cost in the consequential pay increases was not passed on to the customer. However, this practice has virtually been reversed: union/employer negotiations are now based on actual company facts. Employers now expect wage increases to be earned through increased productivity: 'Thus, while in the 'sixties the great majority of employees tended to get the wage-round norm (and this, even more so, in the 'seventies' the position in the 'eighties is that there is no wage round norm)' (O' Brien, 1987:116). Agreements now vary among companies, with company performance and productivity as the basis for negotiations.

Another significant development in the change of pay determination is the time factor. Both parties in wage negotiations now favour a smaller duration of time in which the agreed wage increase (or otherwise) is to be in existence. This is partly due to competition, in the sense that even if customers remain indifferent to wage increases

other rival companies will undercut that companies prices, and partly to do with the extent to which international and national economies have become increasingly unpredictable and unstable. Hence, a certain degree of flexibility needs to be maintained and the shorter the agreement the easier it is for companies to remain flexible.

Changes in Work Patterns: The Growth of Flexibility

Croner Publications (1994) suggests that the search for flexibility has been the dominant theme in pay management in recent years. Gunnigle et al. (1994:103) point out this trend in the Irish context:

Subsumed over the overarching concept of "flexibility", the 1980s saw a huge increase in interest in the contribution various employment strategies might make both to organisational effectiveness and performance and increased opportunities for employees.

Gunnigle et al. (1994) further emphasise that one of the most notable changes in the Irish labour market over the past twenty years has been the consistent growth in employment in the services sector, which now accounts for almost sixty per cent of all employees. Since the 1970s there has been a substantial decline in the numbers employed in older indigenous manufacturing industry, as well as the textile, clothing and footwear sectors. Job losses in the manufacturing sector tended to be concentrated on lower-paid, labour-intensive industries which did not export products.

These changes in the distribution of employment have brought with them significant changes in work patterns. The composition of the workforce has changed, creating large resources of unemployed people, by 1993 unemployment accounted for approximately twenty per cent of the workforce. Further developments have included

a lowering of the retirement age and widespread emigration. Curiously, however, co-existing with these changes has been an increase in female worker participation. Gunnigle et al (1994) indicate that there is a favourable bias toward female employment with females proportionately over-represented in those sectors which are seen to be expanding.

In consideration of the above changes 'it would appear that shifts in the employment structure and the depressed economic environment have led ... toward more non-standard or atypical employment forms' (Gunnigle et al, 1994:105). Non-standard employment forms, which are thought to be one of the most visible employment practices in Ireland, have been defined by Gunnigle et al (1994:105) as 'any form of employment which deviates from the traditional full-time, permanent format.'

Alongside the growth of the service sector in areas which have always been associated with non-standard employment, the public sector is now also increasing non-standard employment forms. With the rise of the female workforce, the jobs that have been lost, in contrast to the jobs that have been created, differ greatly. However, according to Gunnigle et al (1994), changes concerned with non-standard forms of employment must be viewed in the context of gradual incremental changes as opposed to a radical break from traditional forms of employment, although their significance cannot be overlooked.

According to Ponzellini (1992), because of the ever growing need of management to respond flexibly to an increasingly turbulent market environment, which requires

greater flexibility in labour force management and cost control, there is a growing importance for wage determination at company level.

Essentially, the context in which pay determination used to lie has been transformed. As Salamon (1992) points out, pay related developments for the 1980s have sought to link pay systems to the achievement of business objectives. This implies that there is a trend toward abandoning traditional methods of payment for a more pro-active performance based system of payment. Ichino (1989) supports this view by suggesting that such pay de-centralisation is justified by the requirement of closer links between wages and the dynamics of productivity in individual enterprises.

In order to put the above changes into context there would appear to be a:

fundamental shift in power relationships within employee relations, thereby allowing an increasing management withdrawal from reliance on 'union-management relations' based on collective bargaining and the substituting of a more individualised approach to management-employee relations (IRN 36, 1994:18).

Developments in business strategy and product markets are creating greater awareness of the impact of employee relations issues on organisational performance. Though Ireland still retains its pluralist system, it is clear that selected HRM initiatives, including PRP, will alter the nature of employee relations practice at the workplace level. Pay determination for most non-managerial employees is conducted at national level. However, rewards for management have traditionally been, and continue to be, determined at organisational level. Research evidence shows that there is a 'tendency towards linking the fortunes of the individual more closely to those of the firm

through the utilisation of variable pay mechanisms' (IRN 36, 1994:18). This trend is more evident in the private sector where PRP emerges as the most commonly used incentive among organisations, particularly for manual and clerical employees (Gunnigle et al.,1994).

Coverage of PRP Schemes: UK and US Experience

Tharp (1986) conveys that a recent study by The Conference Board revealed that ninety-two percent of the manufacturing companies in the United States have annual incentive plans for their managers. Similarly, in a Canadian survey entitled Compensation Planning Outlook (1984), 91 per cent responded positively to the question: 'do you link pay or increases to performance?' (Luce, 1983). Smith (1992a) observes that in America there has been a shift in favour of tailor-made remuneration packages:

Section 125 of the US Tax Code allows employees to participate in the process of determining how earnings are to be allocated among cash and benefits. Fifty of these 'cafeteria systems' were in operation in 1983, but the number had grown to 800 companies in 1988 and is continuing to rise rapidly (Hewitt Associates, 1991, cited in Smith, 1992:172.)

A survey conducted in the UK by Cannell and Long (1991) involved a joint research project for IPM and NEDO, the purpose of which, to attain an analysis of newly introduced and fundamentally changed incentive schemes from 1983. It included a questionnaire survey of 390 organisations and interviews with personnel managers of 40 organisations. It further explored the extent of usage of PRP (and Performance Management) systems within UK organisations, and the following results emerged (Cannell and Long, 1991):

- Almost half (47 per cent) of non-manual grades within the private sector are covered by PRP.
- Thirty seven per cent of organisations in the public sector were operating PRP schemes for their non-manual grades.
- Non-management grades were significantly less likely to be included than in the private sector, and those employed in senior management were twice as likely to be eligible for PRP in the private than their counterparts in the public.
- Only 10 per cent of public sector respondents had some secretarial, clerical and administration grades receiving PRP.
- In the private sector, 56 per cent of companies have at least some secretarial and clerical grades using some form of PRP.

Coverage of PRP Schemes: The Irish Experience

Gunnigle et al. (1994) produced an extensive survey, for the Price Waterhouse Cranfield Project, of current approaches to employee relations in Irish organisations. Their sample frame included the top 1,000 trading and companies and the top 500 non-trading bodies in Ireland. Evidence from Gunnigle et al.'s (1994) survey suggests that organisations appear to be shifting their policies from traditional remuneration systems to a system which will improve employee motivation. With the threat of increasing competition and deteriorating economic conditions, organisations seem to be turning to the use of both variable pay and other non-monetary benefits.

Table 1.1 shows that PRP in Ireland is largely confined to private sector employees; while almost 55 per cent of managerial staff are covered by PRP in the private sector,

this is true for less than 20 per cent in the public. The data further showed that pay determination for most non-managerial employees is conducted at national level, principally under the terms of the Programme for Economic and Social Progress. Gunnigle et al (1994) also noted that PRP's use was generally confined to managerial grades. They further observed the following determining factors in using PRP in the Irish context:

- (i) The non-recognition of unions seems, for many organisations, a prerequisite for the use of such schemes.*
 - (ii) Ultimate ownership is also correlated closely with the use of such schemes. US organisations on the whole offer a relatively high level of coverage to all levels of employees, Irish indigenous industry, however, demonstrates a relative reluctance to make use of Merit/PRP.*
 - (iii) Private sector respondents indicate a far greater tendency to adopt such schemes than organisations in the public sector.*
- (Gunnigle et al, 1994:71).*

Table 1.1: Use of Merit/Performance Related Pay for Different Grades in the Public/Private Sector

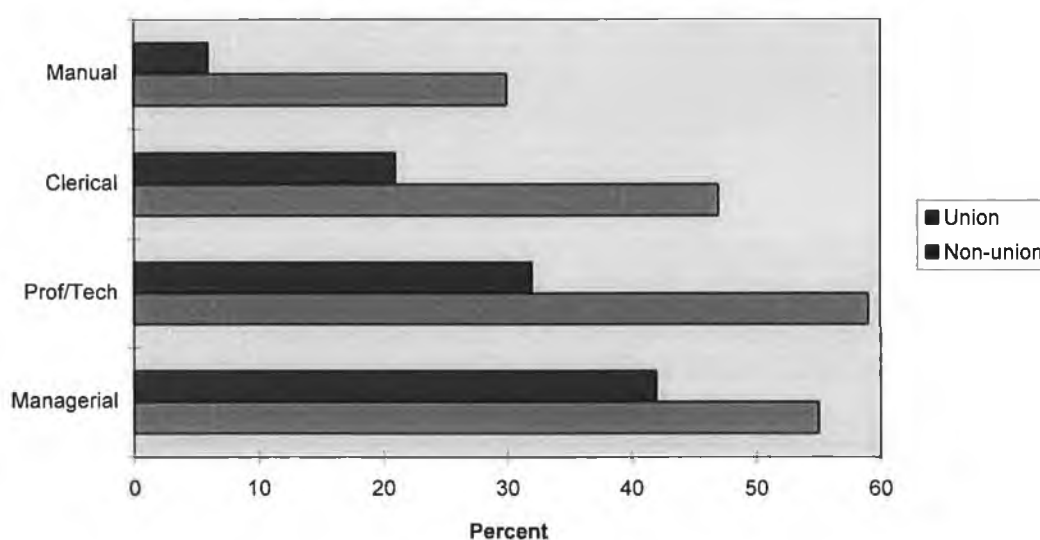
	Private	Public
Managerial	54.6% (100)	19.0% (11)
Professional/Technical	48.1% (88)	12.1% (7)
Clerical	36.6% (67)	3.4% (2)
Manual	18.0% (33)	1.7% (1)
	N = 183	N = 58

Source: Price Waterhouse Cranfield Project (Ireland); University of Limerick 1992.

Gunnigle et al (1993) have also explored the extent of PRP in unionised and non-unionised organisations, as Table 1.2 displays. This is divided according to manual,

clerical, professional and managerial categories of staff. The table shows that non-unionised organisations have a greater incidence of Merit/PRP, the difference being more clearly marked at the lower levels of the organisation. However, it is important to note that unionised members were fewer moving up the organisational hierarchy. This could largely be a factor of the history of employers individualising pay determination at managerial and professional levels.

Fig 1.2: Merit pay/PRP in Union/Non-Union Organisations



Conclusions

As this chapter has outlined, PRP is by no means a new concept, its emergence has been a long and slow process but its presence is now clearly established, with a rapidly increasing rate of growth both in Ireland and elsewhere. The concept of PRP has been widely accepted as a fair and tangible means of recognising achievement and rewarding according to performance. Although the acceptance of the concept of PRP has been established, it has been noted that attitudes toward PRP may be contingent

on numerous factors, only some of which include: the nature of the job, cultural influences, the sector and level in which an individual works in and their age category.

The 1980s marked a period in which the need to shape industrial relations strategies to firms and specific business needs became clearly recognised. Coinciding with this relatively new strategy was a decline in collective bargaining and the strong emergence of PRP. Although the trends toward the individualisation of pay had been moving at a somewhat slower pace in Ireland than that of abroad, a substantial growth in the service sector accompanied by an increase in non-standard employment forms led to an upsurge in the demand for flexibility. Subsequently, it became clear that flexibility and company performance was the key to economic survival, leading performance to become the focus for pay determination. Ultimately, the context in which pay determination used to lie had been transformed into one which required the achievement of business objectives.

CHAPTER 2 OBJECTIVES OF PRP: RATIONALE AND REALITY

Introduction

The previous chapter outlined the historical context which inspired the emergence of PRP. However, the political environment and historical factors are by no means the sole influences on its emergence. This chapter explores the rationale behind PRP's introduction from a number of perspectives. These include PRP as a managerial strategy and an ideological approach. This is followed by a comparative insight into the different perspectives of PRP's introduction across Europe. Following an analysis of the wider rationale in introducing PRP, individual objectives of its introduction, commonly found in organisations, are examined. These include the widely debated issues of motivation, improvement of performance, cultural changes, the reduction of trade union influence and teamwork. PRP's role in these initiatives, as well as the merits and drawbacks of using PRP to achieve these objectives, are discussed.

Rationales Underlying PRP

It would appear that the traditional pay system is somewhat outdated in consideration of the loss of the conventional expectancy of a 'job for life'. In fact, many organisations now make it clear to employees that they do not expect staff to stay with the company for life, but rather, the company will provide them with skills which will enable them to be sufficiently adaptable and flexible in order to be long-term employable (Gunnigle et al., 1994). Essentially, employers have individualised pay

and in order to establish the motivation for such a change, an analysis of the rationale underlying the introduction of individualised pay systems is undertaken.

A Managerial Strategy

Geary's (1992) study of PRP's introduction and subsequent effects in three separate US electronics plants in Ireland, indicated that PRP was part of a managerial strategy to individualise relations between management and employees. At the basis of the rationale of utilising such a mechanism was the belief that desirable work behaviour could be attained by the prospect of future rewards. Furthermore, the logic of PRP embodied a model of the economic person - homo economicus- guided by instrumental rationality: 'HRM mechanisms of reward are also designed to engender among employees social norms which act to *push* appropriate behaviour' (Geary, 1992:43). Geary (1992) further suggests that as behaviour inclines to be transformed by social norms, employees may be more willing to be flexible and generally motivated by a commitment to a common endeavour and shared interests, and not solely by financial incentives. In this respect, 'managerial strategy thus shifts from one which relies on *formal rule* as to how the work *is* to be done, to *implicit expectations* as to how it *should* be done' (Townley, 1989:103). The reward system helps to attain the expected normative behaviour by showing approval in the form of a merit increase for appropriate behaviour. Similarly, Baldamus (1961) claimed that the 'total' situation is handled so that employees are conditioned in the desirable frame of mind, as opposed to stimulating specific actions. Geary's (1992) research found that the terms used most frequently by management to represent the new shift in orientation were

'mind-set changes' and 'cultural changes'. Thus, management attempted to alter 'mind-sets' as opposed to specific actions of employees.

Probably the most basic rationale for introducing any performance related scheme is that which recognises that:

whilst different employees may have the same intrinsic skills and abilities to perform a particular job and for which they receive the same basic rate nevertheless they have different capacities for effort and performance of that work for which they should receive differential reward (Salamon, 1992:537).

However, Salamon further points out that such schemes are not simply intended to reward, but to motivate workers to sustain continually high levels of performance and effort. Geary's (1992) evidence pointed to the use of several different types of reward systems which were used for the purposes of motivation and stronger identity with the organisation. Amongst these systems included profit-sharing, stock ownership and promotion from within.

An Ideological Approach

Kessler (1993) has defined various rationales for understanding managers choices of payment systems, which emphasise the differing motives that apparently lie in many organisations. The first rationale is the contingency approach:

Essentially, a contingency approach is one in which it is argued that in some industries and in some environments one kind of managerial practice will contribute to some desired objectives. But in many other industries and circumstances entirely different results may occur. Therefore, in order to be sure of the outcome of a scheme the manager needs to consider the particular circumstances of his firm (Lupton and Bowey, 1983:69).

The second approach is far less rational and ordered. It is largely concerned with an ideological process which has a symbolic value supporting a particular interest or set of values. This approach takes the view that details of the actual PRP scheme and the way in which it is introduced and monitored are all largely irrelevant to decision-makers. The most important aspect is the message sent by its introduction. According to Storey and Sisson (1993), this latter view is the most appropriate for individual PRP systems.

Storey & Sisson (1993) argue that the reason for PRP's existence is its ability to motivate, and as such motivation provides the real incentive for its existence. Ponzellini (1992:221) confirms this view by pointing out that 'new pay policies, both collective and individual seem especially geared toward increasing the effectiveness of wages as a means of fostering employee motivation.' A further point in evidence is found with the strong conviction in the belief that managing through the pay system is not only the most effective means of managing human resources and industrial relations but is in itself sufficient for this purpose (Storey and Sisson, 1993). However, the issue of motivation will be discussed in more detail at a later point.

Differing Rationales on a European Basis

Ponzellini (1992) discusses the various ways in which PRP is viewed in different countries. Her research involves a contrast between Great Britain, Italy and France, where the context of PRP is viewed quite differently. According to her research, PRP may be viewed as a process of decentralisation, a form of economic participation, or a loss of union control over pay issues, depending on the country of origin. Research by

Cannell and Wood's (1992) survey involved a joint research venture, including IPM and NEDO, to examine the extent and nature of individual and group incentive pay systems at all levels of employees. Following an examination of current trends, a questionnaire survey was conducted among a cross-section of 1,000 public and private companies (with an overall response rate of 40 per cent). This was followed by face-to-face interviews with personnel managers from 44 organisations. Their findings show that PRP is reasonably widespread in Great Britain, with a total of 76 per cent of employers using it in some form. In Great Britain, individualised pay systems are largely determined unilaterally by company management. The spread of such schemes to unionised occupational groups is conceived as signalling a crisis in traditional bargaining. Similarly in France, the general consensus appears to be that the weakening of unions is at the root of individualised pay bargaining (Ponzellini, 1992). Italy, however, takes an entirely different perception in interpreting PRP as a growing individual payment system. They regard it as aiming to bring the salaries of their medium-high level positions in line with the market, following decreases in wage differentiation due to union policies. Ponzellini (1992:220) argues that 'it is hard to see a single objective behind these innovations, but just the same it may be possible to say that this process is oriented by a prevailing employer's initiative'.

Ponzellini (1992:220) continues to suggest that:

the decentralisation of pay determination which could be a socially concerted project towards a desire for greater pay flexibility actually appears to be an opportunity for individual employers to deregulate the employment relationship through the increase of their decision making power on wage distribution.

However, this does not necessarily indicate a new wave of employer hostility. In fact, in practically all countries studied unions have been very visibly involved through union bargaining.

Objectives

Having explored the wider rationale of introducing PRP, objectives of individual organisations will now be explored. Although the objectives in introducing PRP schemes tends to vary extensively between many organisations, the literature has identified a number of common reasons. Among these objectives includes that of recruiting, retaining and motivating staff. Recruitment and retention of employees is viewed by some writers (Beer et al, 1984; McBeath & Rands, 1989; Armstrong, 1993), as an almost automatic benefit of PRP; the most practical advocate of this conception is found with Fursland (1995:36) who remarks: 'received wisdom still say that if you want to get the best from people, you reward them for better performance'. McBeath and Rands (1989:134) discuss the necessity of the remuneration package in retaining the best performers in commenting:

Exceptionally high performers are highly marketable and difficult to lock in. If these high performers can be provided with attractive and challenging jobs and remuneration packages which link exceptional earnings to achievement, competitors will have some difficulty in persuading them to move.

It is considered that the best performers are attracted to an organisation in which employees are rewarded on the basis of top performance, satisfying the recruitment criteria, and retention is a factor of employees remaining in an organisation not only for its tempting rewards, but because they are motivated. Motivation, here, is a key

issue and it is this which has provided one of the great debates in evaluating the success of PRP.

Motivation

Probably the most commonly cited objective in introducing PRP plans involves that of motivation. Indeed, Marsden and Richardson (1994:247) comment that 'the central justification of performance related pay must surely be that it somehow acts as a motivator'. However, the assumed linkage between PRP and motivation has been disputed and this has been the inspiration of much debate. Williams, Dobson and Walters (1993:141) sum up a large section of the debate to date with the following comment:

There has long been a debate among personnel theorists about whether or not financial remuneration can positively influence work behaviour. Conventional personnel wisdom, drawing on Herzberg, suggests that pay is merely a 'hygiene factor', which demotivates if it is unsatisfactory but does not generally motivate. In recent years, an increasing number of organisations have rejected this view, arguing that, if used carefully, pay can be a very powerful motivator.

However, the effectiveness of using extrinsic rewards, such as monetary gain, to motivate has been questioned by a number of authors, including Slater (1980:27) who remarks: 'getting people to chase money...produces nothing except people chasing money. Using money as a motivator leads to a progressive degradation in the quality of everything produced'. It is further argued that this use of external motivators can have the effect of damaging intrinsic motivation, which essentially provides the genuine interest for a job:

Extrinsic rewards can erode intrinsic interest. People who come to see themselves working for money or approval find their tasks less pleasurable and therefore do not do them as well...external motivators can backfire.

People come to see themselves as being controlled by a reward they feel less autonomous, and this often interferes with performance (Kohn, 1988:93-4).

This notion of employees finding themselves de-motivated as a result of the existence of external rewards should be considered further. In explaining this phenomenon, it would appear that the implementation of 'sophisticated piece-rate plans' have an adversarial effect between system designers and employees (Kohn, 1988). The overall effect of the use of such systems can result in employees seeking to obtain rates that maximise their pay relative to the amount of work they do. It may further be due to employees' perception that the reward is in control, rather than a sense of self-determination in accomplishing the challenge of a task. Nevertheless, not all authors are in agreement with this notion.

Armstrong (1993) suggests that incentives and rewards are indeed a most effective source of motivation. Henderson (1989:297) rationalises the ethos of linking pay to motivation by suggesting that 'no one knows for sure how motivators work...what is known is that a major reason an employee works is for a pay cheque and the compensation package.' Regardless of the extent of motivational stimulus provided by incentives in the form of pay, there is a more subtle aspect to the advantage of using such incentives, which comes in the form of the symbolism that accompanies pay. Beer et al. (1984:147) states that pay is 'important to people and has enormous symbolic value beyond its obvious material value'. It is suggested that if significant merit pay is awarded to an individual, it is a sign of recognition and achievement by the company to the employee. This can in turn inspire pride in one's work, creating the 'spin-off' effect of greater motivation, and incentive to perform continuously. The

issue of motivation is one of the most widely discussed aspects of the PRP debate, however, due to the lack of unanimity in the literature, no conclusions can as yet be drawn concerning the effects of incentive schemes on motivation.

Improving Performance

A third objective commonly cited within the literature involves that of an organisational improvement in performance. Hoevermeyer (1989) suggests that the objective of PRP should be to develop a productive, efficient, effective organisation. Again there appears to be contradictory evidence regarding PRP's capabilities in achieving this goal. While Kessler (1995) argues that there is some consensus on the positive impact of financial participation in terms of improved organisational performance, Heneman (1992) considers that studies to date show no consistent effect of incentive pay systems on subsequent performance. This, however, could be a factor of the difficulty in isolating improved organisational performance from other managerial policies and practices (Kessler, 1995; Blinder, 1990).

Cultural change

It would appear that the objectives in introducing PRP may change according to the trends of that era. According to Kessler (1995), in the post 1945 period pay systems were broadly used in an ad hoc manner to address specific managerial problems or goals. However, more recently, reward systems are widely used to encourage or reinforce the broader process of organisational transformation. Salamon (1992:541) points out that:

PRP is an integral element of the industrial relations strategy of many companies during the 1980s as they have sought to change the culture of the organisation towards a more customer, quality or performance orientation.

The culture of an organisation can be described as:

the system of interlocking values, attitudes and beliefs that underline individual and organisational behaviour. This system is likely to be influenced both by external factors - political, economic, social and technical - and by the attitudes, behaviour of its constituent individuals (Gabriel and Mitchell, 1986:126)

Changing culture, however, can take a multitude of forms. The role of PRP in changing culture can also take a variety of forms: it can 'act as a lever for cultural change in the direction of accountability for results and orientation toward high performance', (Armstrong, 1993:86), or it can be used to reinforce cultural change in acting as a statement about what Kessler and Purcell (1992:21) describe as the 'kind of company we are'. On the other hand, it may simply be one element within the process of a number of other initiatives in order to achieve cultural change. Procter, McArdle, Rowlinson, Forrester and Hassard (1993:73) suggest that 'the necessary culture may already have to be in place for a system of PRP to work effectively', as PRP as an isolated entity is incapable of being the primary driving force for cultural change. Kessler (1995) supports this view in stressing the danger of over-reliance on the reward system as a vehicle for change.

The reduction of trade union influence

Several writers (Procter et al, 1993; Ribbens, 1988) have identified PRP as a means to introduce a broader objective in changing culture, namely the reduction of trade union influence. They have suggested that in changing the relationship between

management and workforce, instigators of PRP can remove the bargaining process in relation to pay away from trade unions, through individualising the payment system. They regard the primary objective in introducing PRP as a means to reduce the power of trade unions in a concerted effort to re-establish managerial control. Other writers (Heery & Warhurst, 1994; Kessler, 1995; Geary, 1992) view PRP as a direct means for instigating a solely deliberate strategy to increase the individualist ethos within organisations, in an attempt to undermine collective relations. They suggest that the corrosion of trade union and member relations is achieved through raising employee satisfaction and commitment, which will reduce the perception of a need for union protection, and therefore reduce identity with the union in favour of the company:

A more fundamental assault upon collective employment relations through the encouragement of individual commitment to the organisations has been reflected in the increased use of individual performance related pay (Kessler, 1995:261).

However, it is also noted that many organisations avoid overt formal de-recognition of the union, through retaining the union with reduced powers within the organisation. Nonetheless, the danger in this strategy comes when contemplating that 'the political and managerial contexts in which an agreement of a pay scheme is introduced may sometimes be important influences on how they work in practice' (Marsden and Richardson, 1994:249). Thus, if employees recognise PRP as a deliberate attempt to undermine their trade union representation, they may resent its operation.

In response to the evidence of a growing trend of de-recognition or marginalisation, trade unions, not surprisingly, have been found to be generally opposed to PRP's introduction. Their main response, in an effort to avoid marginalisation or at worst de-

recognition, has been to secure collective agreement to regulate its operation. Methods such as advisory services, ensuring management procedures are bound by rules and procedures, and securing procedural rights to pursue appeals have all been part of a wider strategy to ensure unions involvement in PRP (Heery and Warhurst, 1994).

This trend toward marginalisation and de-recognition of collective entities appears to be largely a British and American phenomenon. As Irish unions have instigated a collaborative and co-operative policy since 1987, the attitudes toward union recognition appears to be quite different from that elsewhere. Gunnigle et al's (1994:16/7) survey results on the Price Waterhouse Cranfield project indicate that:

despite some adverse commentaries on the level of trade union recognition and density in Irish organisations, the evidence from the Price Waterhouse Cranfield (PCW) Survey suggests that union membership in Ireland is quite robust. The PCW survey found that the great majority of Irish organisations surveyed recognised trade unions.

It is further noted that in contrast to British and American governments, successive Irish governments have been supportive of a consensus approach to labour relations. Therefore, this strategy to undermine collective entities, such as trade unions, through the use of PRP systems does not appear on the surface to be a prominent one in Irish organisations.

Teamwork

The final objective to be dealt with is the issue of teamwork. Again the literature poses contradictory information concerning this objective, with some writers (Armstrong & Murlis, 1994) advocating the benefits, while others discussing its

detrimental effects (Hammer, 1975; Mitchell, Lewin and Lawler, 1990; Smith, 1992b):

Perhaps the most worrying aspect, however, is that individual PRP would seem to contradict or sit uneasily with a number of other policies and objectives which managers profess to be pursuing. One of these is the emphasis which many organisations are putting on teamwork. In many cases, notably where operations are inter-linked, individual PRP would appear to be totally inappropriate. Focusing on individual performance goals in such situations can undermine team spirit and co-operation (Storey & Sisson, 1993:141).

Armstrong and Murlis (1994) argue that performance management/PRP can enhance teamwork by asking teams to identify interdependencies and set team objectives. Additionally, members may jointly review progress in achieving targets. Armstrong and Murlis (1994) further suggest that teamwork can benefit from setting overlapping objectives for different members of a team. Teamwork thus reflects much of the literature on PRP, in presenting a set of contradictory evidence, which includes the support and condemnation of various issues according to the particular writer. However, it would appear that much of the literature focuses on the individualist spirit of PRP which tends to have a damaging effect on teamwork.

The Reality of PRP

Many writers (Kinnie and Lowe, 1990; Beaumont, 1993) have referred to what is commonly addressed as the 'gap' between the theory and practice of PRP. It would appear from the evidence of empirical research (Marsden and Richardson, 1994; Geary, 1992) that PRP does not always achieve its objectives and can sometimes generate difficulties of its own. Dwyer (1994:17) comments that 'the biggest worry is

the scarcity of evidence that PRP delivers for either employees or employed' and the literature has identified underlying reasons for this.

The most common reason cited by the literature involves the potential 'short-termist' nature of the goals set (Salamon and Mabey, 1995; Armstrong, 1994). The danger in setting goals focusing on short-term results is that individuals can narrowly focus on the achievement of short-term objectives, to the neglect of other, possibly more long-term aspects of the job. Pearce (1987) also refers to this by noting that pay plans put an employee in the position of being accountable only on the performance of their targets, and less account is taken of the performance outside the established criteria or potential future performance (Kessler, 1995). According to Bevan and Thompson (1991:39), this difficulty is particularly prevalent among managerial staff as PRP 'could reinforce this predisposition to short-termism and set back organisational effectiveness in the long term.' Although much of the literature condemns the 'short-termist ethos', the polar effect is that targets which are not set in the short-term have the potential to become outdated and irrelevant. If this occurs, the manager is left with the dilemma of abandoning the target or continuing with it and being measured on the performance of an irrelevant target. Clearly, the time period over which targets are set is imperative to the effectiveness of that target:

Targets which are set for a twelve-month period may become redundant and irrelevant as a result of product market changes., technological changes., economic changes..and even social changes, although, in these kinds of environments, target-setting and appraisal can become empty exercises leading to frustration and dis-satisfaction rather than high motivation (Lupton and Bowey, 1983:125).

In consideration of these effects, feedback and amendments to targets become a necessary procedure for implementation within a PRP system. Many authors have further commented on the beneficial effects of feedback, particularly in relation to its positive effect on productivity (Wilk and Redmon, 1990; Balcazar, Hopkins and Suarez, 1986; Calpin, Edelstein and Redmon, 1988; Komaki, Collins and Penn, 1982).

Conclusions

This chapter has reviewed the varying rationales behind PRP's introduction. In discussing these, a number of perspectives emerged, ranging from the broader managerial and ideological approaches to individual common objectives aspired to by organisations. Among the various approaches discussed was the contingency approach, which requires managers to consider the particular circumstances of the firm to ensure effective outcome of a PRP scheme. Much of the literature evidence poses contradictory viewpoints in discussing PRP's capabilities in achieving its objectives, thus they have been examined in the light of their potential merits and drawbacks. A brief summary of some of the objectives included ensues:

- Recruitment and retention of employees
- Motivation: this issue has raised widespread debate throughout PRP literature. The assumed linkage between PRP has been disputed and it has, in fact, been associated with some de-motivational effects. In contrast, however, it has been suggested that pay symbolises recognition and achievements and it is these, as opposed to the monetary element, which provides the real source of motivation.

- Improvement in organisational performance: the potential difficulties in directly linking PRP to an improvement in organisational performance has been identified.
- Cultural change: PRP may take a variety of roles in changing organisational culture. It can act as a lever for organisational change or it may simply reinforce it. It has also been suggested that PRP is not always considered to be capable of driving cultural change, as an isolated entity, but may achieve this objective as one initiative within a wider range of supporting initiatives.
- Reduction of trade union influence: evidence throughout Europe indicates a trend toward the weakening of unions through such initiatives as PRP, although union bargaining is also common practice. However, the reduction of trade union influence through a deliberate strategy involving individualising pay and reducing the perceived need and identity with the union has been recognised. In response, unions have attempted to regulate PRP's operation, through utilising their services in appeals and advisory services. Nevertheless, the trend toward marginalising and de-recognising unions through the use of PRP does not appear to be widespread in Ireland, but is more commonly associated with the trends of Britain and America.
- Teamwork: the literature has presented contradictory evidence with regard to teamwork. It has been suggested that PRP can be both supportive and destructive toward teamspirit and teamwork.

The gap between theory and practice indicates that PRP doesn't always achieve its objectives but can in fact generate difficulties of its own. The issue of an over-emphasis on short-term goals has been discussed and although this may pose a threat to the achievement of strategic, more long-term objectives, the simultaneous

avoidance of outdated or irrelevant targets is equally imperative. Feedback and subsequent amendments to targets have been presented as one solution in overcoming these dilemmas. However, in explaining the rationale for PRP's introduction, theoretical considerations should not be overlooked as these provide explanations for the motivational force of PRP. Thus, the following chapter examines the literature to date on theoretical frameworks in which PRP is based. Hence, the previous two chapters addressed the 'why' of PRP, the following chapter will address 'how' PRP actually operates.

Introduction

The purpose of this chapter is to consider the varying theoretical implications of PRP. It begins by establishing the importance of the link between pay and behaviour, as well as the implications of employee satisfaction, which provides the basis of virtually all of the underlying theories of PRP. In setting the scene for the introduction of the various theories, a number of important variables are examined including the importance of the perception of equity and trust in the acceptance of a scheme. A description of what is probably the most commonly referred to theory in association with PRP ensues, namely that of Expectancy theory. Following this, goal-setting, equity and reinforcement theories are each examined.

PRP schemes are often examined within a wider framework which encompasses supporting initiatives. The recent literature to date has defined this type of framework as Performance Management (PM) systems. Hence, PM systems are described in detail and means to designing such a system are discussed.

Pay and Behaviour

According to Beer et al. (1984), pay is consistently ranked among the top five rewards in virtually all studies. It is therefore not surprising that pay is used as a motivational tool. However, the importance of pay and rewards is affected by various factors such as the particular stage of career, culture and even environmental factors such as inflation and unemployment.

Employers, in seeking to achieve employee satisfaction through motivation by pay, aim to improve organisational effectiveness and to avoid the cost of employee dissatisfaction which would produce a high turnover of staff, absenteeism and poor performance. Employee satisfaction, however, is subject to a number of factors (Beer et al., 1984). The first of these involves a comparative analysis, in terms of effort and performance, with what is received for it. Additionally, comparisons are based on what others in a similar position receive (Adams, 1963). It is also noted that individuals tend to overrate their own performance, compared to an appraiser's opinion. If the appraiser fails to effectively communicate an objective and honest opinion of an employees performance, employees will fail to develop a realistic interpretation of their own performance and thus dissatisfaction with rewards are increased. Beer et al. (1984) further suggests that satisfaction is born of a mix of rewards rather than one in particular. Essentially, both extrinsic and intrinsic rewards are mutually important and one cannot substitute for another.

Motivation and satisfaction from a reward system depends much on the perception of equity of the reward system. There must be trust and confidence in the equity of the system in order to convince employees of a direct link between performance and pay (Armstrong and Murlis, 1994; Lawler and Jenkins, 1981). However, trust and the perception of equity are not the only important factors, another important factor is who influences and controls the design and administration of the new reward system. As pay has been one of the last managerial prerogatives, management can be reluctant to allow full employee participation; participation can also be a time consuming and costly business. However, the new trend towards worker participation indicates that

participation in the design and administration of reward systems will lead to greater acceptance of decisions and the overall scheme (Lawler, 1981; Miceli and Lane, 1991; Heneman, 1992). The desire for participation by both unions and employees will undoubtedly be particularly high when rewards are perceived as inequitable. By directly influencing the design and administration of the pay system, workers can feel more assured that they are treated in an equal fashion and may develop a greater commitment and ownership of the system (Lawler, 1981; Dwyer, 1994).

Having established that pay is genuinely important to people and related to satisfaction, the following considerations are noted by Beer (1984). Satisfaction with pay, or the prospect of it will influence individuals to join a company initially and secondly, to stay there (Beer et al., 1984; McBeath & Rands, 1989). Pay can also motivate job performance, however this is contingent on certain conditions such as the employees belief that effort can result in certain levels of performance and that rewards will be granted for the achievement of certain performance levels (Vroom, 1964, Heneman, 1992). It is further noted that both satisfaction and motivation can be lost to the perception of inequity of a reward system (Brown, 1989; Lawler and Jenkins, 1981).

It is argued that pay compensation often masks the inadequacy of intrinsic rewards, such as job satisfaction and pride in one's work (Gunnigle et al., 1994). This is particularly applicable to workers in routine and often boring jobs. Therefore 'increases in compensation may reduce conflict for a while but they will not resolve the fundamental problem' (Beer et al. 1984:114). However, it is argued by many

writers (Brown, 1995; Salamon and Mabey, 1995) that compensation as a rule should be used far less frequently as a leading policy area in HRM. Instead of implementing incentive systems it might be wiser to find out how clear employees are about goals, whether they have information, resources and feedback, and whether they have sufficient influence over getting the job done. Attention to this type of employee behaviour is thought by many (Fletcher and Williams, 1992; Beer, 1984; Torrington & Hall, 1995) to be required prior to determining the most appropriate incentive scheme.

Expectancy Theory

Expectancy theory was initially described by Vroom in 1964. The premise of expectancy theory is based on the assumption that people are motivated to work when they expect that they will achieve what is required from them and that this effort will be rewarded in the form of an attractive incentive. The assumption rests on the proposition that individuals are rational beings who think about what they have to do to be rewarded and how much the reward means before they perform their job. According to expectancy theory, the motivational force for an employee to perform depends on three variables:

1. Expectancy - the belief that one's effort will result in performance.
2. Instrumentality - the belief that one's performance will be rewarded.
3. Valence - the perceived value of the rewards to the recipient.

Belcher (1980:14) offers a simplified version of expectancy theory in stating: 'expectancy theory (in simple terms) postulates that if people want more pay and believe that working harder will result in their getting more pay, they will work harder

and perform better in order to get more pay'. Heneman (1992) reflects the views of various writers (Mount 1987; Hellriegel, Slocum and Woodman, 1989; Heneman 1984) in suggesting the numerous implications for merit pay deriving from expectancy theory. In particular, the following conditions form the pre-requisites for the motivation of employees:

i) Performance must be accurately measured in order for the individual to make the perceived link between effort, performance and rewards. Measurable and observable performance is also essential in order for subordinates to understand what managers desire of them.

ii) Increased pay must be a valued outcome. Hellriegel et al (1989) suggest that managers should directly link the specific performance they desire to the outcomes desired by employees. They warn against managers implementing rewards without consideration of employees' perceptions of these rewards:

Managers should not forget that it is an individual's perceptions - not reality - that determines motivation. Too often, managers misunderstand the behaviour of their subordinates because they tend to rely on their own perceptions of the situation and forget that their subordinates' perceptions may be different. (Hellriegel et al, 1989:162-3)

Hellriegel et al (1989) further suggest that the level of reward for varying performances should be significantly different in order to motivate employees. Trivial rewards may result in minimal efforts, if any. Therefore, rewards must be large enough to motivate individuals to make the effort required to change performance.

iii) The relationship between pay and performance must be clearly defined.

iv) Opportunities to improve performance must exist. If an employee does not have the opportunity to improve performance, then it is futile for that employee to expend effort at a task.

v) Managers should analyse the situation for factors which conflict with the desired behaviour (e.g. there should be no conflict between the objectives of the reward system and the informal work organisation). Motivation will be high only when employees see many rewards and few negative outcomes associated with good performance (Hellriegel et al, 1989).

Goal -Setting Theory

Goal-setting theory was established by Locke (1968), in which he argued that goals served an important role as a motivational mechanism. It was conceived that people examine the consequences of their behaviour and reflect on their goal achievement, or otherwise, as a function of their current behaviour:

Goals affect performance by directing attention, mobilising effort, increasing persistence and motivating a strategy development. Goal setting is most likely to improve task performance when the goals are specific and sufficiently challenging, the subjects have sufficient ability (and ability differences are controlled), feedback is provided to show progression in relation to the goal, rewards such as money are given for goal attainment, the experimenter or manager is supportive, and assigned goals are accepted by the individual. (Locke, Saari, Shaw and Latham, 1981:125).

Locke et al (1981) found that in 24 different field experiments individuals given specific, challenging goals outperformed those trying to do their best or surpassed their own previous performance when they were not trying for specific goals. In light of this evidence it can be ascertained that 'goals are motivating to employees when they are specific, challenging and accepted by employees' (Heneman, 1992:33). Wilk

and Redmon (1990) have since found that the use of a combination of goal setting and feedback combined are more competent together in producing greater improvements in performance than either goal setting or feedback alone. Salamon and Mabey (1995:190) assessed subsequent empirical research and present the following conditions necessary for organisational goals to be motivating to employees:

- Goals should be specific, rather than vague or excessively general.
- Goals should be demanding, but also attainable.
- Feedback of performance information should be made.
- Goals need to be accepted by employees as desirable.

Equity Theory

The foundations of Equity theory are largely attributed to Adams (1963), who recognises that:

the fairness of an exchange between employee and employer is not usually perceived by the former purely and simply as an economic matter. There is an element of relative justice involved that supervenes economics and underlies perception of equity or inequity (Adams, 1963:422).

Equity theory essentially describes how employees perceive their treatment in relation to others. Basically, they compare their situation to others in a similar position and on that basis assess the fairness of their treatment. Adams (1963:424) suggests:

When the normative expectations of the person making social comparisons are violated - when he finds his inputs and outcomes are not in balance in relation to those of other - feelings of inequity result.

The theory has two major assumptions. First, 'the theory views interpersonal relationships as exchange processes in which individuals make contributions and expect certain results' (Hellriegel et al, 1989:163). Second, it assumes that individuals compare their situations with those of others to determine the fairness of their own

situation: 'the extent to which people view an exchange favourably is influenced by what happens to them compared to what happens to others involved (Hellriegel et al, 1989:163). Equity theory has also been described as the comparison of two variables: inputs and outcomes. The inputs are the contribution of the individual to the exchange while the outcomes are what the individual receives from the exchange. Equity then exists where the ratio of a person's outcomes to inputs equals the ratio of outcomes to inputs for others. Heneman (1992:32), although admitting to a lack of substantial evidence, presents the following implications of equity theory for merit pay:

- i) Merit pay decisions cannot be made independently of one another. Merit pay increases received by one employee are likely to have an impact on the equity perceptions and resulting behaviour of other employees.
- ii) Inputs must be clearly defined. Employees bring many inputs to the workplace. Employers must take care to establish the value of alternative inputs so that an accurate assessment of the ratio of outcomes to inputs can be made.
- iii) Merit pay information must be communicated to employees. If merit pay plans are not communicated to employees, then employees may make incorrect assessments of the ratios of outcomes to inputs.
- iv) The perceived relationship between pay and performance should be viewed as important as the actual relationship. According to equity theory, it is the perceived relationship between pay as an outcome and performance as an input that is the determinant of motivation.

Reinforcement Theory

Reinforcement theory can largely be attributed to the work on operant conditioning by B.F Skinner (1953). It rests on the assumption that the frequency of behaviour, including performance, is likely to be increased when a positively valued reward solely depends upon that behaviour: 'unlike expectancy theory where attention is given to both antecedents to and consequences of performance, reinforcement theory focuses solely on the consequences of performance' (Heneman, 1992:28). Henderson (1989:295) suggests: 'Skinner and reinforcement theories tell pay-for-performance designers that a reward (consequence or reinforce) will have more motivational influence when the employee recognises a direct relationship between activities performed, results achieved, and rewards gained'. Heneman (1992) summarises the implications of this theory as follows:

- i) Performance must be clearly defined
- ii) Merit increases must be made contingent upon desired performance. If pay is given for reasons other than performance, e.g. seniority, other behaviours such as retention may be reinforced.
- iii) The size of merit increases should increase with levels of performance.
- iv) Merit increases should be given out close in time to the desired performance levels.

'In summary, under reinforcement theory, merit pay should motivate increased performance because the monetary consequences of good performance are made known to the employee' (Heneman, 1992:29).

Various other theories are also used to provide a theoretical framework within which merit pay or PRP can be understood. Included among these are various economic theories such as the 'Marginal Productivity Theory', where an employer pays higher rates of pay to those who provide higher inputs which improve profits within the organisation, 'Implicit Contract Theory', which presents the argument that in exchange for services provided by the employee, the employer promises to pay the employee, and vice versa; 'Efficiency Wage Theory' also presents another economic theory, and it suggests that effort is determined by the level of wages; the reason which an employer would provide a premium wage is because employees have an incentive to perform up to their maximum levels (Heneman, 1992).

Summary of the Theories

In the expectancy theory model, satisfaction is a result of performance, not a cause of it. Satisfaction indirectly influences motivation because satisfaction that follows rewards strengthens the employees belief in the linkage between effort, performance and rewards. In Marsden and Richardson's (1994) survey, only 45 per cent felt that their merit increase reflected their performance, and this was believed to be a contributory factor to their general de-motivation. According to Beer et al. (1984), the expectancy model can make the serious mistake of assuming that all that is required in order to achieve certain levels of performance, is pay and various other valued rewards. However, this view is seriously misleading: many other factors must also be taken into account before certain performance levels can be achieved. These include management-worker relationships and the opportunity to develop a sense of contribution to meaningful goals.

Goal-setting theory deals with the type of goals which should be set and introduces the importance of feedback. It also suggests that the goals, as opposed to the rewards should be desirable, and therefore denotes the alternative view that employees are motivated by the challenge of their work (i.e. the job itself) as opposed to expected rewards. Goal-setting theory essentially addresses the intrinsic nature of motivation.

Equity theory is based on a comparative framework. It also introduces the concept of perceived fairness and emphasises its importance. Although perceived fairness may not provide the ultimate motivator, de-motivation will certainly be evident in its absence. The difficulty with this theory, however, is that it does not take into consideration those who do not have someone with whom they can compare their treatment. Though only a limited number of people may be in this position, it is important to remember that individual employees may consider their contribution to the workplace unique, and may not therefore compare their situation to others. Furthermore, they may not be aware of the position, financial or otherwise, of others who may act as a comparator.

Reinforcement theory focuses on the assumption that motivation is derived from the expected consequential rewards. Although it makes the valid point that individuals will perform for an attractive reward, it concentrates on extrinsic motivators only and neglects intrinsic motivators. In taking an intrinsic motivation perspective, it could be suggested that individuals are also motivated by the challenge of the goals set, as in goal-setting theory. Furthermore, this theory would require rewards to be constantly attractive to the employee. If the reward is based on a monetary basis, as in most PRP

plans, a difficulty may arise through the 'marginal valence problem', discussed by Salamon & Mabey (1995), which suggests that a reward can only appear attractive so many times: it loses its appeal after a repeated occurrence of the same reward. In consideration of this, it would be necessary to develop continuously new rewards which would remain attractive to the employee.

The economic theories briefly discussed largely perceive motivation a function of an exchange of services. Although, they recognise the employer-employee relationship in a realistic light, i.e. a relationship in which one party provides a service and is paid accordingly, they do not contribute a useful explanation for what motivates. Furthermore, these theories and their implications, do not offer an explanation for why a PRP plan might or might not work.

Nevertheless, the theories do not provide the sole framework under which PRP can be analysed. Many writers (Smith, 1992a; Williams et al., 1993) emphasise the need to consider PRP in a broader framework encompassing several supporting initiatives. This often takes the form of a Performance Management (PM) system, of which there are varying models for consideration. Murlis (1992:16) has stated:

The single most important success criteria for PRP schemes in both the public and the private sectors appears to be the existence of a performance management process that has become integrated into normal management practice, that produces identifiable performance improvements and which continually helps sharpen the performance focus of the organisation as well as fostering personal development. Pay increases and cash bonuses can only provide recognition after targets have been achieved or required behaviours or competences demonstrated.

An Assessment of Performance Management Systems

There are many different types of PM systems, varying from the very simple to the very complex. In designing a system, it is essential to consider the factors which will be assessed, the inputs and outputs from the scheme, and effective links to other HR systems (Philpott and Sheppard, 1992:101).

Most of the literature warns against the implementation of PRP schemes in isolation, without a supporting infrastructure (Armstrong, 1994; Salamon & Mabey, 1995). It is considered that PRP not be treated as an isolated entity, but as an integral part of a wider strategy which encompasses the goals of the organisation and the tangible individual contribution of employees. Thus, the most recent literature (Salamon & Mabey, 1995; Torrington & Hall, 1995; Fletcher and Williams, 1992) now treats PRP in the context of PM systems and suggests that, in order to achieve successful PRP schemes, practitioners should do likewise. However, the definition of, or actual composition of, PM systems proves less well documented than that of PRP, and as such, though the concept of PM systems appears well established, the practicalities of it remain somewhat elusive. Much of the literature (Fletcher and Williams, 1992; Storey & Sisson, 1993), spends a great deal of time and effort in describing the extent of usage of such PM schemes, but refrain from describing what such systems involve. However, some of the more recent literature (Salamon & Mabey, 1995; Fletcher and Williams, 1992; Armstrong, 1993) provides a more comprehensive description of PM systems, and these will be examined for the purpose of constructing a model performance management system.

Salamon and Mabey (1995:189) describe performance management as: 'establishing a framework in which performance by individuals can be directed, monitored,

motivated and refined'. They identify the following five elements as constituting a performance management system:

1. Setting performance objectives
2. Measuring outcomes
3. Feedback of results
4. Rewards linked to outcomes
5. Amendments to objectives and activities.

Figure 3.1 depicts what Salamon and Mabey (1995) refer to as the 'performance management cycle'. As Figure 3.1 shows, the cycle is a continuous one, involving objective setting, measurement of performance, feedback of results, rewards, based on outcomes, amendments to objectives and activities and subsequently returns to setting objectives.

Armstrong (1993) depicts a similar system, containing comparable objectives. He lists the following characteristics as intrinsic to a Performance management system:

1. The agreement of managers and individuals on objectives and performance measures.
2. A realistic and impartial method of measurement for performance and assessment of performance.
3. A plan of action which will identify improvement and development needs and determine how they are going to be satisfied.
4. The operation of the system as a continuous cycle shown in Figure 3.2 involving continuous informal reviews leading to amendments or changes,

preparation for the review, and the performance review meeting, where past performance is assessed and new performance objectives agreed.

Each of the elements of a Performance Management system presented by both Salamon and Mabey (1995) and Armstrong (1993) will now be examined individually.

Figure 3.1: Salamon and Mabey's (1995) Performance Management Cycle

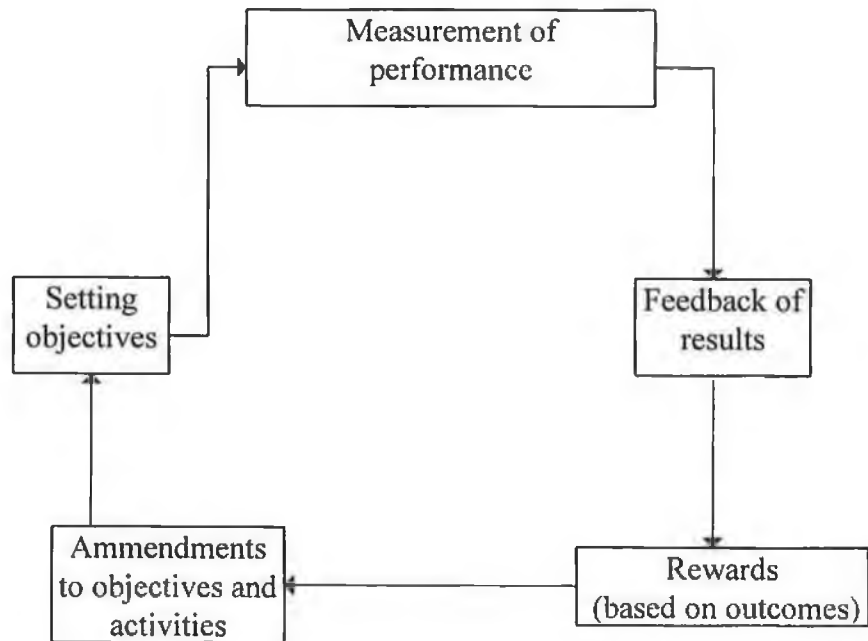
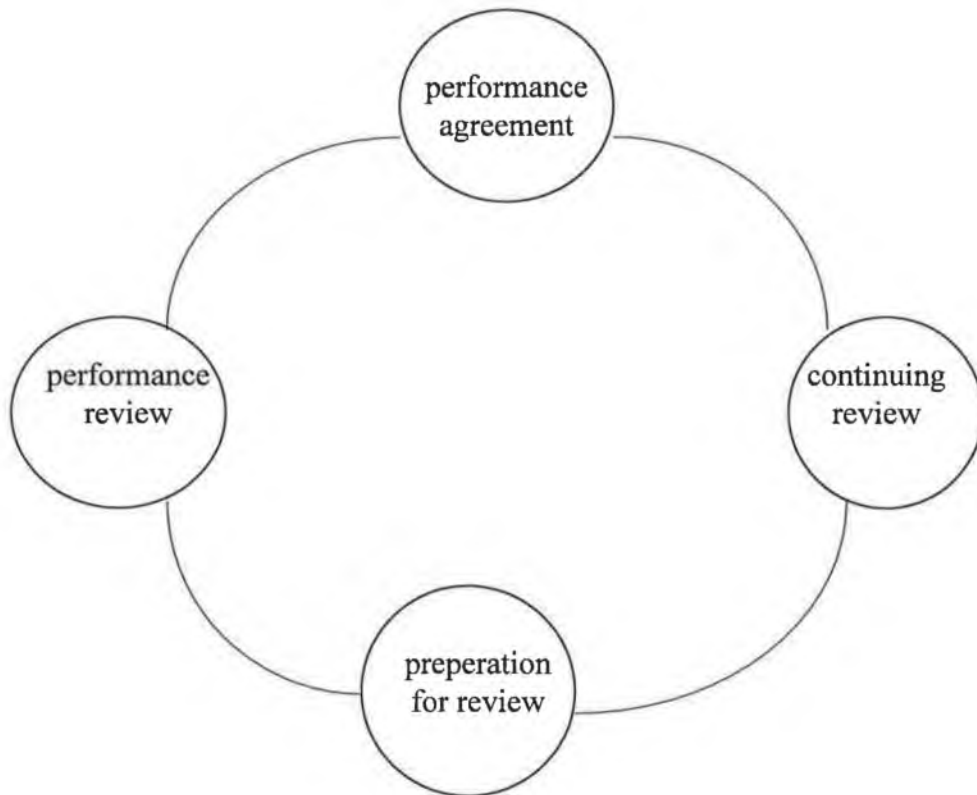


Figure 3.2: Armstrong's (1993) Performance Management Cycle



Setting Performance Objectives

The first step in the PM process involves setting goals, which should be derived from the strategic organisational goals (Salamon and Mabey, 1995). Philpott and Sheppard (1992) state that objectives may be expressed in terms of targets, standards of performance or tasks to be accomplished within a period of time and to an agreed specification. Setting objectives, however, may not prove as simple as it might appear. It is advised in much of the literature (Armstrong & Murlis, 1994; Philpott and Sheppard, 1992) that objectives should be directly related to the achievement of the organisational plan. In other words, the organisational strategy should be reflected in individual targets through a process of a horizontal filtering of objectives. As Kessler

(1995:261) suggests: 'criteria is often derived from corporate plans and goals and values are then translated into individual targets/behavioural traits. Thus, it has the effect of 'locking the individual into the organisation in a highly visible and meaningful way.' However, this is not the only consideration in objective setting. Armstrong and Murlis (1994) are just two of the writers who stress the importance of joint consultation in the agreement of objectives. They conceive the process of performance management to be a partnership between managers and the individuals who are members of their team, and this should be reflected at all stages of the process, including in the agreement of objectives. Joint consultation is seen as having the effect of creating a greater 'ownership' of the system.

The Measurement of Performance

The second step of Salamon and Mabey's (1995) model involves the measurement of performance. It is recognised that finding objective measures is a difficult task and, in order to preserve the quality of the goals while attaining objectivity, Salamon and Mabey (1995:196) recommend that the following five conditions should be observed in constructing objectives:

1. Free from 'noise' (influence by outside factors not relevant)
2. Unable to be manipulated by insiders
3. Straightforward to understand
4. Inexpensive to collect
5. Relevant, in the sense of reporting on the dimension of performance desired.

The issue of subjectivity in the assessment of performance is widely discussed in the literature (Kessler & Purcell, 1992; Cannell & Wood, 1992) as a widespread flaw inherent in the assessment of performance. As a potential solution in counteracting any difficulties emerging in relation to this issue, Salamon & Mabey (1995) recommend expanding the number of appraisers who contribute to the assessment of an employee, as this should have the effect of evening out the rater-bias. Another alternative suggestion proposes the use of 'forced appraisals' in which a certain proportion of top grades must be allocated as well as a certain proportion of low grades, (Salamon & Mabey, 1995) although this could give rise to a system which would be more concerned with bureaucracy than actual results.

Armstrong and Murlis (1994) propose an alternative method for dealing with inconsistent ratings. They suggest that the best solution in ensuring a fair distribution of ratings and eliminating the 'swan' and 'goose' effect (managers judging too easily or harshly), is through the use of 'consistency workshops' which can facilitate discussion on how ratings are perceived. During these periods, managers could exchange information and where necessary justify their distribution of assessments.

Rewarding Performance

Step 3 of the Salamon & Mabey model involves rewarding performance, and in this context two important considerations must be observed. Expectancy theory specifies the need to tie performance outcomes to rewards which are valued by the employee, while goal-setting theory emphasises the need for acceptance of the goals, in order to satisfy intrinsic motivation. The debate surrounding the controversy of using money

to reward and its effect on intrinsic motivation has remained unresolved and thus the dilemma of what reward will be most valued by the employee, similarly remains. Considering the inevitably wide and diverse range of personalities within an organisation, each with differing preferences for different types of rewards, it would appear ideal to tailor rewards to meet individual preferences. However, this is an impractical solution as it would introduce excessive complexity to the performance management system, accompanied by the risk of being overly bureaucratic. It is proposed by Salamon and Mabey (1995) that the solution in determining a suitable reward is to review continuously the valence of that reward; if the reward is no longer highly valued by employees it should be replaced. It is advised that the concept of regularly reviewing the situation in terms of its current status should not only be restricted to rewards but should also be applied to the system as a whole, which implies that performance management systems should not be designed and left constant, but ought to be the subject of continuous review.

The fourth consideration in the implementation of a performance management system concerns the attention that must be paid to the linkages within the system, in other words *how* the system works. Beaumont (1993:109) reflects much of the literature in describing: 'the relatively wide gap which frequently exists between the ideal of a pay for performance system and the reality of its workings.' He suggests that the gap can be attributed to the difficulties in fulfilling expectancy theory, the inadequacy of performance appraisal, and the economic and budgetary realities of organisational life. Expectancy theory is concerned with employees perception of the linkages within the system, i.e. the link between effort and performance and performance and rewards,

while goal-setting theory stresses the need to make goals challenging but not unattainable. In order to put this theory into practice, important considerations need to be paid to the setting of targets and standards of performance to ensure that they are not beyond the personal capabilities of the employee, and the extent to which such targets are achievable without undue dependency on others. However, in many cases it may not be feasible to set out individual contributions from group efforts. It is also recommended that the use of a communications policy to suit the organisation should be implemented (Armstrong, 1992; Armstrong and Murlis, 1994), which will ensure that the perception of these linkages remain clear in the minds of employees.

Feedback and Amendments

The fifth important consideration involves feedback and amendments. The process of feedback can be utilised to facilitate discussion with employees which enables continuous improvement, while amendments play the role of reviewing the functioning of the system as a whole. Goal-setting theory places great emphasis on the need for feedback of information concerning performance, in order to motivate:

Research has shown that the more frequent the formal and informal reviews of performance and the more the individual is told about the reasons for an increase, the greater his preference for a merit increase system and the lower his preference for a seniority system (Hammer, 1975:20).

Further benefits of feedback have since been recognised by Landy, Farr and Jacobs (1982:20) who surmise that feedback has in fact two distinct functions:

When the feedback indicates certain deficiencies in what is being done, the message being transmitted is one which indicates to the employee that subsequent behaviour should change in a direction designed to reduce the noted inadequacies. On the other hand, feedback can also serve a motivational function...the message the employee is receiving is one which instructs her to orient future efforts toward increasing subsequent performance.

In relation to performance reviews/appraisals, McAfee and Champagne (1993) report that few managerial tasks are viewed more negatively or performed as unevenly as performance review. This can be due to a number of reasons, not least the internal politics within an organisation. However, Salamon and Mabey (1995) stress the importance of reviews, in providing reasons for why they are essential to the PM system, including:

- (i) The need for such reflexivity is fundamental to the strategic goal of performance management.
- (ii) Strategic goals themselves tend to constantly evolve and it is essential that the performance management system meets the current strategic objectives, rather than outdated and irrelevant ones.
- (iii) The design of a perfect performance management system is unlikely considering the extent of potential difficulties involved. Thus, the system must be capable of reforming itself to take account of issues arising only in application.

Contextual Factors

The final consideration to be addressed within Salamon and Mabey's PM model concerns the importance of contextual factors. Many authors (Kessler, 1995; Murphy, 1989; Procter et al, 1993) discuss the use of PRP as a means to instigate cultural change. In this scenario, the measure of the scheme's success will involve its impact on the organisational culture, as opposed to its effect on performance, therefore the scheme should be judged only on whether it ultimately brought about changes in attitudes and values.

Analysis of Salamon and Mabey's (1995) Model

It is apparent from Salamon and Mabey's (1995) analysis of performance management systems, that there are multiple factors for consideration in designing such a scheme. Although Salamon & Mabey (1995) provide a comprehensive model of a PM system, there are further points for consideration. For example, training and career development is considered by some writers (Philpott and Sheppard, 1992; Torrington & Hall, 1995) to provide a vital feature in the PM process. Philpott and Sheppard (1992:108) stress the importance of training as a feature of a performance management system:

high quality training is the real key to the introduction of successful performance management because the effectiveness of a system depends ultimately on the quality of the reviews carried out by managers, and the attitudes of staff to the system.

Crowe (1992) identifies the core skills required for performance management as objective setting, communicating, recognising needs, advising on performance, interpersonal skills, delegating, monitoring performance, assessing and coaching. It is suggested that success of a performance management system largely depends on these skills, few of which will come naturally to supervisors. Therefore, training will be required to ensure the existence of such skills and as such plays a very important role in the performance management process.

Measurement of Performance

The measurement of performance, though touched on in Salamon & Mabey's analysis, generally receives an abundance of discussion throughout the literature and its importance to the success of PRP/PM systems is often highlighted:

the successful implementation of PRP appears to depend on at least two contextual variables: first, the nature of the scheme in operation and, second, the criteria used for judging success (Martin, 1994:11).

It has long been recognised that it is difficult to find an objective measurement of performance for managerial tasks. However, this difficulty is not confined to the measurement of managerial tasks as Dwyer (1994:17) comments that ‘measuring the success of PRP is almost impossible because no two schemes are alike’.

Berlet and Cravens (1991), drew similarities between ‘the McNamara fallacy’ and the difficulties of quantifying success through the measurement of performance. The phrase ‘the McNamara fallacy’ was first coined by Pollster Daniel Yankelovich to describe the Vietnam-era Defence Secretary’s artful illusion in quantifying the war. McNamara’s first approach was to measure what could easily be measured; that which could not easily be measured was given an arbitrary quantitative value. As the media poured more attention on the war, McNamara’s next tactic was to pronounce that all of those things that could not be measured easily were not very important. And finally, when the media focused intense scrutiny on the war, that which could not be measured easily was declared non-existent! It would appear that the measurement of performance, or attempts to quantify success in performance management tends to be a victim of the same fallacy. Easily measured results that may appear superficially appealing have a tendency to produce statistics that only give clues to the current state of performance, while ‘artfully omitting the more arcane and insightful portrayals of management’s “value added” ’ (Berlet and Cravens, 1991:121).

Apart from the more obvious difficulties incurred as a consequence of subjectivity and inconsistency, a number of other difficulties remain in the measurement of performance. Beer et al (1984) discuss the difficulties in including *all* activities associated with effective performance, including elements for which an individual may not be directly responsible but dependent on others. A further difficulty, in the case of white-collar workers in particular, involves the difficulty of measuring the components of a job. Measuring the work of a professional may prove to be a rather contentious issue, as many aspects of the job of a professional may not necessarily be captured by the targets set. In a study conducted by Marsden and Richardson (1994), it was found that the majority of employees believed that measurement used took insufficient account of job allocations (i.e. the detailed tasks of their job). It is also suggested that even after establishing appropriate criteria on which an employee can be assessed, supervisors may not be trained to assess the employee adequately:

Supervisors may be ill prepared in the process or even in the way to discuss results with employees. Inadequate training or lack of commitment to the process can lead to a series of problems..In many systems there is a tendency to rate persons higher than they should be if negative results must be explained to employees (Milkovich and Glueck, 1985:367-8).

Armstrong and Murlis (1994:220) remark that the skill required by managers to carry out a performance management process are often underestimated:

They need to know how to set clear, measurable and achievable objectives...They have to be able to handle performance review meetings in which they not only commend staff on their achievements..but also coach them and help them to recognise where their performance has been sub-standard and needs to be improved.

Designing a PM System

The design of the PM system has also received a substantial amount of attention in the literature. It is advised that participation or employee involvement in the initial stages of a plan's development is required in order for employees to accept changes in the reward structure. The heightened need to involve line managers in the process of PM is discussed at length by Fletcher and Williams (1992), but this is not the sole requirement of designing effective PM systems. There is a further need to include the employees who are to be involved in the system in the initial stages of the plan's formulation and implementation. The purpose of involving them in the design of the system is discussed at length by Lawler & Jenkins (1981:111) who indicate that 'an employee's understanding of a pay plan and commitment to it can be important ingredients producing higher satisfaction with pay and higher levels of trust in the system.' Lawler's (1981) conclusions showed that participation in pay plan development can lead to more effective pay plans in addition to an improved overall relationship between employees and their organisations. Armstrong and Murlis (1994) recommend the use of external consultants in developing a PRP plan, for their objective and independent status on the situation.

A further point for consideration in implementing a PRP plan involves consideration of whom you are implementing the plan for. PRP can create an antagonistic effect if it is implemented only for certain categories of staff, while neglecting to include others. According to Mitchell, Lewin and Lawler (1990:66), 'the combined effects of dividing the workforce into those who are not on incentive pay and the adversarial process of rate setting can create a hostile, differential organisational environment.'

They further discuss the consequences of such hostilities, which includes low trust, lack of co-operation, intergroup conflicts and inflexibility. However, this type of reaction is not limited to employees who are left out of the system, but have the potential to occur when included in the system, largely from the mismanagement of it. There are a number of common difficulties (detailed below) associated with the mismanagement of PRP schemes, which can have detrimental effects on a scheme.

In designing the amounts to be allocated for the performance-related incentive, it is important that the amount involved is sufficient in order to inspire a change in behaviour: 'guidelines can be issued to managers on the percentage increases approximate for the different levels (e.g. above average, 10 per cent; average, 5 per cent; below average, 3 per cent)' (Armstrong, 1993:142). Furthermore, it is suggested that there should be significant differentials between that which is allocated to an average performer, excellent performer and poor performer (Geary, 1992). Lupton and Bowey (1983:110) comment that 'unless the differentials are perceived to be reasonably "fair" they may be a source of discontent and apathy, even militancy, amongst the staff.'

Salaries should also be in line with competitor organisation salaries in order to attract the kind of people who will be motivated by systems such as PRP:

The salary-system designer must also face the problem that unless the salaries for the staff within his organisation are within some range of the salaries paid to similar specialists in other organisations, then his company may not be able to attract the people it needs and may lose more of its present staff than is desirable (Lupton & Bowey, 1983:111).

Organisational Culture

The organisational culture in which the PM system operates may also have a significant impact on a PRP scheme. Armstrong & Murlis (1994) stress that the culture must be ready or fit in order to accept the PM process. Murphy (1989) discusses the case of Abbey National in which a comprehensive PM scheme was introduced. Within this context, a reward strategy was introduced to support and reinforce a broader strategy involving cultural change: 'however, before changing the systems [the] climate had to be managed to one in which such changes would be acceptable' (Murphy, 1989:45). The effects of disregarding the importance of culture are discussed by Williams et al. (1993) who state:

it cannot be assumed that any single change mechanism, such as a new reward system or a training programme - will be sufficient. Such mechanisms, if used in isolation, are likely merely to be subsumed under the prevailing culture (Williams et al., 1993:156).

It must also be noted that there are numerous difficulties incurred in changing an organisation's culture, and such a change of circumstances within an organisation can be the source of potential discord among staff. A large basis for this resistance to change, however, may be derived from an individual's natural resistance toward change ("Heller, 1994," quoted in Lloyd, 1994). Therefore, a functional PRP plan may be installed but this may not necessarily avoid all resistance toward its implementation. As Brown (1994:128) points out: 'organisations, their various subsidiaries, and departments are often as resistant to change as individuals'. Brown (1994) also notes that resistance to change is likely to be greater in stronger cultures compared with weak ones. Consequently, attention must be paid to the organisational context within which the PRP system is to operate. Geary (1992) recognised in his

study the difficulties in attempting to encourage both teamwork and an individualistic system such as PRP. It is suggested (Mabey and Mayon-White, 1993; Sheard, 1992) that in designing a PRP system, the objectives of implementing such a plan must be clearly stated, as this will impinge on the plan's ultimate success.

Monitoring PRP

Even when the content of the PRP scheme has been established, the task is not complete, for the designer. Monitoring of the system is often overlooked and its importance should be considered at the design stage of a scheme's formulation:

Generally, in the haste or excitement of a new design, the concept of assessment gets sidelined...however, failure to incorporate it during the design process creates major problems downstream. Any time you're developing a significant new reward initiative..requires the design team or project manager to say "How would we know if this is successful or not?" You set yourself up for failure by not doing an assessment, because you can't justify your reward system and, you don't have the database to improve it (Overman, 1994:48).

According to Stotz (cited in Overman, 1994:48), 'not to detail and gain consensus of how to measure the plan's success is probably a prelude to failure. You're playing a little bit of Russian roulette.' Cannell and Wood (1992) reported in their findings that it was difficult to determine precisely the extent of monitoring within PRP schemes in the organisations visited. Some organisations used attitude surveys, while others used the personnel department to co-ordinate all the appraisals and projected increases before they were agreed with senior management. Essentially, it would appear from the literature that there is no systematic way which will guarantee an effective monitoring system, although its validity within the PRP system appears well established.

Protective Mechanisms

In an effort to avoid some of the common difficulties with PRP schemes, a number of suggestions are put forward. The first protective mechanism involves participation in the plan. 'Both theory and research seem to indicate that the successful implementation of a merit pay plan involves participation in the development of the pay plan by the parties who will be affected' (Heneman, 1992:179-80). However, participation is not the only means to secure a successful plan, and often it is the procedures used in administering the plan which can have the greatest impact on its success. Bretz and Milkovich (1989) discovered from their studies that the most important issues organisations faced regarding their performance appraisal system were issues of fairness in how the system was used. Regulation and consistency of fair procedures seems to be an extremely important element in the acceptance and consequent success of a scheme. Miceli and Lane (1991), who base their work largely on Leventhal (1976), provide what Heneman (1992) describes as an excellent summary of rules to follow to attain perceptions of procedural justice. These are shown in Table 3.1.

Table 3.1 reflects on many of the issues already highlighted by the literature. However, it is significant as it introduces the important concept of including an appeals procedure in the design of a system. The appeals procedure allows for 'correctibility' of results. Procter et al. (1993) concluded from their studies of a large UK electronics based company, that a lot of the problems that arose may have been avoided had there been an effective appeals system in place.

Table 3.1: Procedural Justice Applied To Merit Pay

Rule	Description	Application
Consistency	Procedures for allocation should be consistent across persons and over time	Reliable and valid measures of performance are used to make merit decisions.
Bias Suppression	Bias should be suppressed	Rater training is provided to eliminate rating errors
Accuracy	Decisions must be based on accurate information	Allocators are held accountable for their decisions
Correctability	Decisions should be correctable	Merit pay decisions can be appealed
Representation	The allocation process must represent the concerns of all recipients	Employee participation takes place in the development of a merit pay plan
Ethics	Participants should comply with ethical standards	Laws and regulations are followed

Source: Leventhal, Karuza & Fry (1980); Miceli & Lane (1991)

Conclusions

This chapter has discussed a wider framework in which to understand PRP. Underpinning this framework is an understanding of the link between employee satisfaction, performance and rewards. Included within this framework are expectancy, goal-setting and equity theories; the implications of these are now briefly summarised.

Expectancy theory provides a prevalent and valuable theory within the PRP literature and the following implications are derived from it:

- Measurable and observable performance is required to ensure the necessary perceived link between effort, performance and rewards.

- The merit increase must be perceived as valuable to the employee in order to inspire increased effort.
- The level of reward available for varying performance should be significantly differentiated.

Goal-setting theory is equally relevant to PRP and it requires that goals set must be specific, challenging and accepted by employees. It has also been noted that the combination of goal-setting activities with feedback maximise improvements in performance.

The most striking trend in the more recent literature involves the analysis of PRP as a singular initiative within a wider PM system. PM systems encompass a range of initiatives which provide a supporting infrastructure allowing for greater effectiveness in PRP's operation. Mechanisms utilised in PM systems include: feedback; clear and concise objective setting involving joint consultation and alignment with the organisational plan; effective and objective measurement systems; training and career development and appeals systems. In assessing PM systems, it became apparent that the design and implementation of these systems gave rise to numerous implications for consideration. Factors included among these considerations were: employee involvement in the scheme's development; the extent of the scheme's coverage; the differential allocation of rewards; the importance of considering organisational culture; monitoring the scheme and including protective mechanisms such as appeals systems. Nevertheless, a means to achieving these objectives are not always readily available, for example, it may be quite difficult to attain an effective measurement system. Furthermore, the consequences of not achieving these objectives may be far

reaching, for example, if a scheme's coverage only extends to one category of staff, discord among other staff members may emerge. Armstrong and Murlis (1994:68) have summed up a general but realistic account of these factors in stating:

The design and development of reward management processes is a matter of selecting the optimum mix of rewards and benefits within the most appropriate structure and of ensuring that the various processes fit the culture of the organisation.

In summary, this chapter has aimed to place PRP in the context of wider considerations which impact on its effectiveness. It further attempts to contribute to an understanding of the potential reasons for effectiveness or conversely failure of PRP schemes; its identification of those factors required in the design of a PRP scheme equal factors contributing to success.

Introduction

This chapter involves an examination of the methodology chosen for this study. The research problem is defined and is followed by a brief description of the organisation which is the central focus of the study. As the organisation is responsible for commissioning and sponsoring the study, an exploration of the implications of this type of research is undertaken. The process of 'triangulation' is also discussed and is followed by an overview of the research process. As the research is concerned with the use of a case study approach, the implications of this are considered. Nine distinct stages are identified in the research process, and each is described.

The Research Problem

The research was focused on the identification of the factors which contributed to the success and avoided the failure of PRP schemes. The initial methodology plan involved a comparison of multiple case studies, from which common factors precluding to success and failure could be identified. However, after contacting fifteen companies to request participation in the study, all of whom replied negatively, it was decided that the study be confined to one in-depth case study, supplemented by interviews from other individuals involved in PRP. The research problem was determined by the organisation that was responsible for commissioning and sponsoring the research. This is considered to be an important factor, as its impact on the research became prevalent at various stages. Therefore, prior to describing the

methodology, a description of the case organisation and a brief analysis of the consequences of company sponsored research is undertaken.

The Company

The research was undertaken in an Irish multi-divisional organisation involved in the production and distribution of food products. The organisation as a whole employs 1752 people. The fifteen companies which comprise 'the Group' are de-centralised, though the executives remain accountable to head office. The establishment and acquisition of these subsidiaries took place at different times and, as a consequence, the subsidiaries have different histories and organisational cultures, (further consideration of the subsidiaries is undertaken at a later point). The Group has expanded into the European market with direct control over one subsidiary abroad and 50 per cent holding of another company abroad. Originally established in 1926, the company's status changed in 1991 from that of a semi-state organisation to a private limited company (PLC). It has been noted that the organisation has been very successful in pursuing its strategy since privatisation, improving efficiency and expanding both home and abroad (Rapple, 1995).

According to their Annual Report (1995:1), the profitable development of the Group centres on the achievement of three main objectives:

- *To procure, process and market quality products at competitive prices to customers who regard the Group as a preferred supplier.*
- *To give shareholders an attractive and growing return on their investment in the Group.*
- *To create a productive and challenging work environment for all employees of the Group.*

The profitability of the Group is strong and continuously progressing (operating profit for the group in September 1995 excluding the exceptional credit, amounted to £45.2 million, compared to £40.5 million the previous year). Their success is attributed to the strong performance of all of their subsidiaries. Table 4.1 gives a brief description of all fifteen subsidiaries.

Table 4.1 Subsidiary Information

Co.	Est.	Nature of business	No. of employees	Business overseas
A	1760 T: 1991	Manufacturer/ Agent/Distrib- utor	63	40%
B	1845	Manufacturer	136	5%
C	1847	Manufacturer	63	40%
D	1890 T: 1990	Manufacturer	478	0%
E	1926	Manufacturer	300+400*	25%
F	1934	Manufacturer	28	0%
G	1953	Service	30	0%
H	1960	Manufacturer	195	0%
I	1963	Manufacturer	100	0%
J	1966	Manufacturer/ Agent/Distrib- utor/Service	37	0%
K	1975	Manufacturer	120	93%
L	1978	Manufacturer	15	0%
M	1979	Agent/Distrib- utor	12	50%
N	1980	Manufacturer	36	0%
O	1983	Agent/ Distrib- utor	9	0%

T: Taken Over

300+400*: 300 permanent employees and 400 seasonal employees (3 months).

Company Sponsored Research

The issue of company sponsored research requires careful consideration as the organisation is both directing the focus of the research and providing a means which enables the research to occur. The success rate of research undertaken in this fashion varies between projects, though no immediate reasons for this have yet been identified:

Many collaborative projects have enhanced business understanding and competitiveness, whilst facilitating ground-breaking research. However, the reasons why some projects prove more successful than others are elusive (E.S.R.C., 1993:3).

There are a number of advantages with this research. It provides an opportunity for the researcher to:

explore the "laboratory" of business and industry [which may ultimately provide an] improved quality of data and results achieved through access to the organisation, or help in defining the direction of the current project and the long-term research agenda. This help ensures that issues which are both relevant to business and appeal to wider interest groups continue to be addressed (E.S.R.C., 1993:7).

However, various disadvantages to this type of research have also been documented in the literature (Kessler & Purcell, 1992; Hedrick, Bickman and Rog, 1993). The quality of information received provides the focus for much attention. Hedrick et al (1982) highlight this issue by indicating the potential for a situation in which the 'client' may indeed be familiar with the issue under research, but may also have a vested interest in, or be already convinced of a particular outcome. In emphasising this difficulty, Hedrick et al (1993) offer an example of a CEO who has spent a considerable amount of resources on employee training programmes, and would clearly have a keen interest in securing outcomes of the study which would indicate an increase in productivity:

Thus the client may wish to persuade the research to “deliver” only positive information, not caring if the scope of the study is biased and the problem of issue remains completely unstudied (Hedrick et al, 1993:16).

The sponsors may also have the converse effect of misleading the direction of the research, as Bailey (1996:53) points out:

Sponsors will sometimes attempt to direct how the research is done, even though they may have little or no training in field research. Field researchers are sometimes put into the bind of having to decide between doing research that is influenced by others and not doing research at all.

A further consideration which receives much attention in the literature is that concerning data ownership. It is advised that a clear understanding is established concerning ‘who will see the raw data, who reads the finished report, and who controls publication and dissemination of results, including things such as conference presentations, publication, and newspaper stories’ (Bailey, 1996:53).

Although recognising that most research clients want to support sound, well-executed research and are generally sympathetic to the integrity of the research, Hedrick et al. (1993) warn that some will inevitably have political, organisational or personal agendas which push the researcher to produce supportive results in the research client’s favour. In order to counteract this difficulty, Hedrick et al (1993) provide guidelines in which to minimise, if not avoid, this problem:

To ensure that research is planned ethically and accurately, the researcher needs to educate himself or herself about the issue at hand. Strategies for gathering information include:

- *holding discussions with the research clients or sponsors...to obtain the clearest possible picture of their concerns*
- *reviewing relevant literature*
- *gathering current information from experts on the issue (including all sides and perspectives) and major interested parties; and*

- *conducting information-gathering visits to sites of the program or problem to obtain a real-world sense of the context and to talk with persons actively involved in the issue.*
(Hedrick et al, 1993:16)

A further difficulty for consideration regarding company sponsorship involves the issue of reluctant participants in a study. Bailey (1996) considers the point in which a sponsor may have a particular enthusiasm for the subject but this is not necessarily reflected in his/her employees who are selected for the study.

Survey Research Design

The survey focused on an in-depth case study. This was complemented by information from various other sources, including interviews with HR directors from two other companies involved in implementing PRP schemes and a trade union official. As the main focus for the study was a case study, the use of a case study as a singular methodological approach is examined.

The Case Study

Though the case study within this survey was substantiated by various other interviews from different organisations, it remained the main focus of the research. Interviews with administrators of other schemes did not ultimately provide a comparative analysis, but merely allowed for a broader perspective in accumulating criteria which would contribute to identifying the factors leading to a successful PRP scheme. In order to clarify what a case study contributes, in terms of research methodologies, Yin (1981) has put forward a substantial definition:

What the case study does represent is a research strategy, to be likened to an experiment, a history, or a simulation, which may be considered alternative

research strategies...As a research strategy, the distinguishing characteristic of the case study is that it attempts to examine: (a) a contemporary phenomenon in its real-life context, especially when (b) the boundaries between phenomenon and context are not clearly evident (Yin, 1981:59).

Yin (1981) further describes the characteristics of an explanatory case study. He suggests that such an approach consists of: '(a) an accurate rendition of the facts of the case, (b) some consideration of alternative explanations of these facts, and (c) a conclusion based on the single explanation that appears most congruent with the facts' (Yin, 1981:61).

Campbell (1975) defends the case of the singular case study as a methodological approach. According to Campbell (1975), the search for an explanation is a kind of pattern-matching process, which can be applied even in a singular case study. This is because the pattern must fit multiple implications derived from an explanation or theory. Campbell (1975) emphasises that an explanation is essentially what is being tested, not the importance of a singular factor (or variable). Yin (1981:62) additionally suggests that 'case studies as analytic units should be regarded on par with *whole* experiments.'

Limitations of the Case Study

The primary concern in relation to the case study is the issue of bias (Yin, 1981). Ambiguous evidence or personal impressions often have the effect of influencing the direction of findings and conclusions. The measurement of attitudes was deemed to be relevant for the study. There was an awareness that this would be perceived as a rather subjective form of evaluation, but it was believed to give a reliable indication of the

motivational impact of the scheme. It also found legitimacy in the fact that it had been used by other researchers, for example Marsden and Richardson (1992), to address similar issues. The fact is, the problem of bias exists in most other research strategies. However, the case study has the misfortune of being more frequently associated with this particular problem (Yin, 1994).

A second common concern frequently comes in addressing the question of generalising from a single case (Yin, 1981). In reference to this particular study, a single case was considered the most relevant and appropriate form in which to explore the area, as each case is company specific. Essentially, it is through the study of numerous singular case studies that generalisations can be made on this topic, which is not dissimilar to a scientific experiment which is conducted through multiple tests, under varying conditions. As Yin (1994:10) points out: 'the short answer is that case studies, like experiments, are generalizable to theoretical propositions and not to populations or universes.'

The Case Study: Sufficient in Itself?

It is clear that a wide set of variables affect the success of any PRP scheme. Many of those variables will depend on company factors such as company culture, work organisation, trust levels within and among employees of the organisation, and the market which the organisation serves. Therefore, it could be assumed that a comparative analysis would not be the ideal manner in which to explore the success of an initiative, as no two companies are likely to possess identical characteristics. Herein lies the first justification of the use of a singular case study as a

methodological approach. Effectively, individual PRP schemes cannot accurately be researched in isolation, but instead as part of a wider organisational framework, thus research in this area should be conducted on the basis that success of a PRP scheme can largely be attributed to various other factors within the organisation in which it is situated.

Mintzberg (1979) avidly defends the case study as a singular methodological approach:

What is wrong with samples of one? Should researchers have to apologise for them? Should Piaget apologise for studying his own children, a physicist for splitting only one atom?' (Mintzberg, 1979:583).

He continues to give the example of a doctoral student who was not allowed to observe managers because of the “problem” of sample size. Instead, he was required to measure what managers did through questionnaires, despite ample evidence in the literature that managers are poor estimators of their own time allocation. ‘Was it better to have less valid data that were statistically significant?’ (Mintzberg, 1979:583)

Collection of Information

The choice of data collection mode - mail, telephone, personal interview, or group administration - is related directly to the sample frame, research topic, characteristic of the sample, and available staff and facilities (Fowler, 1993:54).

The study gathered information from a number of sources, including the following:

- Accumulation of data on the operation of PRP in the case study organisation.

- Two semi-structured interviews conducted with the HR director involved in implementing and administering the PRP scheme in the case study organisation.
- Postal questionnaires sent to 107 managers involved in the PRP scheme.
- Sixteen follow-up interviews conducted with a cross section of managers.
- A semi-structured interview conducted with a trade union official.
- Interviews with two HR directors involved in the implementation and administration of PRP schemes in other organisations.

As mentioned previously, the study incorporated two distinct methodological approaches, namely quantitative and qualitative research. It further involved examining the issue of PRP schemes from a number of different perspectives. This process is referred to in the literature as 'triangulation', and a brief examination of this type of approach ensues.

Triangulation

While quantitative research refers to: 'standardised procedures for representing constructs in numerical form' (Dooley, 1995:99), qualitative research describes the process of: 'field observations analysed without statistics' (Dooley, 1995:258).

Patton (1990) suggests that triangulation has the ability to strengthen a study design through combining methodologies. Nonetheless, Fielding & Fielding (1986) note that triangulation does not simply involve the combination of methodologies, there must

also be an attempt to relate them in an effort to counteract the threat to the study's validity.

Denzin (1978:28) notes that:

no simple method ever adequately solves the problem of rival causal factors...Because each method reveals different aspects of empirical reality, multiple methods of observation must be employed.

Essentially, it can be established that the argument for triangulation has been securely validated within the literature. Its popularity can largely be attributed to the 'cross - validity check' which the use of multiple methods can provide, and its potential for reduction in errors. Proceeding from this, it could then be argued that studies which rely on one particular method (i.e. quantitative or qualitative techniques) are more vulnerable to errors associated with that method.

However, the process of triangulation does not solely lie in the combination of two different methodological approaches. It also refers to research accumulated through a number of differing perspectives. This too was adhered to in the course of the research through attaining the views of the HR director, the managers, a trade union representative, together with the views of two independent sources outside the locus of the case study (i.e. the HR directors of two external PRP schemes).

The Research Process

The study combined nine stages, beginning with a literature review analysis, moving on to an extensive empirical study and concluding with an analysis of the accumulation of information. A detailed description of each stage ensues.

Stage 1 Literature Review

The first stage of the study involved an extensive analysis of the literature, which not only identified current themes and key issues concerning PRP but also empirical research conducted in this area. Analysis of the empirical research provided a useful means of establishing the most effective methodology in pursuing the research issue. It further provided useful advice on the potential pitfalls. Burgess (1982:17) reflects on the value of a literature review to the methodological process in stating:

A literature review can both inform the researcher as to where others have been with this problem and help him or her avoid conceptual or methodological mistakes of the past.

Among the most influential studies on this research included Marsden and Richardson's (1994) study, for their use of a survey involving the measurement of opinions and beliefs of staff involved in a PRP scheme; Kessler and Purcell's (1992) study, for their questionnaire and their cautionary advice against potential pitfalls while Fletcher and William's (1992) survey was probably the most influential study: their questionnaire was particularly relevant to the current study and was partially adapted.

Essentially, the literature review provided a valuable insight into the key issues in dealing with research into PRP and further provided guidelines for the conduct of empirical studies in sensitive areas such as PRP. Burgess (1982:17) sums up the relevance of the literature review in stating:

The review also may provide guidance on the state-of-the-art procedures and methods that have been used in the area, not to mention some insight into the resources that may be needed to conduct the study.

Stage 2 Collection of Documentation

The second stage marked the beginning of the case study analysis. The first step involved the collection and examination of the following documentation:

- Background to the company
- Memos on the PRP system and its subsequent revision
- Guidelines to the PRP scheme which came into existence in December 1993
- Suggested rating systems for operating companies
- Illustrations of performance rating calculations
- Self assessment questionnaires used by management
- Samples of documentation used by operating companies in reviewing performance

This analysis led to an understanding of the practicalities of the PRP scheme and its operation on a daily basis.

Stage 3 Interview

The third stage of the research process consisted of a semi-structured interview with the Human Resource Director responsible for designing, implementing and administering the PRP scheme. The interview lasted approximately one and a half hours. The objective of this interview was to establish the following:

- Reasons for the introduction of the PRP scheme
- Effectiveness of its implementation
- Benefits and drawbacks of the scheme
- PRP's role in wider (business/PM) strategies
- Attitudes and reactions toward the scheme

- Difficulties previously overcome and those yet to be addressed
- Success in achieving original objectives
- Specific factors considered to lead to success
- Means of monitoring and evaluating the scheme

Aaker and Day (1983:113-116,53) suggests that the data from semi-structured interviewing usually has a 'greater' depth and richness of content, resulting in an improved perspective and increased insight into topics. The initial topics, pre-set for discussion, were derived from a compilation of the areas considered relevant in the analysis of the literature review. The structure of the interview can be seen in Appendix A.

Stage 4 The Questionnaire

In order to gain a broader perspective on the practicalities of the PRP scheme's operation, it was necessary to explore the views and attitudes of those affected by it. This approach followed that of Marsden and Richardson's (1994) survey and was expected to attain both an insight into the scheme's operation and an awareness of 'ground level' views. The questionnaire was considered the most appropriate means of exploring these issues. Chisnall (1981:140) defines the objective of the questionnaire as:

A method of attaining specific information about a defined problem so that the data, after analysis and interpretation, result in a better appreciation for the problem.

The questionnaire was divided into two sections. The first section consisted of closed questions and utilised a rating scale. Closed questions are defined by Nachmias and Nachmias (1981:210) as follows: 'in a closed-ended question, respondents are offered a set of answers from which they are asked to choose the one that most closely represents their views'. Their advantage lies in that they are 'easy to ask and quick to be answered, they require no writing by either respondent or interviewer; their analysis is straightforward' (Nachmias and Nachmias, 1981:210). Their greatest drawback, however, lies in their potential for bias, through forcing the respondent to choose from given alternatives or through obliging the respondent to select alternatives that might not have otherwise occurred. The majority of questions used in Section 1 were mainly derived from Fletcher and William's (1992) survey, accompanied, to a limited extent, by Marsden and Richardson's (1994) survey.

Section 2 involved the use of some open-ended questions. Nachmias and Nachmias (1981:211) define open-ended questions as:

[they do] not force the respondent to adapt to preconceived answers: having understood the intent of the question, one can express one's thoughts freely, spontaneously, and in one's own language.

Furthermore, they counteract many of the difficulties faced by closed-ended questions, such as those discussed by Schuman and Presser (1981:81):

Respondents are apt to be influenced by the specific closed alternatives given, and that therefore a more valid picture of respondent choice is obtained if they must produce an answer themselves. There are several versions of this argument: for example, an interest in measuring what is more salient to respondents; a desire to avoid "social desirability" effects; a concern to prevent mechanical choice or mere guessing.

The drawbacks of open-ended questions are in their difficulty to answer and their greater difficulty to analyse. A copy of the questionnaire in full can be seen in Appendix B and a categorisation of each individual question, with reference to its original source can be seen in Appendix C.

Stage 5 Administration of the Questionnaire

Prior to the distribution of the questionnaire, a pilot study was conducted. Lewis-Beck (1994) describes the pilot study stage as a vital pre-test stage which tests the viability of utilising the research methodology tools chosen:

Before a data collection instrument is finalised, it should be pretested or used on a small subsample...In a pilot study, the entire instrument and its administrative procedures are tested in a miniature study' (Lewis-Beck, 1994:32).

Moser and Kalton (1993:48) suggest that a primary aim in conducting a pilot study is the determination of the clarity and simplicity of the wording of the questions, and the ease in which questions can be answered adequately.

A common theme running through this study is the sensitive nature of the subject in question and the consequent difficulties in finding participants for the study. The pilot study was of no exception; seven participants returned fully completed questionnaires. The participants were employees in various organisations in which a PRP scheme was in operation and were also evening degree students. However, the results indicated that questions were clearly understood and the questionnaire was therefore considered to be a viable means of gaining information.

Following the pilot study, a post returnable data collection was decided upon as the most appropriate manner in which to administer the questionnaires, and this was achieved through an internal mailing system within the organisation in question. Questionnaires were distributed from the company's Head Office to managers involved in the scheme.

The questionnaire was accompanied by a covering letter from the HR director. A copy of this letter can be seen in Appendix D. This was designed to increase the response rate by indicating the HR director's endorsement of the study. In addition, it assured respondents confidentiality of their responses, and emphasised that answers would not be seen by anyone except the researcher. According to Nachmias and Nachmias (1981), a covering letter should have the following characteristics:

(1) identify the sponsoring organisation or the persons conducting the study, (2) explain the purpose of the study, (3) tell why it is important that the respondent answer the questionnaire, and (4) assure the respondent that the information provided by him or her will be held in strict confidence'
(Nachmias & Nachmias, 1981:226-7).

Respondents were asked to send questionnaires directly back to the researcher, further ensuring that these would not be seen by Head Office, and thus management did not have access to them. To further emphasise confidentiality and anonymity, respondents were asked not to include their names on the questionnaire.

The arguments in favour of mail questionnaires are that they are cost-effective, their time consumption is generally relatively low and they provide an objective method of assessment. Mail questionnaires can have an advantage over interviews in that

respondents may be more willing to answer particular questions more accurately when not confronted by a face-to-face interviewer. As De Vaus (1991:110) reflects:

It is one thing to obtain answers but quite another to obtain accurate answers. In this respect, face-to-face interviews perform less while mail questionnaires are probably the best. Responses to sensitive or controversial questions can be affected by social desirability considerations: give acceptable rather than true opinions.

However, mail questionnaires are noted for a number of disadvantages. Lack of response is often cited as a common difficulty (De Vaus, 1991), as is their inability to appraise the responses of respondents if considerations such as 'how' they made responses or the validity of what they said were required. Moser and Kalton (1993:256) suggest that 'on occasions when a high response rate can be secured, the gains from using a mail questionnaire can be substantial.'

Response Rate

The difficulties of non response is primary to the use of mail surveys (Bright, 1991). However, Moser and Kalton (1985) suggest a short reminder note as an effective means of securing response rates. Hence, a reminder letter was sent approximately four weeks after the questionnaires were issued. This resulted in a further influx of completed questionnaires and a 65 per cent response rate was achieved overall. This was considered a satisfactory result, especially in consideration of the time of year in which the questionnaires were distributed (mid-Summer).

Stage 6 Interviews

Fifteen companies were contacted in order to request their participation in the study, the purpose of which, to find a comparative example for the case study in question.

Unfortunately, there was a disappointing lack of response and an unwillingness to get involved in a sensitive study of this nature. However, two organisations did agree to participate in the study, though not in all respects. A survey involving the views of employees such as that already conducted in the case study, was not permitted, but they did however agree to an extensive interview covering issues including the design, implementation and administration of their respective PRP schemes.

It became evident that a case study comparative analysis was rapidly diminishing as a realistically attainable option. Thus, the initial plan was amended; the case study analysis was restricted to one organisation and supplemented by interviews with individuals with experience of PRP.

Both organisations who agreed to participate in the study were situated in the financial sector, which was noted by Kessler (1995) for its current upheavals in pay systems as a means of changing organisational culture. The managers responsible for designing, implementing and administering the PRP schemes within these organisations were interviewed. Both interviews were based on the same semi-structure format as that used in interviewing the HR Director involved in the case study (See Appendix A).

In an analysis of the information given, similarities emerged in the use of certain techniques which were deemed to contribute to successful PRP schemes. The interviews contributed to a greater insight into the operation, advantages and difficulties with PRP schemes in general. Furthermore, respondents identified the common pitfalls in such schemes and suggested means by which to avoid these.

Hence, the interviews led to a better understanding of PRP schemes and of factors which do, and adversely, do not, contribute to their success.

A further interview was held with a trade union representative. As the literature had frequently pointed out the implications of PRP for trade unions (Geary, 1992; Heery and Warhurst, 1994), it was considered that the views of trade unions should be addressed. An initial difficulty was encountered when access was denied to the trade union representative within the case study organisation. To counteract this difficulty a trade union representative from the union which represented the respondents, though not the representative directly involved in the case study organisation, was interviewed. The interview was semi-structured and lasted approximately an hour. The issues addressed largely derived their source from a report by Heery and Warhurst (1994), whose study focused on British trade unions' reactions toward PRP. A copy of the interview questions can be seen in Appendix E.

Stage 7 Data Analysis and Interpretation

Analysis of the questionnaires essentially involved three steps:

- (1) Coding and entering data into a statistical package (SPSS).
- (2) Carrying out statistical tests with the data, including frequency counts, cross-tabulations, and correlations (including matrix correlations).
- (3) Collating qualitative information from questionnaires.

According to Nachmias and Nachmias (1981), the advantage of using statistical analysis lies in:

being precise and in enabling researchers to reveal information about phenomena that cannot otherwise be revealed. A question such as "To what

extent are a series of variables related?" can be meaningfully and precisely answered by computing measures of relations (Nachmias and Nachmias, 1981:158) .

Analysis was then conducted on follow-up interviews and the accumulation of information was considered in full.

Stage 8 Follow-up Interviews

A total of sixteen follow-up interviews were conducted following analysis of the questionnaires. Managers were selected from six of the subsidiaries of the Group. The selection process ensured that a cross-section of managers was obtained throughout the subsidiaries. Although the Personnel department is controlled centrally, each subsidiary has the option to operate autonomously in relation to the PRP scheme. However, all subsidiaries operate on the basis of Group guidelines on a whole range of HR issues, including PRP. Although Table 4.1 describes the subsidiaries involved in the follow-up interviewing stage, Table 4.2 gives a more in-depth analysis of these subsidiaries.

Table 4.2 Follow-up Interviews - Subsidiary Information

Company	Date of Est.	No. Employees	Turnover	Mgt Structure	No. Responses
Co. A	1760, T: 1991	63	30m	CEO+8 senior mgrs	1
Co. B	1845	136	40m	CEO+9 senior mgrs	1
Co. C	1847 T: 1991	85	45m	CEO+6 senior mgrs	4
Co. D	1926	300+400*	120m	CEO+12 senior mgrs	4
Co. E	1960	195	30m	CEO+9 senior mgrs	4
Co. F	1966	37	12m	CEO+4 senior mgrs	2

T = Taken over by the Group;

* = 300 permanent employees + 400 seasonal employees (3 months)

Stage 9 Follow-up Interview with the HR director of the case study scheme

Following the survey and follow-up interviews, more substantial evidence on particular issues on the PRP scheme was required. Thus, a follow-up interview with the HR director took place. This not only gave the opportunity of acquiring additional information, but also allowed clarification of certain issues connected with the scheme's operation. The interview was semi-structured and lasted approximately an hour and a half. The structure of this interview can be seen in Appendix F.

Conclusion

In adopting a methodology, a foremost consideration was the objective of acquiring a realistic account of the operation of PRP schemes, and their impact on employees'

working lives. This was considered to be an important consideration in understanding what makes a successful scheme, bearing in mind that the success of PRP schemes may depend on the employees' acceptance of them. The methodology undertaken in the current study has attempted to address these issues through its survey of employee views. The other interviews, both within and outside the organisation, have further attempted to identify factors contributing to a scheme's success.

Although the original plan for the empirical investigation initially involved a comparative study, it was considered that the singular case study, supplemented by relevant interviewing, constituted a most appropriate form of addressing the subject under discussion. It would undoubtedly have been interesting to attain further data in specific areas, particularly with the trade union response within the organisation (although this obstacle was somewhat overcome through an interview with an official trade union source). Lack of objective evidence in measuring the success of the scheme was also disappointing, though the subjective assessment of employees' views has been justified as an appropriate means of assessing a scheme's success (Marsden and Richardson, 1994). However, it is reassuring to note that the difficulty of obtaining relevant information is not confined to this study, as Marsden and Richardson (1994) among others, documented similar difficulties in their empirical research. It must also be noted that the issue of pay constitutes, and has proven to be, a highly sensitive topic of research.

Despite the obstacles encountered, the study has provided some interesting findings, and wider implications for consideration. Its combination of employee and managerial

views revealed some interesting contrasts and contradictions evident, which allowed a unique insight into the flaws and benefits of PRP, and its impact on individuals. Furthermore, the comparative element provided by the two interviews held with other organisations provided an opportunity to identify those factors which proved to be successful in the operation of PRP, as well as those which should be avoided, which satisfies the overall objective of the study.

Introduction

The aim of this chapter is to examine the findings of the study. This chapter begins with a detailed description of the operation of the PRP scheme in the case organisation, which was obtained from company documentation and interviews with the HR director. Following this, a discussion of the findings from the questionnaires issued to managers involved in the scheme ensues. Finally, the description of two other PM systems, deriving from interviews with two other HR directors external to the case organisation, are undertaken.

Description of the PRP Scheme

The PRP scheme was introduced in November, 1992. It was jointly formulated by the HR director and two other executives with some help from an independent consultant. It was implemented without prior consultation with employees, their representatives or their trade union. Guidelines on its operation were issued to all subsidiaries. The scheme applies to managerial staff only, of which there are 107. The structure of the scheme was as follows: the scheme was to be based on two elements within the remuneration package, a base salary and a variable incentive payment. From the time of the scheme's introduction, the base salary was no longer to be determined by the National Pay Awards, but instead was to be influenced by a number of factors:

- the ability of the business to financially fund such increases
- the trends in the market place for such positions
- national norms with regard to overall pay increases

- the performance of each individual in achieving both personal and business targets

In addition to the base salary, a further earnings opportunity of up to 15 per cent was available in the form of the variable incentive payment. This opportunity was based on the achievement of targets in three specific areas, each of which had the potential to attract 5 per cent of base salary. The three areas included:

1. Personal targets, which referred to job, quality and people related targets.
2. Company targets, which referred to the achievement of the business plan (profit related).
3. Company targets which referred to achievement in excess of the business plan (profit related).

Personal targets were to be agreed with individual managers, while company targets were to be defined by the supervisor who was to evaluate the manager's performance.

A system of measurement and regular communication to monitor progress of targets were to be features of the scheme. A formal review process was to take place at the end of each year to determine the incentive, in which each individual's performance together with business year end results would be taken into account. Recommendations for increases in base salaries would also be considered at this point.

Revised Guidelines

Following a review of the system in December of 1993, a set of revised guidelines were issued. The allocation of two-thirds of the bonus opportunity to the achievement

of company profits and one third to personal objectives was considered to be incorrectly weighted, and this allocation was reversed. Furthermore, the measurement system was to be more 'transparent', and the documentation associated with reviews was to be simplified. Suggested changes for the documentation and a 'simple arithmetic approach to measurement' were presented (Memo, 1993). Changes in documentation can be seen in Appendix G, while the proposed measurement system can be seen in Appendix H.

The revised guidelines further presented the written objective and process of the revised PRP scheme. The objective was described as follows:

The objective of the scheme is to increase the level of individual and team performance which will, in turn, increase the operating profit of each company and the overall group. The increased level of profit will provide the capacity to pay a bonus to designated managers (Memo on Management Performance Bonus Scheme, 1993).

The Process of the Scheme was described as follows:

1. Each individual manager will be given a number of personal targets, ideally between four and six.
2. These targets will be related to the overall goals of the company and encourage teamwork.
3. The targets will be incremental, requiring an improvement in previous performance in order to be achieved.
4. Within each set of targets there may be an element of maintaining performance but the overall thrust must be to achieve improvement.

5. The targets must have some measures by which level of achievement can be assessed.

6. The targets must be prioritised.

7. The assessment of the level of achievement of individual targets will be the determining factor for the total level of bonus payable. The total level of bonus available is determined not only by achievement of personal targets but also by two key elements of company performance, namely meeting the budget profit target and exceeding the budget profit target.

8 (a). The bonus availability is based on three elements:

- One-third of total based solely on achievement of personal targets.
- One-third of total based on achievement of operating profit target.
- One-third of total based on operating profit target being exceeded by x%.

(b) If company exceeds its target by the agreed percent - 15 per cent is available.

(c) If company only meets its operating profit target - 10 per cent is available.

(d) If operating profit target is not met 5 per cent is available for individual performance.

9. The level of achievement of personal targets dictates the level of bonus payable in

(b), (c) and (d).

10. Operating profit for the purpose of calculating bonus availability is defined as profit before interest and tax but excluding a number of key elements:

- 'Once off' windfall gains (e.g. profit from sale of company asset)
- Adverse effect of redundancy/rationalisation costs
- Treatment of provisions within the overall group or individual company accounts.

11. The budgeted operating profits is the measure, in almost all circumstances, for determining the availability of bonus for achieving or exceeding the target profit. However, the group recognised that in unusual circumstances, the measurement of a company's circumstances solely to budgeted operating profit may produce unrealistic bonus results and therefore the group reserved the right to adjust the budgeted operating profit to take account of significant external events which are outside the control or influence of the company. It was nevertheless made clear that no such adjustment was to be made except in extreme circumstances.

12. Prior to communicating or implementing bonuses on the basis of the above the minimum and maximum thresholds appropriate to each company must be agreed with the chief operating officer.

(Source: Memo on proposed guidelines to PRP Scheme, 1993).

The annual review was held 12 months after initial objective setting and formed the following structure: The CEO reviewed the performance of his/her managers. Essentially, reviews were conducted on a two-to-one basis; the managers were reviewed by their supervisors and their supervisors' boss. The HR director emphasised the presence of an independent individual in the review in stating: 'there is always somebody at a higher level acting as an independent checker'(HR director, 1996). The PRP scheme was considered to be part of a PM system. In conjunction with the review of performance, an additional feature was offered to managers to self-assess their own performance. This was considered an optional feature and came in the form of a self assessment questionnaire. A copy of this self-assessment questionnaire can be seen in Appendix I.

Having described the operation of the scheme, the findings of this study concerning its operation are presented. This involves an analysis of the questionnaire sent to 107 managers together with information from the HR director. The findings are presented in terms of the key issues which emerged from the data.

Population

As mentioned previously, questionnaires were sent to 107 managers involved in the scheme. The profile of the 70 managers who replied are now examined.

- 97 per cent of respondents were male
- 10 per cent of respondents were under 35 years of age, 23 per cent were between 35- 45 and 66 per cent were over 45
- 46 per cent of all respondents were trade union members
- 56 per cent of respondents had worked for their organisation between 21-40 years, 25 per cent had worked for it between 11-20 years and 18 per cent had worked for it under 10 years
- 57 per cent of respondents had worked their present position for under five years, 25 per cent for under 10 years, 10 per cent for under fifteen years and 7 per cent for over 16 years
- 55 per cent of respondents believed their previous assessment was fair, while 45 per cent did not.

The Concept of PRP

The first issue to be addressed was the acceptability of the principle of PRP among managerial staff. This was assessed from responses to the statement: 'The principle of relating pay to performance is essentially a good one'. As Table 5.1 displays, a total of 97 per cent of respondents agreed with the statement, suggesting a widespread acceptance of the fundamental concept of PRP. However, when asked if they perceived the system as fair, a slightly different response was observed, with a total of 74 per cent replying in favour, while 25 per cent disagreed.

Table 5.1 The Concept of PRP

Statement	Strongly agree %	Agree %	No view %	Disagree %
The principle of relating pay to performance is essentially a good one.	31.3	65.7	3.0	
PRP is a good idea for managerial staff.	16.4	71.6	9.0	3.0
The idea of PRP is fundamentally unfair.	4.5	7.5	58.2	29.9

N = 70

Pay as a Motivator

When the HR director was asked to comment on his views regarding the statement that pay was the prime motivator, he agreed that it was:

Yes, the ability to make money and earn more money is a prime motivator. Only when you have it do other motivators become primary...finance is tangible (HR director, 1994).

The data, however, tends to suggest that this view is not necessarily held by the managers. When respondents were asked for their views on the statement: 'the most important thing about a job is pay', 23.9 per cent agreed while 61.2 per cent disagreed (see Table 5.2 for further details). In contrast, however, 86.5 per cent agreed with the statement: 'the kind of work I like is one that pays top salary for top performance', indicating the relevance of highly paid work to the respondents though it may not have featured as the primary motivation for the job. The data further indicated that those who liked the kind of job that pays top salary for top performance also believed that PRP had encouraged them to give sustained high performance at work ($r = .3399$, $p = .005$). No difference was found in views among differing variables including age, sex, length of service to the organisation or trade union membership.

Table 5.2 Pay as a Motivator

Statement	Strongly agree %	Agree %	No view %	Disagree %	Strongly %Disagree
The most important thing about a job is pay	3.0	20.9	14.9	49.3	11.9
The kind of work I like is the one that pays top salary for top performance	35.8	50.7	9.0	3.0	1.5

$N = 70$

Objectives of the Scheme

The views of both the HR director and the managers were examined to identify whether they shared similar viewpoints on the objectives of the scheme, but particularly to assess the extent to which managers were aware of the objectives of the

scheme. The HR director emphasised that the primary motivation in implementing the scheme was to improve performance:

They [the company] were trying to find a vehicle to increase performance. Being a semi-state set up, it would not have been performance-driven. Essentially, it was seen as a way of increasing performance (HR director, 1994).

It was also hoped that the scheme would be a means of focusing peoples' minds on performance and continuous improvement, in a concerted effort to boost overall company performance. Further considerations stated by the HR director included: the design of a fair means of reward, the motivation of employees and the provision of a cost-effective reward scheme.

Additionally, the HR director stated that the PRP scheme was partially introduced to recognise the organisation's transformation from a semi-state body to a PLC:

It was introduced partly to recognise that the company was now a PLC, and enable people to share in that sense, and to recognise that the managers were the biggest influence (HR director, 1994).

This provided a partial reason for the scheme's confinement to managerial employees. However, an additional reason for its confinement to management involved the view of the HR director that PRP would form a substitution for promotion:

Most of the managers were long serving and had reached the top of the scale and were going nowhere, therefore, it would bring benefit to financially reward them...PRP is a form of substitution for promotion (HR director, 1994).

This did not correspond with the managers' views. In the follow-up interviews conducted with managers, only one replied positively to the notion of PRP providing a satisfactory substitution for promotion. The remaining fifteen responses indicated a

negative reply to this statement or did not perceive that it was an objective of the scheme.

The reduction of trade union influence

The HR director further added that the scheme was introduced for the purpose of reducing trade union influence. He took the view that unions were a barrier to improving profitability within the organisation, as they consistently held out for more money without a return of increased performance:

At management level, unions wanted more reward, not necessarily for higher performance, they just felt that they were underpaid. The lack of reward system held back pay levels. The company was profitable and had the potential to be more profitable but there was a view that the unions were going to hold out for more money (HR director, 1994).

Table 5.3 displays the managers' views on the reasons for the introduction of PRP. There was a general awareness of the majority of reasons put forward by the HR director, with a few exceptions. As Table 5.3 shows, the objectives of improving organisational performance, rewarding individual performance, and motivation were generally accepted. However, little importance was given to the 'promotion of organisational change', which could describe the process of transforming the organisation from a semi-state body to a PLC. Only 16 per cent of all respondents ranked the promotion of organisational change as one of the top three objectives, while 59 per cent ranked it among the bottom three objectives. The removal of the bargaining process away from trade unions was given even less importance, with only 1 per cent of managers perceiving it as one of the priority objectives of the scheme.

No significant differences were found between the views of unionised and non-unionised managers.

Table 5.3 First Ranked Objectives Of The Scheme

Objectives	%
Improve performance of the organisation	56.9
To reward good performance	15.4
To motivate employees	9.2
Increase commitment to the organisation	4.6
Improve recruitment and retention of staff	9.2
Reinforce existing culture, values, and performance expectations	1.5
To promote organisational change	1.5
To remove the bargaining process away from trade unions	1.5

N = 70

Success of the Scheme

The HR director indicated satisfaction with the success of the scheme. In pinpointing particular areas of success, he listed the following achievements as a direct result of the scheme:

- ongoing improvement in profitability and a return on capital employed
- better teamwork
- increased ambition in terms of work behaviour
- the ability for an individual to earn more money and
- an increase in financial resources

However, no substantial objective evidence was available in relation to these:

No hard evidence other than continuing improvement, largely in profitability, most positive means of judging success is every year in each company, profits have improved (HR director, 1996).

Table 5.4 uses two statements which are designed to determine the success of the scheme perceived by the managers: 'PRP has been successful in achieving an overall increase in company performance' and 'PRP has provided the company with a useful tool in increasing productivity'. As Table 5.4 shows, over half agreed with the former statement, while two thirds agreed with the latter. However, 24 per cent had no view on statement one and 23 per cent had no view on statement two, giving the impression that a substantial proportion remain unaware of its success or otherwise. In follow-up interviews with managers, those who agreed that PRP had achieved success found difficulty in quantifying its success with hard data. Some mentioned an improvement in company profits though they found it difficult to justify a direct link to PRP; others mentioned a 'better atmosphere', and 'increased morale'. Though these provided helpful images, it was difficult to find any hard evidence which would directly link the scheme's introduction to an overall improvement in performance, as the organisation had already been making profits before PRP's arrival. Indeed, the HR directors views reflected these difficulties:

Very difficult to draw the conclusion that its directly influenced by introduction of PRP. You could produce statistics to show an improvement and directly relate it to the scheme but the real question is would they have got better had PRP not been there? I believe PRP had an impact but its an innate belief rather than a quantifiable belief (HR director, 1996).

He further commented that this difficulty in measuring PRP's success was made more difficult by the privatisation of the company, pointing out that privatisation had 'probably coloured the results'. However, there were a number of measures

commented on by the managers which were considered to be directly linked to the introduction of PRP and provided a more useful tool for assessing PRP's success:

I would quantify that success through the ISO 9000 scheme. Our reviews would indicate that management procedures are correct, quality scheme reviews ratings are being improved. Our customers ..are now involved in the ISO 9000 and they are rating us and sending our ratings back to the ISO 9000, so customer ratings are improving aswell (Manager, questionnaire, 1995).

Sales and marketing are very conscious of the targets being set, the key part of the equation. Definitely improvement everywhere, working capital keeping it at most optimum level, marked improvement (Manager, questionnaire, 1995).

Table 5.4 Success of PRP

Statement 1: PRP has been successful in achieving an overall increase in company performance.

Statement 2: PRP has provided the company with a useful tool in increasing productivity.

	%	Statement 1	Statement 2
Strongly disagree		1.5	1.5
Disagree		19.4	9.1
No View		23.9	22.7
Agree		49.3	56.1
Strongly agree		6.0	10.6

N = 70

Drawbacks with the Scheme

The HR director recognised several drawbacks with the scheme. In his opinion, the system was implemented far too quickly due to a time constraint imposed by directors. This ultimately had the effect of creating suspicion among employees. In

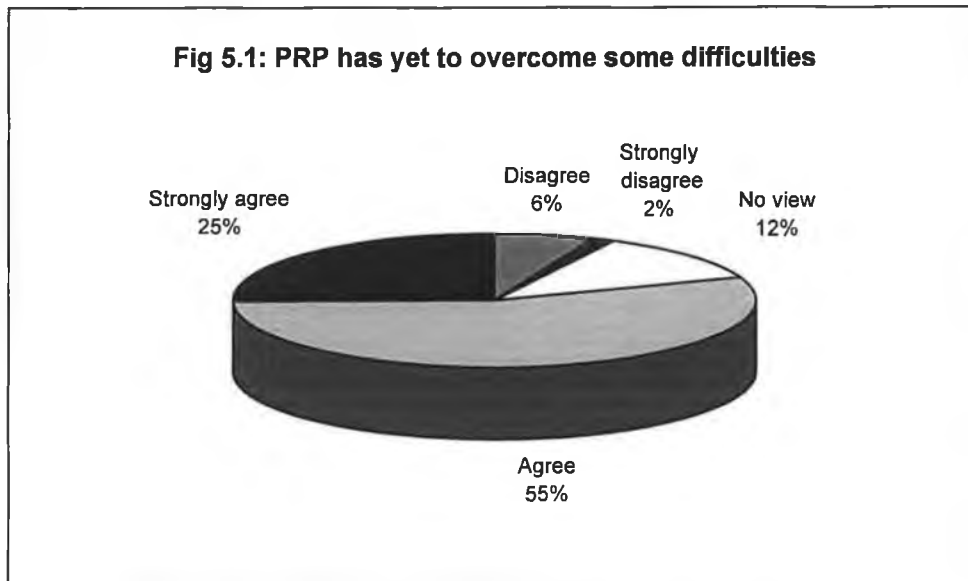
addition, 'one of the biggest problems was a lack of agreement on objectives' (HR director, 1994); he felt that too much was being 'handed down'. A further difficulty recognised involved dishonesty in the rating system. The HR director recognised that assessors were consistently drifting toward middle ratings: 'must be a reasonable distribution, if its a case of everybody performing at the same level, then there's subjectivity involved' (HR director, 1994). In order to counteract this particular effect, assessors were required to account for their ratings:

questions were posed in a "facilitator role", for example, why did you rate that person there? how does it relate back to the targets they set? They will then defend it or revise it (HR director, 1994).

The HR director was confident that all difficulties had since been overcome through a process of consultation:

We brought in an outside consultant, who went back and talked to everyone about how the system is working, did some of the consultation that should have been done beforehand, allowing them the input that should have been there initially (HR director, 1994).

However, the data indicated that managers did not perceive all difficulties as yet overcome. Figure 5.1 indicates that 81 per cent of managers agreed with the statement 'PRP has yet to overcome some difficulties.'



The managers were asked to rank a range of drawbacks with the PRP scheme according to importance, and these are shown in Table 5.5. The disadvantages listed were derived from those highlighted in the literature as common difficulties with PRP schemes.

Table 5.5 First ranked drawbacks with the scheme

Statement	%
It is difficult to measure individual performance objectively	42.2
PRP encourages employees to exercise a narrow focus on short-term quantifiable goals, neglecting long-term issues	21.0
The amount of pay involved is not enough to substantiate a change in performance	12.0
It assumes that money is the best reward	9.5
It is not successful in improving employee motivation	8.1
PRP negatively affects teamwork, & co-operation can suffer	6.0
It is principally unfair in discriminating between individual contributions	1.2

N = 70

Measuring Performance

The measurement of performance ranks as the greatest drawback with the scheme in the eyes of the managers. The HR director stated that the measurement of performance is vital to achieving a successful scheme and a good standard in measuring performance was determined through the use of clear, specific and quantifiable objectives. He felt that the identification of these objectives would eliminate any element of subjectivity as employees would be solely judged on whether or not these objectives were achieved.

When responding to the statement 'my work objectives are clear and specific. I know exactly what my job is', 87 per cent of managers considered that their set objectives were 'clear and specific'. Nevertheless, 78 per cent still ranked 'measurement of performance' as one of the top three disadvantages with the system, indicating that clear objectives do not necessarily result in an adequate measure of performance. In both the comments on the questionnaires and in the follow-up interviews, measurement of performance emerged as the primary cause of concern and dissatisfaction with the PRP scheme:

I think that personalities will always play a big role in any individuals assessment and until somebody devises a method to overcome this then I think we will have to live with under-performance and over-performance but I think that it is where a potentially very good system will become unstuck (Manager, questionnaire, 1995).

Many managers expressed concern about the extent to which the maximum reward was achievable: 'there is a tendency [for the company] to find ways of not awarding

the maximum reward even if all the goals are achieved' (Manager, questionnaire, 1995).

Additional difficulties with the measurement of performance were also evident in the comments which reflected the problems involved in defining and measuring goals for managerial positions: 'True goals are hard to clarify and harder still to judge' (Manager, questionnaire, 1995).

Short-term Objectives

The research also explored the issue of short-term goals. The HR director indicated that the targets set tended to focus on the short-term, but this was not perceived as a disadvantage as short-term goals were designed to fit with the long-term plan of the organisation:

It [PRP] has emphasised short-term quantifiable goals, that is always a risk with it. The question is "is that wrong?" Not at an operating level. They're short-term goals with a long-term view. You can marry strategic objectives with annually operating objectives. A long term view is mirrored in each individual's short-term objectives (HR director, 1994).

However, this view was not shared by the managers as 51 per cent of them agreed with the statement that 'there is an over-emphasis on short-term work objectives', while only 33 per cent disagreed:

Short-term goals can result in long-term neglect and the attitude of let next year look after itself starts to creep in (Manager, questionnaire, 1995).

This over-emphasis on short-term objectives did not appear to be quite as harmless as the HR director perceived, as many managers commented on the stifling effect it was having in relation to innovation:

Discourages innovation and neglect for longer-term issues. One of my objectives was a five year budget, I was told to be cautious, make it easy to achieve. It creates a negative effect, planning for what is achievable rather than an entrepreneurial attitude (Manager, interview, 1996).

Some managers indicated that targets may become irrelevant as a result of circumstances beyond the manager's direct control. As one respondent commented:

It does not take into consideration the unexpected which necessitates an extremely high level of work on targets outside those set which might leave you in a position of not having achieved the set targets while having worked extremely hard (Manager, questionnaire, 1995).

This comment summed up the feeling of many respondents on this issue and appeared to be the cause of much frustration among the managers. Part of this sense of frustration may have stemmed from the lack of feedback available to managers. Thus, when asked for their opinions on the statement 'I am provided with a great deal of feedback and guidance on the quality of my work', only 30 per cent agreed. Many felt aggrieved by the lack of regular reviews or feedback available, and there was frustration with the inability to obtain an adequate explanation concerning rewards:

Each year to date I have outperformed all the objectives set and have not achieved higher than 70 per cent reward. I don't know what I have to do and nobody can tell me - I have asked (Manager, questionnaire, 1995).

The issue of joint consultation was also considered and some related grievances were observed throughout the managers' responses. However, Table 5.6 displays positive responses to a number of statements concerning the issue of joint consultation in objective setting.

Table 5.6 Joint Consultation in Objective Setting

%	Strongly disagree	Disagree	No View	Agree	Strongly agree
I really have little voice in the formulation of my work objectives.	28.4	46.3	6.0	17.9	1.5
I am allowed a high degree of influence in the determination of my work objectives.	1.5	9.0	7.5	61.2	20.9

N =70

With a sum total of 74.7 per cent of respondents disagreeing with the statement: 'I really have little voice in the formulation of my work objectives' and 82.1 per cent agreeing with the statement: 'I am allowed a high degree of influence in the determination of my work objectives' (See Table 5.6), joint consultation in objective setting seems clearly established.

Lack of Rewards

According to the views of the managers, the third disadvantage with the system was the level of reward available. The reward did not appear to be adequate in motivating managers to improve efforts. The HR director perceived no difficulty with the level of reward available. In his opinion, the rewards available were substantial and 'worth striving for'. The managers, however, appeared less convinced. When asked if the extra effort involved in attaining the maximum reward was worth striving for, 43 per cent replied 'no':

Amount of money that can be earned in a good year is small (after tax) and does not "incentivise" me (Manager, questionnaire, 1995).

Furthermore, the extent of the gap between what excellent performers earn, compared to that of average performers and poor performers, was questioned:

To be really meaningful, you must reward high performers more and differ the gap between average and high performance (Manager, questionnaire, 1995).

Not only did the reward appear to be considered inadequate by the managers, but there also appeared to be the perception of a poor link between performance and pay. Table 5.7 shows the mixed opinions as to whether or not the production of high quality work would actually result in more pay and whether the PRP scheme genuinely affected work performance. Under half, 47 per cent, of the respondents agreed that producing high quality work will improve payment, while 40 per cent disagreed with the statement concerning PRP's affect on their work performance.

Table 5.7 Links between Performance and Pay

Statement	Strongly agree %	Agree %	No view %	Disagree %	Strongly %disagree
Producing high quality work is rewarded with more pay	1.5	45.5	19.7	24.2	9.1
PRP has no effect on my work performance	10.6	31.8	16.7	39.4	1.5
The most important thing about a job is pay	3.0	20.9	14.9	49.3	11.9

N = 70

Teamwork

The HR director indicated that the scheme was part of an overall strategy, part of which was to develop teamwork:

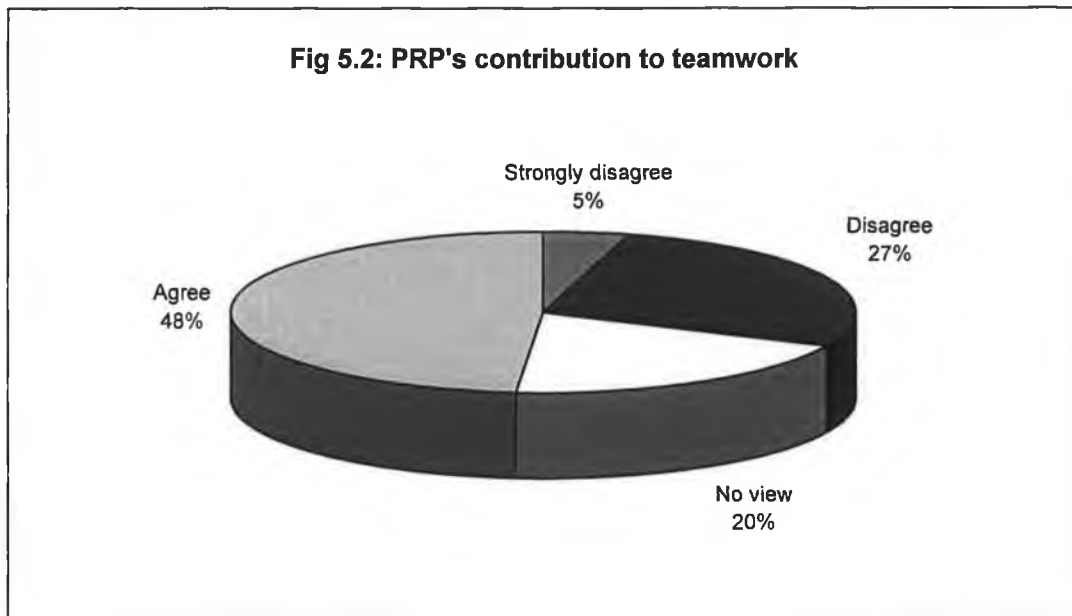
It is part of creating a management team at the individual level and at a group level, and to encourage teamwork...it's helping teamwork, because of the way

its structured, relating to a companies overall performance. Each function within the company has to make a contribution. What objectives are there for people, that requires the co-operation to set objectives (HR director, 1994).

He further commented that one of the most successful elements in the scheme was 'better teamwork'.

Among managers, there appeared to be mixed views on the benefits of PRP in relation to teamwork. Figure 5.2 represents the responses to the statement 'PRP has contributed to more effective teamwork within the organisation.' As the figure shows, just under half (48.5 per cent) agreed that PRP contributed to more effective teamwork, while 31.8 per cent are in disagreement. Furthermore, 47.9% of respondents ranked the statement 'PRP negatively affects teamwork, and co-operation can suffer' in the top three disadvantages with the scheme. Comments expressed by the managers did not indicate that PRP had created a positive effect on teamwork: 'Individuals will sacrifice team goals for their own glory' (Manager, questionnaire, 1995). This comment reflected the views of many, while others commented on a lack of co-operation as a result of the PRP system, and its failure to achieve a sense of team spirit. However, it may be worth considering that the issue of teamwork may be affected by the type of motivation provided by PRP, as one manager pointed out:

It helps to motivate certain individuals with competitive instincts. It doesn't motivate people who will do a good job come what may. It can therefore be divisive on a team with two types of personalities (Manager, questionnaire, 1995).



Appeals System

Managers were asked for their views on the following statement: 'Do you think that there is a need for an appeal system?' Two thirds (65.1 per cent) replied in favour of it, while 34.9 per cent disagreed. The data indicated a correlation between the need for an appeal system and the length of time spent working in the organisation ($r = -.3187$, $p = .015$), indicating the possibility that those who have spent more time working in the organisation see a greater need for an appeals system than those who have spent less time in the organisation.

Improvement in Performance

Though PRP had disadvantages for some managers, there were others who supported both its principles and operation. Individuals indicating a positive response to the statement 'With PRP my individual efforts and achievement are recognised' seemed to be far clearer about their work objectives and how their work contributed to the organisation. They also appeared to be well-informed about the company's plans and

performance, and had few difficulties with PRP. Table 5.8 shows a matrix correlation which indicates the relationship between these matters.

In an effort to establish the most effective way of improving on performance, a detailed analysis of those who had perceived an improvement in performance was carried out, the results of which are shown in Table 5.9. A total of 75 per cent of respondents agreed with the statement 'PRP has contributed to a general improvement in performance.' This proportion of the managers appeared to have found increased communication with their supervisors and a more focused direction in their work. They also seemed to have a clear idea of the company's goals for the future of the organisation, and have found PRP to have affected the extent of initiative shown in their work.

Table 5.8 Matrix Correlation of Individual Effort and Achievement

With PRP my individual efforts and achievements are recognised.	Correlation
My work objectives are clear and specific. I know exactly what my job is.	.38 <i>p</i> = .001
I can see how my work contributes to the organisation as a whole.	.54 <i>p</i> = .000
I have a clear idea about how the organisation is performing overall.	.49 <i>p</i> = .000
I am generally told what is going on in the company.	.60 <i>p</i> = .000
I've got a clear idea of what this organisation's goals and plans are for the future.	.42 <i>p</i> = .000
PRP has yet to overcome some difficulties in this organisation	-.35 <i>p</i> = .004

N = 70

Managers who agreed with the statement ‘with PRP my individual achievements are recognised’ similarly agreed with the statement ‘PRP gives an incentive to work beyond the requirements of the job’ ($r = .5114, p = .000$), indicating the possibility that recognition gives incentive to increase performance, lending support to the argument that the key to increasing performance may be obtained through, not a monetary incentive, but through the recognition element of an incentive.

Table 5.9 Improving on Performance

PRP has contributed to a general improvement in my performance.	Correlation
Increased communication with boss as a result of PRP	.3883 $p = .002$
PRP makes me show more initiative	.5129 $p = .000$
PRP makes me focus on what I’m meant to achieve	.3465 $p = .003$
I have a clear idea of the company’s goals and plans for the future	.4089 $p = .003$
<hr/> $N = 70$	

Comparative Schemes

Two interviews were conducted with HR directors from two financial institutions. The interviews resulted in detailed descriptions of two comprehensive performance management schemes, which are described below. During the interviews, the various pitfalls to be avoided and possible solutions in introducing such schemes were discussed. The benefit of examining these schemes is that they allow a means of evaluating the case study scheme, by presenting additional perspectives on PRP.

Company A Description of the PM System

Company A consisted of a financial institution which needed to respond to a rapidly changing market place. In response, they designed a PM system which was part of a wider initiative in organisational change. The HR director did not consider pay to be a positive motivator, but instead referred to power and knowledge as the real motivators. He further considered that “pay is just a function of the performance review system, which accounts for the real motivator”. Two objectives were identified in introducing the scheme, the first involved breaking the power of the union and the second, the need to eliminate the problem of the ‘annual incremental drift’. Further considerations included the concept of rewarding good performance, but equally important in this context was the identification of bad performance. The HR director claimed that the system in its entirety had ‘stopped the problem of upwardly drifting wage costs, and had forced the system to concentrate on performance and objectives.’ An external consultancy, Hay MSL, implemented the system alongside a team within the company who were trained by the consultants.

The PRP scheme was only one of a whole range of initiatives which formed a programme entitled ‘Marketing Action Programme’. Four separate initiatives can be identified within the parameters of this programme, the first of which involved the promotion of a new, more customer oriented image to the public. Secondly, a sophisticated staff suggestion scheme was installed. This was a mechanism in which employees formed into their natural teams to formulate ideas which would be beneficial to the organisation. For their efforts, they got ‘credits’ which accumulated in a points system. With their points they could then purchase goods, all of which

were tax free. This type of arrangement can have the benefit of fulfilling the requirements of 'valence' of expectancy theory, in ensuring that the goals are of direct value to the employee. A further initiative consisted of a booklet entitled 'the way we work together', which detailed the values shared in the company. This booklet was supported by a 'Management Effectiveness Programme'. Within this programme, a survey was carried out on staff who were required to identify the practices and characteristics of a good manager. Emerging from this survey was the compilation of a list which included 32 competencies. These were subsequently formulated and divided into four main categories. Having identified the suitable competencies required, managers were obliged to attend a three day exercise on a management effectiveness program. They were given feedback on their subordinates' viewpoints on their performance and were obliged to assimilate an action plan.

Following these initiatives, was the introduction of PRP on the Hay MSL system. This was built on later by 'Vision 2000', which consisted of an outward looking programme resting on 4 values geared to customers. The PRP system is continually updated. Its success is decided on a macro level:

an example of the determinant of its success might be: if costs are weighing down profits too much, wage costs will be reconsidered as will the effectiveness of PRP (HR director of Co.A, 1995).

Managers had the option to accept or reject the new system, and if they were dissatisfied with the new system, having already accepted it, they were allowed the option of returning to the old remuneration system. An appeals system was installed in the form of a disciplinary procedure for formal grievances and an outside

counsellor was appointed for these matters. The only action necessary in order to appeal a decision involved refraining from signing the review form.

Objectives were described as very specific and 'objective', and four review periods are carried out throughout the year. If external factors are expected to affect objectives, objectives are subsequently adjusted. Furthermore, objectives are set from the business plan, and the longer-term objectives then filtered downwards throughout the organisation. A cost curve was subsequently imposed to ensure equal distribution of the ratings, in an effort to counteract a previous problem in which 70 per cent were achieving the highest rating. Training courses were utilised to overcome any difficulties with the system. A former problem recollected concerned a general reluctance to give honest appraisals. Training in the role of the appraiser was used to overcome this difficulty, and feedback forms were introduced for managers in justifying the allocated rating. Monitoring of the system takes place on an annual basis through the use of a cost effective analysis.

The overall impression of the HR director was satisfaction with the PM system and he also considered that it had been successful in fulfilling all of its objectives. He reported it as a 'great success and tremendous advantage to the organisation', and further claimed an improvement in morale:

People were happy to know exactly where they stand... The spin-off effect of PRP is total honesty and good feedback about how you're doing...Because of the overall strategy, it has helped to move to the value for money concept' (HR director of Co. A, 1995).

As expected, it had not encouraged teamwork, though this was considered to suit the organisation's needs.

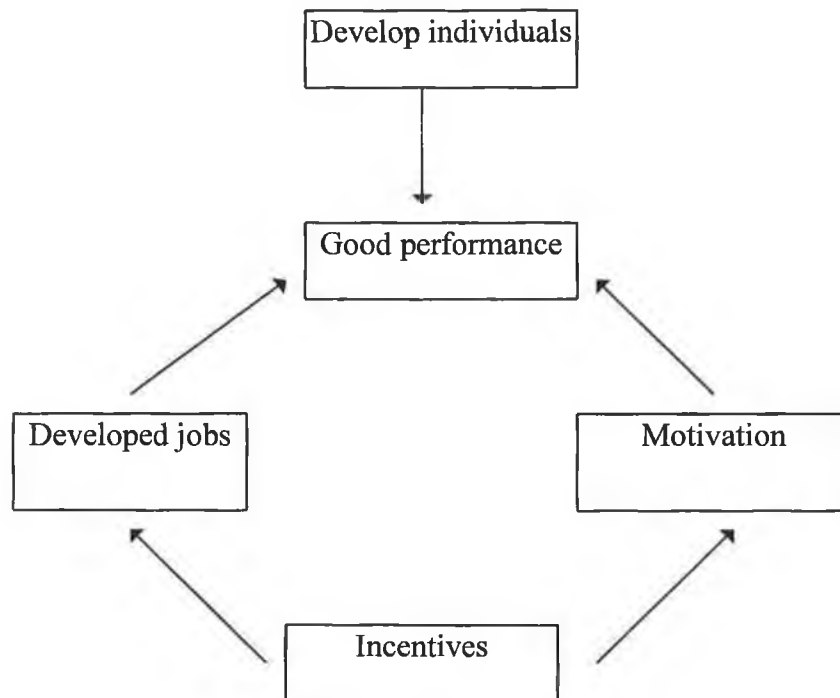
PRP is not conducive to teamwork. It has created a very competitive environment. In a banking environment competitive spirit is more functional and effective (HR director of Co. A, 1995).

Every three years a 'Mori survey' is conducted within the organisation. This consists of an in-house survey on a range of issues involving staff attitudes. Any issues causing grievance arises in these surveys and are dealt with as appropriate. It has been successful in reducing the powers of the union as 'practically none of the managers are now affiliated to the union' (HR director of Co. A, 1995).

Company B Description of the PM System

The impetus for the installation of a PM system within this company largely rested in the changing market demands. Intense competition, technological development, new multiplicity of products and increased customer demands all led to the need for change. The change came about in the form of a performance management model which was described as a 'process to link corporate strategy to individuals and teams' (HR director, 1995). Figure 5.3 sets out the structure of this model.

Figure 5.3 PM system of Co. B



Essentially the PM system was seen as a means to integrate HR strategy with business strategy which would consist of the following elements:

- Assessing and improving performance
- Strategy implementation at individual or team level
- Setting objectives which relate to strategy
- Making explicit what is effective performance
- Assessing training and development needs
- Helping reward/placement/promotion decision
- Communication on performance issues

Prior to implementation of their PM system, the HR director of this company had communicated the policies to employees, and gave them the option to accept or reject it. He believed this to be an influential part of the scheme's success and further stated

that it was imperative to involve employees, acknowledge their fears and concerns from the outset and give them the option to accept or reject the scheme. The programme was then introduced gradually over a period of three years. Training was a large feature of this process, and no stage continued without extensive training for all concerned in the system. They had quite a different strategy to that of Company A in that they informed and included the union in all developments.

The process of implementing the system included the use of external consultants, primarily for their 'external perspective, independence and objectivity.' (HR director of Co. B, 1995). Group presentations as well as individual discussions were used to explain the system to employees. The PRP system was to be installed within 18 months for managers, and four years for all staff.

The system itself involved objective setting which was incorporated during the appraisal, and cash bonuses were also available in addition to PRP which was not based on performance. Objectives were set on a 'top to bottom' basis, with budget setting, corporate objectives, divisional objectives and department and branch objectives all filtering downwards through the organisation. Objectives are jointly agreed with the appraiser. An appeals system was installed comprising of a review panel which included an independent and a union representative. Monitoring of the system takes place regularly, sometimes twice annually.

The HR director stressed that certain existing conditions are necessary for the implementation of PRP including: 'a history of fair treatment, senior management

commitment, fair objectives, confidence in ability, and a commitment to communication, service and involvement' (HR director of Co. B, 1995). The system was not yet implemented in full, but will include: 'greater team bias, skill and competence, long term objectives, separate bonus and base objectives and staff scheme development' (HR director of Co. B, 1995).

Problems experienced during the systems implementation to date were similar to those experienced by the previous organisations. The 'middle rating effect', in which appraisers would rotate all of their ratings to the middle of the range to avoid difficult consequences, was the primary feature. In order to counteract this difficulty, the concept of SMART objectives was introduced. SMART objectives consisted of setting measurable, clear, attainable, traceable, relevant objectives. The HR director further added that the appraisal process was a highly important feature in the system:

Timing and form filling, people tend to concentrate on the form, not the conversation and that's not what appraisals are about. They should be about development, forms are a bi-issue (HR director of Co. B, 1995).

On reflection of the implementation of the scheme, the HR director referred to a number of issues which proved to be imperative to the scheme's success. Among these, he included the following:

To create an environment of high level of management participation. Close links to jobs, if people feel objectives are too far above them they won't buy it, must link them directly to jobs, open communication and to manage expectations (HR director of Co. B, 1995).

Additionally, in summing up the principles for a successful system the HR director listed the following elements: 'support, realistic objectives, training and review,

constant feedback to avoid surprises and action in terms of if something is in the appraisal, act on it!' (HR director of Co. B, 1995).

Conclusions

The findings of this study have presented a wide range of varying views on the operation of PRP. The findings presented are those selected from a large extent of data, as statistically or qualitatively significant. Contradictory views are not only evident between the HR director and the managers in the case study, but additionally amongst the managers themselves.

Although widespread acceptance of the concept of PRP was evident, one quarter of the managerial population regarded the scheme in operation as unfair and various difficulties were also identified. Included among these difficulties were the measurement of performance, an over-emphasis on short-term goals and a lack of reward available. Additionally, a lack of feedback on targets, inadequate differentiation between reward allocation and a lack of clarity concerning the link between performance and pay were identified as further hindrances to the schemes success.

A further issue raised in this chapter involved that of initial objectives in implementing the PRP scheme. A wide set of objectives were identified in the HR directors comments and although the managers displayed a general awareness of the majority of these, there were some notable exceptions. Included among these were the promotion of organisational change and the removal of the bargaining process away

from trade unions. A contradictory set of views were evident concerning the issue of teamwork but a majority agreed on the need for an appeals system.

The findings showed that those who perceived PRP as an instrument of recognition also appeared to be clear about their work objectives and where these objectives fitted into the wider organisational plan. In addition, they were well-informed concerning the company's goals and reported few difficulties with PRP. Further analysis revealed that those who perceived an improvement in their performance had observed an increase in communication with their supervisors and more focused direction on their work.

The information on other PRP schemes provides two additional perspectives, giving further insight, for the evaluation of the case study scheme. The PRP scheme implemented in Company A shared similar objectives to that of the case organisation, particularly in the promotion of organisational change and the reduction of trade union influence. However, it differed in its approach, as PRP provided only one of a number of supporting initiatives in a wider PM plan. In contrast to the case organisation, employees were involved in the development of the plan. The plan included a number of initiatives including training programmes, regular review periods, monitoring and appeals systems. The PRP scheme in operation in Company B was distinct in its focus on integrating HR strategy with business strategy. A number of elements including communication, training and development, joint agreement on objectives, appeals systems, feedback and monitoring were prevalent within this system. Similar to Co.

A, Co. B also allowed employees the option to accept or reject the system. Having presented the findings, the following chapter will focus on their analysis.

CHAPTER 6 DATA ANALYSIS: EXPLANATION AND INTERPRETATION

Introduction

This chapter is divided into two sections. The first section considers the findings in the light of explanations offered by the interviewees, the questionnaire respondents and the literature. Contrasts and contradictions which emerged between respondents' views and between the data and the literature evidence are discussed and evaluated. The views of the HR director and the 70 managers present an insight into the merits and difficulties with the current PRP scheme. Before examining the intricacies of the actual operation of the PRP system, a look at the initial objectives in introducing the scheme is considered worthwhile, as they can have a significant impact on the success of the scheme. Section two presents a theoretical framework for understanding PRP in the case company. The framework builds on models already developed in the literature. However, it incorporates a wider variety of features for consideration in PM systems.

SECTION 1

Contrasting Objectives

Crowe (1992:124), suggests that 'each scheme will need to be assessed in the light of each organisations objectives.' In examining the PRP system within the case study, it became evident that the HR director had a large number of objectives in introducing the PRP scheme, only some of which were recognised and shared by the managers at the receiving end. Included among these were the following:

- The improvement of organisational performance
- A means to focus the organisation on a performance-driven ethos
- A fair and cost-effective system of reward
- The motivation of the workforce
- Recognition of the managerial contribution in the recent process of organisational transformation
- A means to reduce trade union influence and
- A means to provide some form of substitution for promotion.

The HR director had clearly a vast array of wide ranging and diverse objectives in introducing the scheme. However, the managers assessed according to this scheme did not appear to be aware of many of them. A further issue brought to the fore in examining these objectives and their impact revealed that the pursuit of some of these objectives appeared somewhat futile.

The dilution of trade union influence was seen by the HR director as a primary objective of the PRP scheme. Yet less than half of the managers were in fact trade union members and union membership failed to account for any of the differences found in the views and attitudes of managers. It was difficult to gauge the extent to which the HR director was pursuing a 'spectre' in his efforts to reduce trade union influence through the PRP scheme, as access to the company's trade union representatives was denied. However, in order to counteract the imbalance of views created by this situation, an interview was carried out with a trade union official from the union in question. According to the union official, PRP in general was viewed sceptically by the union, although it was not seen as a potential means to undermine

the union. It would appear that the unions were approached only in the cases where management needed their support to implement it, in most companies:

In cases where [the union] hasn't been approached, it wasn't necessary. If members aren't upset about an issue, there's not much initiative necessary (Trade union official, 1995).

Furthermore, it would appear that the presence of PRP didn't actually have an effect on union members:

Hasn't affected them negatively or positively. The volume of grievances hasn't changed, few cases of appeal (Trade union official, 1995).

Though the trade union official recognised PRP's influence in Britain with regard to the pattern of marginalisation and de-recognising trade unions through the use of PRP, it was his firm belief that this pattern was not evident in Ireland. Complementary to this viewpoint, the managers did not appear concerned for their union's welfare, as a result of PRP, in the case study organisation:

PRP has had no affect on the trade union (Manager, questionnaire, 1995).

Comments made by managers coupled with evidence presented in Table 5.3 portraying 'the reduction of trade union influence as last on the list, reflected the wider consensus that PRP had failed to have any affect on the union's position within the organisation. However, this may be due to the fact that the trade union does not provide a prevalent force with the managers:

The trade union isn't prevalent, it'd be different on the factory floor (Manager, interview, 1996).

It would appear that PRP did not actually provide any real threat to the existence of the union, regardless of the HR director's efforts. This focus may appear contrary to much of the literature (Ribbens, 1988; Procter et al, 1993; Geary, 1992), which would

suggest, and has evidence to provide, that PRP aims to individualise relations, thereby reducing trade union influence. However, much of the source of this evidence is found in the US or Britain, where unions are renowned for their adversarial nature. Irish unions, on the other hand, have established a policy of co-operation, eliminating the 'them and us' ethos, since 1987. The views of the trade union official highlighted this point:

Two differences between here and Britain. Britain has an adversarial culture. Since 1987 a culture of partnership has developed [in Ireland]. Second difference is the legislative framework. In Britain most of the rights of trade unions has been taken away. [They] don't have the political support we do (Trade union official, 1995).

A further objective of the HR director, which found little consideration among the managers, was that of PRP providing a 'substitution for promotion.' The managers did not appear to be aware of this objective from the outset. 'Did not understand or see it as a substitution for promotion' was one of many comments made by managers reflecting the lack of awareness for this particular objective. In addition, the 'promotion of organisational change' could be described as the process of recognising managerial contribution in changing the organisation from a semi-state body to a PLC, which was considered a priority objective by the HR director. However, this objective was not given much importance in the managers perception of the objectives of the scheme. Only 2 per cent ranked it as a priority objective of the scheme, while 59 per cent ranked it among the bottom three objectives of the scheme.

On the other hand, many of the objectives which the HR director had identified as providing impetus for the scheme's initial introduction were recognised by managers,

including an improvement in performance of the organisation, the motivation of staff and a means to reward good performance. These three objectives featured among what managers considered priority objectives in implementing the PRP scheme.

The extent of such multiple and diverse objectives raised the issue of whether it is possible to pursue such wide ranging and diverse objectives successfully in the implementation of a PRP scheme. It is possible that energies may be dissipated in the pursuit of multiple aims rather than focused firmly on one particular issue. Furthermore, it may also have the effect of reducing the potency of individual objectives.

Contrasting Views on Performance

As mentioned previously, an improvement in performance was a primary motivation in implementing the scheme. A total of 75 per cent agreed with the statement 'PRP has contributed to a general improvement in performance'. Though this would indicate some success on the part of the PRP scheme, it is difficult to quantify this success, as the statement is rather a general one; it does not specify the context of this success or, indeed, how it is measured. An improvement in overall company performance as a result of the PRP scheme appears obscure, as increases in company profits and performance could be related to multiple factors which could be a result of both internal and external situations. Nevertheless, as an improvement in performance is one of the stated goals of the scheme, it is worthwhile to obtain an understanding of the precise reasons why employees felt they had improved performance; was it as a

result of the monetary incentive, or did PRP bring other additional benefits which created the motivational force for improving performance?

The data indicated a correlation between an improvement in performance and improved communication with their boss. It would appear that PRP provided greater opportunity to interact on a more frequent basis with one's supervisor with the purpose of discussing the focus of direction of the targets set. In addition, the statement 'PRP makes me focus on what I'm meant to achieve' also correlated with an improvement in performance, and this consistently emerged as an important feature of the PRP system. One half of the managers in the follow-up interviews mentioned that PRP had helped them *focus* on certain objectives and numerous comments among the general managerial population reflected this viewpoint. Indeed, the HR director regarded this greater focus as one of the scheme's great successes:

I feel that there is a better understanding and a better focus on performance and what it means. People now understand what performance means in our group and they are in my view showing greater capability to manage performance (HR director, 1996).

A further correlation was also observed indicating that PRP had helped managers to show more initiative in their jobs.

A correlation between the two statements 'PRP has contributed to a general improvement in my performance' and 'I have a clear idea of the company's goals and plans for the future' became evident. Much of the literature stresses the importance of employee involvement (Lawler and Jenkins, 1981; Cuming, 1993), particularly in involving employees in the aims and objectives of the company. This can give

employees a clear sense of how their individual work targets fit into the overall company objectives, thus enabling them to see the relevance of their particular tasks. As McAfee and Champagne (1993:32) reflect: 'this system allows the employee to be part of the achievement of corporate goals through individual tasks and responsibilities'.

Measurement of Performance

Prior to determining how to reward an improvement in performance, what must first be deciphered is how performance should be measured. According to Kessler (1994), it is at this stage in which PRP faces its greatest challenge as the potential for distortion is at its highest. This may be due to a number of factors ranging from subjectivity, inconsistency and workplace pressures. The perceived fairness of the measurement system also has an influential impact on how successful the measurement system actually operates. The perceived attainability of the maximum reward is just one aspect which influences this perception of fairness. Evidence from the literature would indicate that finding an appropriate measurement system is not quite as simple as might be expected (Kessler and Purcell, 1992; Cannell and Wood, 1992; Salamon and Mabey, 1995).

It would appear, however, that measurement systems by nature tend to be inherently flawed as objectivity appears to be the main concern in relation to finding an appropriate measure of performance. Hence, the emphasis will inevitably lie with 'bottom-line' results, which leaves little room for other, possibly external considerations. This over-emphasis on bottom line performance may also have the

effect of negatively affecting the employees perception of the company values, and more particularly how the company values them. As one manager reflected, being answerable to 'faceless people' (i.e. the shareholders) on bottom-line performance is hardly a means to motivate any employee:

You're answerable to the shareholder who is anonymous and institutional and the representation of shareholder who's also answerable to faceless people. When this exists, the bottom line performance is over-emphasised. The problem for a manager is to have ethics and to motivate a salesforce, but all the organisation is looking for is bottom line results, it's not a relationship ...identity is suffering because everyone is answerable to these faceless people. Always looking to the bottom line doesn't help industry grow (Manager, interview, 1996).

Another remark reiterated this dissatisfaction with the alleged narrow assessment of performance:

It's not really fair. It should have been a wider assessment of my total responsibility of a manager, not just "figures only" (Manager, questionnaire, 1995).

Gunnigle et al (1993) suggest that a more fundamental issue may be at stake, in that there could exist a certain amount of resentment towards management exercising control through the system of performance measurement and reward distribution. Salamon and Mabey (1995) stretch this argument even further by suggesting that PRP or Performance Management systems in general carry the danger of substituting a crude set of mechanisms for a subtle psychological contract linking the organisation and its employees. Such mechanisms, or the use of external rewards as in this case, may however, 'backfire'. Kohn (1988), suggests that the use of external motivators can result in employees finding their tasks less pleasurable and subsequently not performing them as well. He further suggests that the use of rewards may result in

people perceiving themselves as working for money, being controlled by a reward and feeling less autonomous, hence resulting in an interference with performance.

The case study was no exception in experiencing the difficulties that many organisations face regarding the search for an appropriate measure of performance. Though the HR director may have appeared to have full faith in the system of measurement in use, it became evident that it may not have been functioning quite as effectively as expected. The study found a distinct contradiction between what the HR director termed as an adequate measure of performance and what management considered would suffice.

Objective setting

The first difficulty with the scheme was in finding suitable criteria for which management could be assessed on. Kessler (1984:484) has recognised the difficulty in defining quantifiable and measurable goals for managerial positions:

Performance criteria typically encompasses a range of behavioural traits, skills and competence and outputs in the form of objectives. However, the use of this criteria has often posed difficulties for management. The first outstanding problem is in establishing suitable criteria for a job.

Managers' comments reflected this dilemma:

It is too difficult to identify meaningful measures. Problems to date have been in defining realistic targets (Manager, questionnaire, 1995).

Others appeared concerned that any criteria used was largely dependent on a combination of other factors, and as such failed to reflect their individual contribution:

There is a difficulty with PRP at a management level in actually measuring performance. As MD of a subsidiary company my companies performance is affected by my personal performance but as there are so many other factors

in play it is not absolutely accurate to judge my personal performance on any companies performance (Manager, 1995).

Nevertheless, the HR director considered that the successful measurement of performance could be achieved through the use of clear and specific objectives. The use of such objectives was to have the effect of eliminating the risks of subjectivity as managers were to be assessed only on the achievement, or non-achievement, of these objectives. However, managers appeared less convinced of the assumed objectivity of the system, with many commenting on what was considered the inevitable subjectivity experienced in assessments. Their comments reflected the evidence in the literature which extensively discusses the danger of subjectivity in such systems as PRP:

It is now clear that different types of judgement can be involved in measurement, i.e. that bias can be introduced in several ways, and it is also clear that, even at the objective extreme, some degree of subjective judgement is always required of the appraiser (Bailey, 1983:39).

Quite clearly, the PRP system in place on this case study suffered the same burdens of subjectivity experienced by others; many of the grievances made concerning the scheme found root in this issue. Unfortunately, the literature provides no direct means of overcoming this issue, with the exception of suggesting an objective measure of performance. This suggestion, however, merely serves the purpose of returning to the much debated dilemma of how to actually achieve an objective measure. However, various authors (Heneman, 1992; Miceli and Lane, 1991) do propose the use of certain safeguards against bias and inconsistency which can be used to curtail the threat of subjectivity. These will be discussed in further detail later.

As mentioned previously, the HR director considered that the use of clear and specific objectives eliminated the common difficulties found with the measurement of performance. A contradiction arose when 87 per cent of managers agreed that their objectives were clear and specific, though 'measurement of performance' still ranked as the top priority drawback with the scheme. This would tend to suggest that the HR director's simplistic solution to the measurement of performance did not provide a satisfactory one. The HR director had also indicated that simplicity was the key to successfully measuring performance. However, this approach to managing such a system is criticised by Berlet and Cravens (1991:120) who comment:

policymakers are often tempted to treat "simplicity" as the foremost criteria in guiding the design of their incentive programs. However, if design simplicity is placed at the hub of the compensation-policy wheel, the directional purposes of incentives can be lost in the wake of such simpleminded focus.

Protective Mechanisms

The literature identifies a number of safeguards in maintaining the equity of the system, the most prominent of which feature appeals systems, regular feedback and comprehensive reviews. The use of feedback and reviews can act as a means of protecting against inconsistencies, while appeals channels can be utilised in both identifying and managing grievances with the system. Through the use of such mechanisms, employees can be made aware of their progress and the future direction of their objectives, therefore leaving little room for any future surprises concerning the achievement or non-achievement of targets when the final decision on the reward is made:

There is a clear implication in the applied literature that performance evaluation and feedback have an impact on work behaviour...A general

working hypothesis might be that knowledge of results improves performance (Landy, Farr & Jacobs, 1982:24).

According to Salamon and Mabey (1995), goal-setting theory places particular stress on feeding back the results of performance if the organisation is to achieve its strategic objectives. They further comment that many organisations regard feedback as the principal focus of a performance management system, as it provides the opportunity to give individual coaching and career development to the employee. Furthermore, 'empirical research tends to support the hypothesis that an effective system of feedback and coaching is a necessary condition for the achievement of objectives' (Salamon and Mabey, 1995:217).

However, it would appear that the case study organisation did not fully avail of such mechanisms. The HR director felt no necessity in implementing an appeals process of any form, as he considered that the analysis which took place at Head Office level acted as a 'second court' in itself. Conversely, two thirds of the managers felt a distinct need for the existence of an appeals forum, which would allow an opportunity to express grievances concerning the allocation of rewards or the system in general. In addition, the HR director assumed that the level of feedback available to the managers was adequate. Once again managers appeared less than convinced, with less than half agreeing with the statement 'I receive a considerable amount of feedback concerning my quantity of output on the job.' Additional comments made by the managers emphasise this point:

If the system is properly implemented then I think it is a fair system, but as we have it there is no feedback with regards to improvement, problem areas or shortcomings (Manager, questionnaire, 1995).

This statement was accompanied by a multitude of statements, all reflecting the same issue regarding a lack of feedback. Though a correlation existed between an improvement in communication with the managers immediate supervisor and an improvement in performance, only 27 per cent actually felt there to be an improvement in communication between themselves and their immediate supervisor. Hence, it would appear that the extent of feedback on objectives was limited for many. With regard to the above findings, it would appear that there was a distinct need for an increase in feedback concerning work targets, coupled with an almost certain need for an appeals system of some form.

Perceived equity of the System

The literature points out that the perception of equity with the scheme is vitally important to its success (Beer et al., 1984; Armstrong, and Murlis, 1994). According to Cuming (1993), employee involvement both in the initial shaping of the pay structure and in devising its objectives is bound to be very helpful in gaining the co-operation of employees. The participation of employees in the initial stages of installing a PRP scheme can affect an employees perception of the equitable nature of the scheme: 'without the perception of equity, trust in the reward system will be low and the contingent linkage between performance and pay will not be accepted' (Beer et al, 1984:124). One means of increasing the likelihood of perceived equity is to involve employees in the design process. According to Lawler and Jenkins (1981), employee participation can make a significant impact on the success of a pay system. They further suggest that employees are more likely to be committed to the system if they have some control over what happens. In the case study, there was no form of

consultation or participation with employees in the design or implementation phases and the HR director had subsequently noticed mounting suspicion among the managers concerning the scheme. In order to counteract this increasing distrust for the system, he enlisted the services of a consultant. Consequently, the HR director firmly believed that this action had overcome any perceived difficulties with the system. However, as the findings show, 81 per cent agreed with the statement that PRP had yet to overcome some difficulties in the organisation.

A further potential hindrance to the perception of equity of the scheme involved the extent to which the maximum reward was perceived attainable. Several managers suggested that a large proportion of the managers viewed the maximum reward as unattainable. However, this was not considered a reflection of their own ability. With a total of 30 per cent of managers negatively responding to the question 'do you feel that you are capable of attaining the maximum reward?', coupled with numerous comments made by the managers indicating confusion with regard to the allocation of rewards, it would appear that this is an issue which requires further consideration. The importance of this issue lies with an employee's perception of the equitable nature of the allocation of rewards, but equally so with the actual attainability of the maximum reward. The literature strongly emphasises the latter, linking it to the principles of Vroom's (1964) Expectancy theory.

Expectancy Theory

Expectancy theory purports to establish a clear relationship between what individuals value in terms of rewards, what they achieve and the effort they expend. It also demonstrates the importance of people having a clear understanding of the basis on which they will be rewarded as individuals (Martin, 1994:11).

There is a general consensus in the literature that expectancy theory provides one of the main theoretical justifications of PRP schemes and fulfilment of the theory is required in order to achieve success (Beaumont, 1993; Halachmi & Holzer, 1987; Martin, 1994). In addition, expectancy theory also provides one of the more wider used theoretical basis under which PRP is considered to operate. Marsden and Richardson (1994) use expectancy theory to explain the de-motivational effects discovered in their study. They asked three questions deriving their source in the propositions of expectancy theory. Similar questions within this study were also asked and the following evidence came to the fore.

1. Do you think that PRP has raised your motivation to work harder?

This relates to expectancy theory's first assumption - expectancy- which questions staff on whether they feel capable of changing behaviour, in the form of an improvement in performance. The above question was addressed to the managers, 25 per cent of whom, replied 'not at all' representing a quarter of the managers perceiving no change in behaviour as a result of PRP. However, there was a prevalent perception that PRP had achieved some success in the improvement of performance, though this was viewed on a conditional basis. Although the data indicated that a majority felt that they had input into their objectives, some expressed the view that a lack of consultation in agreeing targets was hindering the achievement of these targets or, an improvement in performance:

An improvement in performance largely depends on the initial objectives set, need to have joint consultation in setting targets (Manager, questionnaire, 1995).

Dissatisfaction with the targets set and with the subsequent reward attained appeared to have some foundation in the lack of joint consultation evident:

I had objectives imposed which were contradictory: to increase market share and to increase cases (volume); they're not compatible objectives. Increase volume could occur but the share market may go down or vice versa. Need to have a say in the targets set (Manager, interview, 1996).

The importance of joint consultation to the perception of equity of PRP schemes is discussed in length within the literature. According to Williams et al (1993:144), 'employees are much more likely to respond to clearly defined mutually agreed individual objectives, than they are to grand statements about corporate values, however eloquently they are articulated.' Although Cannell and Wood (1992), found that participation in objective setting by those assessed according to the scheme was not considered an essential element to the performance management system, it was recognised that the imposition of objectives was not considered wise. Nevertheless, the data would indicate that the extent of this difficulty within the organisation in question is relatively limited, with less than 20 per cent agreeing that they have little voice in the formulation of their work objectives and over 82 per cent agreeing that they are allowed a high degree of influence in the determination of work objectives.

2. Do you feel that you are capable of attaining the maximum reward?

This question addressed the concept of instrumentality, in questioning the extent to which the maximum reward was viewed as attainable. The inference of the

proposition of instrumentality ascertains that employees must firmly believe that their performance will lead to a certain outcome. 30 per cent did not perceive this outcome (the maximum reward) as attainable. 'It appears to be impossible to reach the maximum potential reward' is an example of just one particular comment which echoed the sentiments of many. This is not a result of a lack of faith in their own ability to achieve, but the experience of previous gradings. In addition, the data indicates that under half of the respondents agree that producing high quality work will improve payment. Furthermore, the remarks of several managers indicated that this kind of perception among the managers concerning the unattainable nature of the reward could in fact be derived from the supervisor's failure to communicate why a certain allocation was awarded:

Salary improvements including bonus are "handed" out at the end of the financial year with no explanation of the reasons why the maximum bonus, for example, was not paid. It could be called a "one way street" (Manager, questionnaire, 1995).

This perception is common among many of the managers:

In our system to date there has been no explanation of how bonus payments have been calculated. One is informed of the percentage to be paid with no discussion on how to achieve the maximum payment (Manager, questionnaire, 1995).

There appeared to be a general dissatisfaction with the issue of maximum rewards, as objectives set appeared to be completed and yet the maximum reward remained as elusive as ever. However, this was even more frustrated by the lack of communication concerning why this might be the case. It is suggested that both the use of regular feedback sessions and appeals mechanism may be utilised as some means by which to resolve this issue. Martin (1994), discusses expectancy theory in the context of the

importance of having a clear understanding of the basis on which individuals will be rewarded. Consequently, the review or appraisal process acts as one of the most significant and important stages of the entire exercise of PRP, as it is at this stage in which individuals will come to realise not only the merits of their performance for that year but also how their performance was assessed. The understanding of *how* they were assessed should lead to a realisation of the basis on which the rewards were allocated. Consequently, the manner in which to achieve the maximum reward should become clear, and more importantly, should be perceived as attainable.

Having established the attainability, or otherwise, of the reward, it is important to decipher whether or not the managers considered the reward sufficiently attractive, which reflects expectancy theory's concept of 'valence'. Hence, the following question was posed:

3. *'Do you think the maximum reward is worth the extra effort involved in order to gain it?'*

To this, 43 per cent replied no. Comments made by the managers further indicated some dissatisfaction with the incentive available. However, the amount of incentive available largely depends on the base salary of that manager, and if this is not considered adequate, then perception of the incentive's adequacy will also suffer.

You'd need a reasonable level to start with, in terms of base salary, from which you would improve on. Even in a recession, you still have to motivate, but the base salary must be reasonable (Manager, interview, 1996).

The PRP system of remuneration can only be effective if the basic salary is at a correct level. Otherwise the overall shortfall in remuneration tends to swamp the PRP amounts (Manager, questionnaire, 1995).

Furthermore, the attractiveness of a reward may be clouded when the remuneration package in total does not correspond positively with comparatives.

Overall the concept is a good one. However, the salary base was not right when PRP commenced (in my case anyway) and I am now aware that my "package" is as much as £10,000 adrift of my main competitors (Manager, questionnaire, 1995).

Clearly, the idea of an incentive based on salary does not pose much difficulty, but the practical advantage tends to be overshadowed when compared to the substantial difference in overall remuneration rates. Satisfaction with the value of the reward then appears to be a function of satisfaction with the initial base salary and comparative rates. As Storey and Sisson (1993:146) point out, 'organisations have to have regard to what potential competitors for their employees are paying. Otherwise, they risk losing their best people.' This also corresponds to equity theory which proposes that individuals assess the fairness of their treatment on the basis of comparing their situation to those in a similar position.

In addition, the gap between the level of reward allocated to average and high performers was questioned by the managers:

The amount of pay offered for good performance as against average performance is not big enough (Manager, questionnaire, 1995).

I think it is a good concept but those who perform well must be rewarded a significant amount more than those who only perform moderately (Manager, questionnaire, 1995).

Beer et al. (1984) states that a company must pay its better performers significantly more than its poor performers. He further comments on the potential impact of this detail: 'a less than significant differential will result in feelings of inequity when

better performers compare their input-output ratio with that of poorer performers' (Beer et al., 1984:121).

Short-term Objectives

The literature highlights an over-emphasis of short-term objectives as a common difficulty with PRP schemes (Bevan and Thompson, 1991; Kessler, 1995), and indeed, this same problem ranked as second on the list of drawbacks with the current scheme, as expressed by the managers. According to Kohn (1988:93), 'rewards encourage people to focus narrowly on a task, to do it as quickly as possible, and to take few risks. The more emphasis placed on the reward, the more inclined someone will be to do the minimum necessary to get it.' The HR director argued that the short-term objectives were part of a wider plan which incorporated long-term objectives, and from this, short-term objectives emerged. From the managers' perspectives, this issue ranked as the second greatest drawback with the scheme and as such it may be surmised that the managers were either unaware of the wider plan or were convinced that this was counter-productive to the organisation's needs. Some comments made by the managers reflect the latter proposition, highlighting the emphasis on budgetary concerns, which appeared to be overriding any other feature of the job:

To maximise payments of PRP an individual might be motivated to put maximum effort into minimising his budget! (Manager, questionnaire, 1995).

Being unaware of the wider plan, however, has just as serious implications as limiting one's focus to a particular aspect of the job, as this appears to result in a lack of identification with the organisation, and a failure to understand where individual objectives become relevant to the overall goals of the company. Salamon and Mabey

(1995:192) state that 'a system of performance management is predicated on the need to take the wider strategic goals of the organisation, and translate them into goals for smaller groups and individuals'. This loss of identification may be a source of demotivation to an employee.

Armstrong (1994) suggests that a heightened emphasis on short-term goals can further lead to a neglect for other types of performance such as innovation and concern for longer-term issues. This view was reflected in the comments made by managers, which indicated that the perceived over-emphasis on short-term goals was having a stifling effect on innovation:

PRP may discourage risk taking and innovation so that an individuals targets are safely achieved. Opportunities where targets might be exceeded may be foregone where next years targets are strictly related to the current year's results (Manager, questionnaire, 1995).

It is apparent that there is a distinct danger in focusing on specified goals, particularly when this is negatively affecting the pursuit of other, possibly more long-term or innovative goals. Another danger lies in the pursuit of targets that have become outdated or irrelevant, though this could potentially be overcome through the use of regular feedback and reviews. Bailey (1983) sums up the range of potential difficulties in the context of short-term objectives:

As some writers have observed (Cummings and Schwab 1973; Smith 1976), some aspects of organisational effectiveness are much easier to couch in objective terms than others, perhaps biasing criteria in favour of the obvious and the short term. As far as relevance is concerned, the danger lies in using deficient direct measures of the task that happen to be directly observable. This danger is all the more real when, for jobs which are further up the organisational hierarchy, few objective measures are meaningful (Bailey, 1983:32).

Teamwork

There is an abundance of literature detailing the effects of PRP on teamwork, the content of which largely warns against the division it can cause to teams and subsequently the wider organisational context (Armstrong & Murlis, 1994; Kinnie and Lowe, 1990). Storey & Sisson (1993) comment that focusing on individual goals can have the effect of ruining teamspirit and co-operation. Others (Mitchell et al, 1990; Kinnie and Lowe, 1990) point out the adverse effect that PRP schemes have in inciting competition between individuals with the subsequent effect of producing an individualistic nature contrary to the spirit of teamwork. Cannell and Wood (1992) observed in their study that in approximately half the interviews conducted, the potential negative effect of PRP on bonuses and team-building was acknowledged. Furthermore, an interesting relationship between target-setting and teambuilding was identified by one of the interviewees:

If it [PRP] does cut across teamworking, then there is something wrong with the target-setting or the appraisal' (Cannell and Wood, 1992:81).

Another manager from this study commented that PRP had positively encouraged team-building through providing clear objectives:

because we've got greater clarity, you've got an acceptance that you need to be clear on what is wasted and what fits which part of the puzzle where, and to have greater awareness of what different managers are doing (Cannell and Wood, 1992:81).

Within the case study, a positive correlation similarly emerged between teamwork and clarity. Cannell and Wood (1992) suggest that so long as the basic measure of performance is not exclusively individually based, the potential difficulties with teamwork can be counteracted by including teamwork in objectives. However, other authors are not so lenient on the negative effects of PRP on teamwork:

At the very least, employees may focus their attention on individual targets especially if they are artificially contrived for the pay system at the expense of the performance of the unit (Storey and Sisson, 1993:141).

With approximately 50 per cent of respondents positively agreeing with the statement 'PRP negatively affects teamwork, and co-operation can suffer', it would appear that managers are equally divided on this issue, and comments made by the managers concerning PRP's effect on teamwork tend to reflect this division of views. The following comments give some insight into just some of the views which both favour and oppose the effects of PRP on teamwork:

Teamwork is vital to the success of the continuous process and our scheme would be tailored to nurture co-operation while still reward individual effort (Manager, 1995).

In a management team situation, performance targets among team members must be consistent to avoid conflict in the attainment of individual targets at the expense of co-operation (Manager, 1995).

It has not brought about the teamwork and co-operation in the management team promised (Manager, 1995).

The teamwork improvement applies if all team makers are responsible and measured on the outcome of the team effort (Manager, 1995).

As can be seen from the above comments, the issue of precisely where the bias with teamwork lies is rather ambiguous. The division of views may be subject to the organisation, and culture of that organisation in which the manager works, or it may simply be a function of what the last commentator suggests, the responsibility of team members and the validity of the measurement will determine an improvement in performance.

As a result of the PRP scheme's confinement to managerial staff only, there was some concern regarding the potential divisive effects between those who were included in the scheme and those who were not:

Employees not included in the scheme are likely to suffer from discontent, leading to difficulties for staff on PRP in attaining maximum output and a human resource problem (Manager, questionnaire, 1995).

This problem, however, did not appear widespread as most who commented on this issue suggested that it had a potential to create difficulties but had not so far done so, others remained confident that it was not a difficulty, and could not see it as becoming one. Nevertheless, McBeath and Rands (1989:133) argue against this type of strategy confining schemes to managerial staff only:

The more senior the post, the greater the potential impact on the bottom line and the greater the differential for achievers, but performance which makes a difference can be recognised right on down though the organisation and pay levels should respond accordingly.

Acceptance of the Scheme

As mentioned previously, three quarters of the managers agreed with the statement: 'PRP has contributed to a general improvement in performance'. A closer look at these particular respondents appears worthwhile.

Table 5.8 of the findings chapter displays a matrix correlation of individual effort and achievement, which constitutes individuals who indicated a positive response to the statement 'With PRP my individual efforts and achievements are recognised'. This proportion of the population appeared to be clear about their work objectives and also how their work contributed to the organisation as a whole. The literature stresses the importance of employees being aware of the wider goals of the organisation, and the

further importance of structuring individual targets into the wider strategic plan, and the positive motivational effects arising from this practice. This segment of the managerial population had also appeared to have attained an understanding of the company's overall plans and performance. Furthermore, they responded negatively to the statement 'PRP has yet to overcome some difficulties within this organisation.' The most obvious question at this point centres on why this proportion of the managers differed so dramatically from the others who perceived a multitude of difficulties with the scheme. In attempting to find an explanation for this, a combination of responses emerge. The first deals with the issue of communication. Managers in this category were found to have improved communication with their supervisors and clarity in their objectives. This would imply that managers of this 'sub-section' were perfectly clear on what their task involved, and the aforementioned 'communication' could infer that target-setting was indeed a two-way process, perhaps involving a joint approach to target setting, ensuring acceptance of goals. Furthermore, this group were aware of the organisation's goals and realised where their plans fitted in to the wider organisational plan. In addition, they responded positively to the statement 'PRP makes me focus on what I'm meant to achieve', thus highlighting the relevance of their targets, and their understanding of the relevance of targets. Finally, this sub-section responded positively to the statement 'PRP makes me show more initiative', indicating that PRP is successful as a motivator, with a certain proportion of the managerial population.

It was also found that those agreeing with the statement 'with PRP my individual efforts and achievements are recognised' similarly agreed with the statement 'PRP

gives an incentive to work beyond the requirements of the job'. It is argued by Armstrong (1993) that the monetary element of PRP is only a tangible expression of recognition, and it is the recognition that provides the motivational force. Hence, it could be argued that this sub-section of managers were motivated by the recognition element of PRP, as opposed to the actual amounts of money involved. This would confirm Cannell and Wood's (1992) findings on the motivational force of recognition, although they perceived recognition as inter linked with monetary gain.

Organisational Culture

In the follow-up interviews it became clear that there were differences between managers working in different subsidiaries in their perceptions and experience of PRP. Managers in more recently established organisations appeared to accept the changes in the reward system wrought by PRP, but in the older and more traditional organisations PRP was largely resented. Comments made by managers in the older organisations suggest a negative change in culture since the scheme's introduction:

The culture today is not as good as it was before. It used to be a vibrant place to work. Now minimum standards are set and [there's an attitude of] I'm not going to go beyond those... We see ourselves as a separate identity...it has broken a sense of group pride. Pride can contribute to performance when you feel like you're in a successful group... We're denied a cross-fertilisation of ideas, morale (Manager, interview, 1996).

The comments of another manager suggests that PRP may be inappropriate in the older, more traditionally established organisations:

The mechanics and principles of PRP I fully subscribe to. The architecture and structure of the organisation are not part of the PRP culture (Manager, interview, 1996).

These views contrast to those expressed by a manager working in one of the younger organisations within the group:

We have seen a change in the culture of the organisation, slowly from a static hierarchical structure to active team based structure (Manager, interview, 1996).

A manager in one of the younger subsidiaries summed up the contrasting attitudes to PRP in stating:

It's different in different parts of the group. Others in the group it might have been alien to, in a more commercial organisation it was a normal sort of a thing (Manager, interview, 1996).

This view supports the view of Armstrong (1993:80) who suggests that PRP 'is more likely to succeed in an entrepreneurial and performance-orientated culture where the values support individualism, hard work, risk-taking'.

As already described, the company comprised 15 subsidiaries, each with its own history and culture. Some were relatively new organisations, others were long established, yet the same PRP scheme had been implemented in each. From the HR director's perspective, one of the objectives of the scheme was to reinforce and reward the changes involved in moving the company from a bureaucratic, state-oriented organisation to one which would embrace a performance driven, enterprise way of thinking. However, given the diversity of the companies operating within the group, the appropriateness of a uniform reward scheme imposed from Head Office on all companies, must be questioned.

Cuming (1993:281) argues that 'it is important to design a reward package which is consistent with the goals and culture of an organisation.' The very nature of PRP schemes sends messages to employees about organisational values and goals. As Brown (1995:137) points out, 'an organisation's reward system...can be thought of as an unequivocal statement of its values, beliefs and assumptions.' Hence the application of a uniform reward scheme into a range of differing organisations with differing histories and cultures has the potential to overlook the individual nature of subsidiaries within a multi-divisional organisation. Armstrong and Murlis (1991:41) note that 'reward policies have to take into account...the corporate culture and values and the type of organisation in which the policies are being applied.' They suggest that although reward policies should be consistent with corporate culture, there is no such thing as a 'right' policy. However, they do offer some examples as to how some reward policies may suit certain types of organisations. Examples include the large bureaucratic company which may feel comfortable with a highly formalised reward system, the smaller more loosely organised company, on the other hand, may not want to over-formalise its procedures as it may be more suited to a flexible system which could respond quickly to change.

Though much of the literature emphasises the need to take into consideration the organisational culture of the organisation, Armstrong (1993) takes it a step further in suggesting the use of further factors including a process of 'environmental scanning'. Environmental scanning involves the analysis of internal and external factors which affect corporate, HRM and reward strategies:

The internal environment consists of the organisations culture, technology and working arrangements, structures, processes and systems. The external

environment consists of all the factors which are largely outside the control of the organisation but which will affect its strategies and operations (Armstrong, 1993:8).

Included among these external factors are competition, economic trends, government legislation, trends in market rates and going rates in comparable companies. Given Armstrong's (1993) suggestion of the consideration of such wide and variable factors, it would seem at least necessary to take into account each subsidiary in its individual context when implementing reward systems. This seems particularly applicable to this case study, where the subsidiaries are quite diverse in nature.

Comparative Case Studies

Although a true comparative study was not possible, it was considered that useful insights can be learned from other organisations experiences with PRP. The assessment of two other performance management systems was conducted through lengthy interviews with HR directors from two different financial institutions. In comparing the two systems that were successfully implemented within their organisations, it was clear that Salamon and Mabey's (1995), model had achieved a realistic approach to the elements required for an effective PM system. Furthermore, it would appear that the scheme within the case study had implemented most of these elements, so the question of why there was such widespread dissatisfaction with the scheme, must be addressed. In order to address this issue, the two PM systems utilised within Co. A and Co. B are examined, and the case study is evaluated against these. The two company schemes are further used to identify the shortcomings with the scheme of the case study and emerging from this it should be clear where the PM system was lacking and required improvement.

Lessons from the Two Systems

In analysing the two comparative schemes of Co. A and Co. B, a number of similar strategies emerged. Within both schemes, certain features gained prominence in accounting for the success of the schemes. The first feature observed was highlighted by both HR directors as a significant factor: both stressed that the PRP scheme was only one initiative within a performance management strategy which gave PRP the necessary supporting infrastructure in which effective operation could be achieved. Neither considered pay as an isolated factor an effective way to manage employees but regarded it as important when combined with other factors to form a wider strategy. Moreover, both companies were introducing systems which represented a wider cultural change within their organisations. Therefore, they recognised the need to implement a broad strategy in order to encourage employees to both accept the changes within the organisation and to keep abreast of market pressures. Within the case study, however, the PRP scheme was introduced as the main body of the performance management system and limited supporting initiatives were introduced.

A second feature of both schemes allowed management the option to enter the scheme through a secret voting procedure. Management were informed in every aspect of the development of the system and were allowed to not only express opinions on it, but ultimately decide on its existence. In addition, both had formal appeals processes for those who wished to express either grievances with the scheme or with their individual appraisal. In the case study organisation, the PRP scheme was imposed on management. Management did not participate in the formulation, implementation or administration of the scheme. They were not given the option to accept or reject it,

rectifying situations. It was advised by both HR directors that training be used at all stages throughout the process, in order to ensure effective performance by all concerned. The case company had not initiated any training facilities for any party contributing to the scheme. Appraisers were not trained in the process of effectively training staff, and managers were given limited guidance in the operation of the scheme.

Both schemes reported the same difficulty with the scheme which was also familiar to the case company. The issue of a lack of honesty in appraisals, or the 'middle rating effect', was found to be a common feature with all three schemes. All three used slightly different methods to overcome this difficulty. Company A used training and feedback forms, Company B, implemented SMART objectives and introduced a 5 point system which gave a clearer definition between excellent, average and poor performer. The case company, on the other hand, used a central scanning system in which ratings were scrutinised. If one appraiser's allocations appeared unevenly distributed, they were then obliged to justify their ratings.

SECTION 2: A THEORETICAL FRAMEWORK

Construction of a Performance Management Model

From examination of the current PM models throughout the literature (Salamon & Mabey, 1995; Philpott & Sheppard, 1992; Torrington & Hall, 1995, etc.), it would appear that most have captured a similar framework, in which PRP focuses as a prominent feature amongst a number of supporting initiatives, which provide a

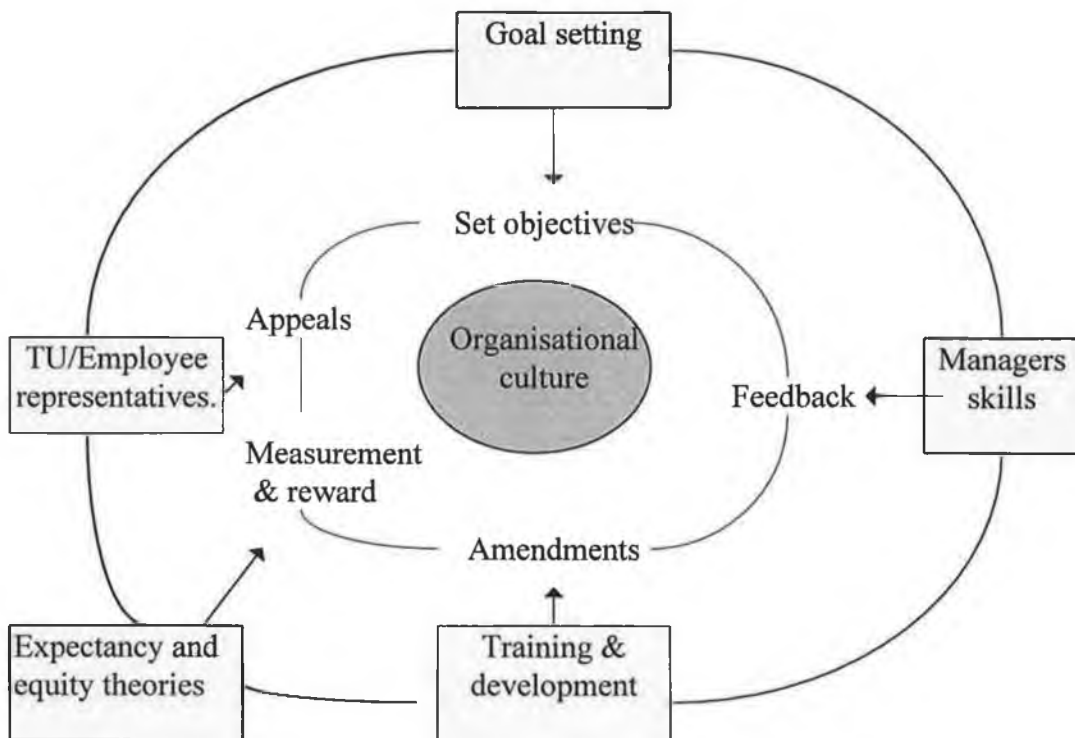
substantial infrastructure in which PRP can operate effectively. However, each of the models bring with it a slightly different angle or new element, some neglecting features included in other models. Examples include Salamon & Mabey's (1995) lack of a formal appeals procedure and Torrington & Hall's (1995) failure to take into account the theoretical implications of their model.

The objective of this thesis is to identify what makes a successful scheme and in doing so, an accurate portrayal of the most effective operation of a PRP scheme is necessary. In order to achieve this objective, a combination of the advice of the literature and the analysis of the three PM models reviewed in the empirical investigation are taken into consideration in constructing a comprehensive PM model. The PM model is displayed as a continuous cycle which defines the practical steps in creating an effective system in which PRP may operate. Note, however, that PRP is only one element within a number of supporting initiatives, combined to create the infrastructure to support PRP. Figure 6.1 displays an overview of the model. The difference between this and traditional PM models already described is that consideration of practical and theoretical implications occurs at individual stages of the process.

As Figure 6.1 shows, practical steps to achieving PM are accompanied by contextual factors which impact on different stages throughout the process. It is important to note that each individual stage retains its own set of considerations. This concept differs from the previous models mentioned, which portray the PM process as a continual cycle in which varying implications are constantly impacting on *all* stages of the cycle. This model aims to give clear direction as to precisely what stage various

contextual factors should be considered. A more detailed analysis of each stage ensues.

Fig. 6.1: PM Model



TU: Trade Union

Setting Objectives

The model begins with 'setting objectives'. Goal-setting theory is of vital importance at this stage as this identifies the required considerations. Locke et al. (1981) argues that goals affect performance through directing attention, mobilising effort, increasing persistence and motivating strategy development. Adhering to the pre-requisites of goal-setting theory, goals should be specific and challenging, and as such, this should be the main consideration in the first step of the PM process. It is also suggested that

goals are decided on under joint consultation, in which managers and employees jointly decide on the appropriate goals for that period. Furthermore, goals should be linked in to the organisational objectives (Kinnie and Lowe, 1990). The results of this survey would indicate that it is important to inform employees where their individual goals fit into the wider goals of the organisation, in order to discourage any short-termist or apathetic behaviours toward the achievement of the set targets.

Feedback

Feedback is the focus of the next stage. It is considered imperative to goal setting, as goals need to be constantly monitored, to avoid outdated or irrelevance. At the feedback stage, the important considerations to be taken into account are managerial skills. Kessler (1995:266-7) is just one of the authors who has noted the necessity of attaining the appropriate managerial skills. He includes 'the establishment of valid and viable performance criteria; judgement on whether they have been met; consideration of the relationship between increased performance and rewards; as well as a host of interpersonal skills such as coaching, counselling and interviewing', as the required managerial skills. He further comments that absence of such skills can lead to the systems discreditment in the eyes of the employees.

Amendments

Feedback is likely to lead to amendments, at which stage the initial goals set can be updated or adjusted. However, this stage also encompasses the wider consideration of training and development. The fulfilment of goals may depend on further training and development of skills for the employee. However, training and development may not

necessarily be required exclusively for the employee. Crowe (1992) comments that most managers are unlikely to possess *all* of the required skills which enable feedback and coaching to be carried out. Thus, this stage allows the supervisor to update their skills, while simultaneously giving the employee the same opportunity.

Measurement and Reward

The next stage in the PM cycle involves measurement and reward. Rewards should immediately follow measurement in order to increase the perceived link between pay and performance. This stage necessitates fulfilment of the proposition of equity and expectancy theory. This has a number of implications. First, salaries should be in line with competitor organisations. Second, individuals must believe that their efforts will result in performance, that their performance will be rewarded and the reward will be of significant value. Given the absence of any of the above propositions, the measurement of performance may appear a futile exercise to the employees, as they may conceive that their efforts are either insufficient, will go un-rewarded, or that the reward is not worth the increase in effort.

Appeals

The following stage is neglected by many authors involved in establishing PM models. It involves the use of an appeals forum which allows employees the opportunity to voice their grievances with either the system or their individual assessment. The evidence accruing from this study suggests an urgent need for the installation of an appeals system, and as such it is considered a vital stage in contributing to an effective PM model. An appeals system can contribute to full

satisfaction of the system through its identification of any grievances or malfunctions evident within the system, and its subsequent rectification of any issues raised. Thus, this provides an ideal forum for formal monitoring of the system.

Formal appeals procedures require an evenly balanced set of reviews, and as such, it is necessary to ensure all parties are fairly represented. This may be achieved through the presence of a trade union or employee representative. However, this is not the sole reason for including the trade union/employee representative at this stage. It is noted by Lawler & Jenkins (1981) that employees are more prone to acceptance of initiatives, when they are represented, and have thus contributed to the decision-making process. Their initial involvement may have a significant bearing on the scheme's ultimate success. Heery & Warhurst (1994) found evidence to suggest that trade union organisations are most active at the appeals/ grievance procedure stage of a PRP system. It appears necessary that the trade unions/employee representatives presence is felt, in order to represent the views of the employees affected by the system. Therefore, it would appear that, aside from the initial design and implementation phases of the system's life, the appeals stage is most appropriate for the representation of employee views.

The entire process is then embodied in the wider consideration of organisational culture. The literature and lessons from the case study would indicate the importance of the culture in which the system operates. It is of vital concern in determining the system's ultimate effectiveness. As such, it should be of consideration both prior to attempting implementation and during its operation. It has become clear that the

culture must suit, or be 'ready', for the PM system, and no installation of a PM system should be attempted without prior consideration of the organisation's culture.

Conclusion

Perhaps the question which should be addressed does not concern the equitable or comprehensive nature of the system, but the achievement of its initial objectives. The HR director's objectives have been previously listed within this chapter and an examination of the achievement of each ensues.

An improvement in both individual and company performance was ranked as one of the top priority objectives of this scheme. Though the HR director firmly believed that the PRP scheme had achieved this objective, there was no objective data or hard evidence to sustain this claim. The HR director offered the example of increased company profits as a measure of an improvement in company performance. However, such a measure appears far too general for evaluating the success of the PRP scheme as improvements in company profits inevitably include the combination of a multitude of factors in contributing to its success. Essentially, it is difficult to gauge the extent of PRP's contribution to the achievement of this objective:

Though interesting surveys of managerial attitudes do not normally provide objective measures of performance. Managers may say they think a particular plan increases productivity, but without a productivity index, one cannot be sure an effect really occurs (Mitchell, Lewin and Lawler, 1990:64).

The reduction of trade union influence is the next objective for consideration though as an objective it appeared somewhat futile with less than half of the managers unionised and the union's status perceived as less than important. The PRP scheme

appeared to have no impact on the trade union's influence, which appeared to be minimal to begin with. Additionally, the scheme was not perceived as a substitution for promotion, another initial objective, and it was further considered that it would not provide an adequate one. Most of the managers perceived the scheme as operating alongside the potential for promotion, but none viewed it as replacing it.

With regard to the scheme's improvement in staff morale, there appeared to be mixed views. A certain section of the managerial population appeared to be motivated by it, though it remains questionable as to whether such managers were already motivated employees. For many, however, it would have appeared to have achieved the polar opposite effect, in inciting a multitude of grievances. Furthermore, though an improvement in morale among managerial staff may have succeeded to some extent, morale of the staff left out of the scheme may not have been as positive. As Kohn (1988) suggests, the motivational effects of PRP on a certain section of staff can be counteracted by those who are not included in the scheme:

The combined effects of dividing the workforce into those who are and those who are not on incentive pay and the adversarial process of rate setting can create a hostile, differentiated organisational environment. In particular, incentive-related hostilities have been found to produce an environment of low trust, lack of information sharing, conflict between groups, poor support for joint problem solving, and inflexibility because individuals want to protect their wage rates. In some instances these reactions are caused not so much by the incentive concept itself as by the way it has been managed' (Kohn, 1988:65).

In the objective of encouraging a performance-driven ethos, it is difficult to gauge the extent of success. The practical implications of this are rather elusive and vague, as this rests more on a conceptual level than a practical implication. Nevertheless, one

indication of the achievement of this objective may be considered to be found in a recurring theme throughout various comments made by the managers. Many of their comments reflected the HR directors view which indicated that PRP had made them more focused on targets, resulting in improved performance. This may potentially have eliminated much of the workload which did not contribute to increased company performance.

The final objective of the scheme involved the implementation of a 'fair and cost effective reward system'. The system may indeed have been cost-effective, however its equitable nature is questioned. One quarter of the total managerial population perceived the scheme as being unfair. Additionally, it was clear from the comments that many only perceived it as a fair means of reward on a conditional basis 'it is a fair system if ...', in which many of the difficulties of the scheme are reiterated. Thus, PRP's related success in this aspect would seem limited.

It would appear that the case study fulfilled much of the criteria for an effective PM system, though some notable failings are evident. However, it would seem that even in consideration of the advice and cautions of the literature, it is difficult to obtain a perfect system, to the satisfaction of all. The most prevalent example of this is found in the measurement system.

The case study had appeared to implement what was considered objective measures in assessing performance - two assessors, the supervisor and the supervisor's boss, are involved in determining assessments, for the purpose of 'evening out the rater bias' as

Salamon and Mabey (1995) advise. In addition, specific and objective measures were the basis of all targets. However, it is difficult to provide such measures within the parameters of a managerial position without proving counteractive to issues of innovation or long-term objectives. The feedback processes may have been slightly limited in occurring only once a year, but were in place as established processes, as also advised by the literature (Salamon & Mabey, 1995; Hewitt Associates, 1991). It is suggested that the case study had indeed followed the advice of much of the literature (Bailey, 1983; Salamon & Mabey, 1995) in measuring targets, though the perception of subjectivity within the measurement of performance remained prevalent among the managers. Therefore, it is suggested that some of the difficulties experienced by the case study were due to inherent flaws with PM systems, as opposed to the scheme's individual failings. Certain issues, such as subjectivity will remain a burden to schemes of this nature regardless of the measures taken to avoid it. This does not suggest that the scheme itself is blameless or does not contain flaws, but it merely presents the argument that such systems are particularly susceptible to flaws of this nature and will inevitably experience some difficulties which should be dealt within the individual context of the organisation. In this manner, the individual needs of that system, along with external factors affecting the system can be taken into account in designing solutions for these difficulties. One important factor identified involved that of organisational culture. In summation, it is suggested that Storey and Sisson (1995) have voiced the most important consideration in either implementing or evaluating these schemes in stating:

there is no such thing as a 'perfect' system. Certainly there are general considerations to be taken into account and many of them have been considered here. But there is really no alternative to deciding what is appropriate in particular circumstances. In the language of social sciences, there is a need to adopt a contingency approach (Storey & Sisson, 1993:153).

Introduction

The aim of the research was to explore the factors contributing to the success (or failure) of a PRP scheme. Thus, an examination of the various factors impinging on this success, including the objectives of implementing such schemes and the difficulties faced, is undertaken.

Theoretical considerations and their implications are regarded an integral part of the success of any PRP scheme and are thus put forward for consideration. The contrasts and contradictions emerging from the study are also addressed, giving insight into the potential confusion with schemes such as PRP, which may have a significant bearing on the outcome of the scheme. Evaluating the measurement of success secures an attempt to quantify how precisely success of a PRP scheme can be measured. Finally, the elements considered to comprise a successful PRP scheme are presented. The chapter concludes with advised consideration on specific areas which could contribute to a wider understanding of the operation and means of achieving successful PRP schemes.

However, prior to consideration of this, an examination of the strengths and weaknesses of the research are presented in order to put the findings and their implications into context.

Strengths and Weaknesses of the Research

In considering the implications of the research, it is important to set them in the context of its strengths and limitations. One of the study's main strengths is its access to good information held with the HR director and managers, as well as a good response to the questionnaires. In addition, the information obtained from interview with two other HR directors involved in different schemes allowed the opportunity to place the information from the case company in context and led to a broader perspective of the factors required for effective PRP. The research stands unique in that there has been little previous evidence detailing the effects of PRP's implementation in a multi-divisional organisation. The research examines the implementation of a PRP system across a wide range of diverse subsidiaries which appear to be vastly different from one another but are in fact operating under the same scheme. The organisation is an unusual case as it had recently changed status from a semi-state body to a public limited company, although some comparison can be made to other organisations involved in re-structuring their organisation in a large-scale organisational change.

Finally, the extent of case study analysis of PRP within the Irish context appears limited (with the exception of Geary's (1992) three American firms located in Ireland). Most of the research on PRP schemes has been conducted in the UK and US to date, which have entirely different industrial relations structure to that of Ireland. In many studies to date, an adversarial approach underlies the introduction of PRP, and PRP is often cited as a common tool utilised to individualise pay and oust trade unions. The perception of the trade unions toward PRP is equally adversarial, with

threatened strike action and encouragement of members not to accept PRP, forming the common responses to its introduction. As the empirical evidence within this study shows, the trade union, though not entirely un-welcoming of PRP, had by no means considered that type of reaction against it. The trade union official interviewed emphasised that such a reaction was not necessary in the Irish context, as Ireland did not have the adversarial approach of British and American trade unions. Indeed, Irish trade unions have instilled a co-operative policy based on a conciliatory approach toward Irish industrial relations since 1987. Thus, this presents a rather different context from that abroad in which PRP may operate.

One of the studies considered main strengths lies in the combination of qualitative and quantitative research, thus substantiating statistical information with data from qualitative interviewing. It further complied with the ethos of triangulation in presenting a range of views, including those involved in implementing the scheme and those assessed according to it. This ensured a realistic reflection of the schemes operation, difficulties and achievements. The additional views from other concerned parties including the trade union official and other HR directors involved in implementing PRP schemes allowed an opportunity to attain a broader spectrum of views, furthering the knowledge and understanding of PRP's operation.

The research is limited in its use of only one case study analysis. The HR directors of Company A and B claimed successful schemes, however, the comparison of employee views on this matter may have proved useful. Insight into employee views may have contributed to the knowledge of the inevitability of employee grievances.

Furthermore, with the absence of employee perceptions on the schemes, the HR directors claims of successful schemes remains unquestioned.

The second limitation of the research involves the absence of the views of the trade union representative operating within the case study organisation. Although this may have been somewhat countered by the views of the trade union official, the views of the trade union representative may have shed further light on the PRP scheme and its impact on trade union members.

Despite the above limitations, the research is considered to have addressed the issue of PRP in a comprehensive manner and has subsequently provided a number of interesting findings. The following section examines the contextual factors impacting on the success of a scheme. The first of these factors examine the objectives in implementing PRP.

Objectives in Implementing PRP

The study verified some of the literature evidence (Crowe, 1992; Martin, 1994) on the importance of objectives in introducing a PRP scheme. The findings of this study highlight that the introduction of PRP will inevitably have a significant bearing on the subsequent acceptance of the scheme by those who are involved. The literature has recognised that those who are to be affected by a PRP scheme's implementation should be informed of the reasons for its introduction (Lawler & Jenkins, 1981) and the evidence of this study confirms this. It further identifies suspicion and lack of trust as the overt manifestations of a lack of acceptance of the scheme. Further

consideration was paid to the objectives of the scheme in considering the effectiveness of pursuing multiple and diverse objectives. Evidence emerging from the case study suggests that the pursuit of wide ranging multiple objectives may have reduced the effectiveness of these objectives as a whole. The resulting implication is that a narrowed focus of few individual objectives may increase the potency of objectives. It is also suggested that objectives may have been divided into two categories, namely overt and covert objectives. If this was the case, the reduction of trade union influence could possibly have been covert in nature, thus providing an alternative explanation for the apparent lack of managerial concern toward this objective.

Motivation

The long-standing debate of what motivates has by no means been resolved through this study. However, some interesting conclusions can be drawn which reflect what some of the literature (Marsden and Richardson, 1994; Slater, 1980; Kohn, 1988) has already proposed. With the majority of managers in the survey responding favourably to the concept of PRP and three quarters of respondents agreeing that PRP had inspired increased performance, it would appear that PRP had achieved positive motivational effects. However, this does not necessarily indicate that it was the monetary element which created the incentive. Improved communication with superiors, increased focus on set objectives and a clear picture of how individual work fits into overall company goals were observed as associate characteristics of motivation. Indeed, it could be argued that all three characteristics could be derived from increased communication and by implication, communication is essential for an effective PRP scheme. Essentially, a number of factors may have inspired the

motivation for increased performance, including the symbolic status of a pay increase signifying recognition of well accomplished work, and the increased and more effective channels of communication opened by PRP's introduction.

The study further indicated that pay's ability to motivate was more prone to success in certain environments. The ethos of paying for performance appeared to be widely accepted in younger organisations, whereas in others, particularly older organisations, it was resented. Although no variables, such as length of service, or age of employee were found affecting this viewpoint, it was considered that the organisation itself may have a direct impact on the acceptability of PRP.

Trade Unions

Although Gunnigle et al.'s (1994) research indicated little evidence of the reduction of trade union influence as an objective in implementing PRP schemes in Ireland, the current study revealed two distinct cases of it. However, the impact of the PRP scheme on the trade union appeared to have varying effects. Company A achieved its initial objective in drastically reducing the trade union membership within their organisation. In contrast, the case study analysis revealed no notable changes to the unions members and no difference of opinion concerning the schemes among unionised and non-unionised members were evident. Hence, the research indicates that PRP may indeed have the potential to succeed in the reduction of trade union influence, although this potential may not always be realised. Furthermore, this strategy may be more widespread in Irish organisations than previously thought.

Difficulties with PRP schemes

The findings of this study reflect other research evidence in highlighting the difficulty involved in achieving an objective measure of performance (Berlet and Cravens, 1991; Armstrong, 1994). This is particularly the case for managers, whose jobs involve a multitude of diverse tasks. Furthermore, subjectivity in assessments were recorded, reflecting an almost universal difficulty with all PRP schemes and although the use of clear and specific objectives were considered to be an effective measure of eliminating this difficulty, this was found not to be the case. In suggesting a potential means of overcoming the measurement difficulties, perhaps further consideration of objectives would be worthwhile. Clear and specific objectives may not be sufficient in providing an effective means of measurement, especially if a manager is faced with contradictory objectives as found in this study. Therefore, the use of not only clear and specific objectives, but also traceable, realistic and complementary objectives, accompanied by regular review of these, is proposed as a means of providing an effective measurement system.

Further difficulties encountered in the case company have been well documented in the literature. Though the literature is somewhat contradictory concerning the affects of PRP on teamwork, this appears to reflect the reality of the situation. PRP may benefit teamwork but may just as easily have the converse effect, depending on individuals' reactions to it. Short-term objectives, to the neglect of longer-term initiatives, formed the basis of an additional difficulty. Again this difficulty is not exclusive to the case study, as it is frequently addressed in the literature (Kessler, 1995; Bevan and Thompson, 1991). The final notable difficulty to be considered was

the issue of whether managers should be assessed according to PRP. Apart from the consideration that managerial targets may be outside the direct influence of the manager, the unappealing concept of working for a reward, or being accountable to 'faceless people' on 'bottom-line results', as it has been described in the study, deserves some consideration. As managers are active participants in an organisation's strategic direction, motivating managers on the basis of monetary incentive must be addressed. The comments made among the managers indicated that damage to organisational pride and a loss of identification with the organisation and its goals are the potential consequences that can be incurred if PRP is perceived negatively. The loss of identification could substantiate the view of some authors (e.g. Sims, 1994) who suggest that a crude set of mechanisms have been perceived as replacing the subtle 'psychological contract' between an organisation and its employees.

Effectively, it became increasingly apparent that there is no simple solution to counteracting the difficulties with PRP and achieving a successful scheme. However, certain factors were identified as contributing to overcoming difficulties.

Overcoming difficulties

Three protective mechanisms were identified as useful in overcoming difficulties with PRP. The first was feedback which allows the monitoring of progress while simultaneously ensuring the opportunity to re-assess the relevance of the set goals and adjusting these as necessary. Feedback may also provide an opportunity for coaching and career development. Its theoretical basis lies in goal-setting theory, within which it is a primary feature. Reviews provide the second protective mechanism and may be

described as having a similar purpose to feedback, although at this stage, goals should be achieved and progress can be assessed wholly. The third protective mechanism included the appeals process. The results of this study indicate a distinct, if not overwhelming, requirement for an appeals procedure in PRP systems. The design and nature of this process should largely depend on the company culture within which it operates. The issue of appeals is often neglected by the literature, though the results of both this study and other empirical investigation (Procter et al., 1993) prove its usefulness when implementing a PRP scheme.

The perception of equity provided the second consideration in achieving a successful measurement system, if not an effective PRP system overall. It has already been recognised that it is the perception of equity which determines acceptance of a scheme among employees (Beer et al, 1984). The results of the study heightened awareness of this, and further gave a number of indications on how to achieve perceived equity. As mentioned previously, employee involvement in the initial design process of a scheme is likely to increase the perception of equity as is joint consultation in objective setting. Additionally, the attainability of the maximum reward is also considered a contributory factor to the achievement of perceived equity, although this is by no means a new concept but in fact refers to one of the principles of expectancy theory. The study further indicated that the perception of equity is likely to increase in the instance of supervisors clarifying the reasons behind the allocation of rewards.

Theoretical Implications

The study verifies the validity of Expectancy theory in the context of PRP schemes, as its principles formed the basis of the achievement of a successful scheme. In addressing its principles, the following considerations came to the fore. Evidence found that, in relation to the principle of valence, prior consideration should be paid to the basic salary of the employee. The study indicated that the reward was likely to lose its significance if the basic salary was initially less than that of other employees in a similar job, thus salaries should be in line with those of competitor organisations. Murlis (1992) also identified this factor as prevalent in a PRP scheme. This consideration, however, is not a novel one; it essentially provides the basis of equity theory. The final consideration in relation to rewards involves the differentiation between the reward allocated to average, high and low performers. The study indicated that rewards between different categories of performers should be significantly different in order to provide an impetus to increase performance. Both expectancy and equity theory were considered to have their greatest impact on the PM process at the measurement and reward stages.

The study highlighted the importance of setting specific and challenging goals and the need for acceptance of these goals by employees. Acceptance of goals seemed critical in order for employees to internalise and act upon these goals. These considerations involved the characteristics of goal-setting theory, which provided a further theoretical consideration of much importance. It was considered that the elements of goal-setting theory should be addressed at the initial stages of a PM system as the value of goal-setting theory essentially impacts on the objective setting stage of the PM model.

Contrasts and Contradictions

A number of contrasts and contradictions became evident in the views of not only the HR director and managers involved in the scheme, but amongst the managers themselves. Arising from these views emerged a highly important factor for consideration, namely company culture. The company culture in which an individual subsidiary operates may have a significant bearing on the success of PRP. The findings of this study revealed a pattern in which those working in the older and more traditional organisations had a higher propensity toward the resentment of PRP than those in younger, more commercial ones. A negative change of culture since the introduction of PRP in the older organisations was identified, while no change of culture was reported in the younger organisations. In drawing conclusions from this, there are a number of considerations to be addressed. First, given the diversity of the various subsidiaries operating within a multi-divisional organisation, the appropriateness of implementing a uniform reward scheme from Head Office on all companies must be questioned. Second, the evidence suggests that it is highly important to take into consideration an organisation's history and culture in designing a reward package so that the two are consistent with each other. Third, although some research has been carried out on the type of organisations suitable, or more prone to acceptance of PRP schemes, this is generally scant and it is clearly an area which requires further attention.

Evaluating the Measurement of Success

Prior to considering what exactly constitutes a successful scheme, it seems worthwhile to point out the implications of defining a scheme's success. A lack of substantial

literature evidence as a means of monitoring a scheme's success leaves little guidance in finding a point of evaluation. With various factors such as profits, employee satisfaction, increased motivation and competition at stake, it is difficult to assess which criteria contribute to the success of a scheme. Perhaps the achievement of the scheme's original objectives could be offered as a starting point, however, these are often revised during a scheme's operation. Therefore, the dilemma of choosing the most appropriate criteria on which to judge a scheme's success remains.

The findings show that the case study organisation had implemented a relatively well administered PRP scheme, (though some discrepancies are evident), ultimately resulting in a considered increase in performance and increased profits for the overall organisation. Yet many managers expressed numerous grievances with it. This raises a number of issues. First, the question of increased profits must address whether or not profits would have increased in the scheme's absence. Second, the question of whether profits would have increased even further had all managers been content with the scheme's operation. Third, are employee grievances an inevitable element of any scheme, which essentially provide little threat to a schemes validity? These considerations need to be addressed as they will inevitably have serious implications for PRP schemes.

Composition of a Successful Scheme

The issue of what precisely constitutes a successful PRP scheme became of critical importance in both adequately assessing the effectiveness of the PRP scheme of the case company and addressing the central question posed by the thesis. The findings of

the study reflects some of the recent literature in emphasising that PRP is unlikely to achieve ultimate success in its solitary status but instead requires the supporting infrastructure of a PM system.

The PM model constructed within this study presents a continuing cycle consisting of five distinct stages at which various practical and theoretical considerations impact during individual stages of the cycle. The stages individually address the issues of objective setting, feedback, amendments, measurement and reward and an appeals forum, all positioned within the context of goal-setting, expectancy and equity theories, and wider organisational culture considerations. The main inference to be drawn from the model introduces the concept that various theoretical implications should be considered at particular stages of a PM cycle. The model aims to include all of the essential components necessary for the practical operation of an effective PRP scheme. This model has a number of considerations:

- Goal-setting theory should be considered at the initial stage of the PM process, which is the objective setting stage.
- The required managerial skills for the PM process should be considered, particularly those required in relation to feedback.
- At the amendment stage, in which goals can be adjusted or updated, the wider issue of training and development should be taken into account both for the assessor and the individual being assessed.
- A number of factors become important at the measurement and reward stage. Both expectancy and equity theory form the wider theoretical considerations. By

implication, the individual must firmly believe that their efforts will result in performance which will in turn, result in an appropriate reward of value. The initial salary should be of equal or higher value to competitor organisations' salaries. The reward should follow the measurement of performance as quickly as possible in order to strengthen the perceived link between effort and performance.

- An appeals process should be installed to allow employees to voice their queries or grievances with the system. The format of this process should depend on the particular organisational culture in which it is to operate. A trade union/employee representative should be included at this stage for two reasons: (a) to allow the employee an appropriate representation in order to balance the equity of the system, and (b) to secure a greater acceptance of the PRP process. This stage should also encompass a wider review of the systems operation. Difficulties or indeed suggestions associated with the system should be identified at this stage and subsequently adjusted.

The main conclusion to be drawn is that PRP generally proves ineffective when imposed as a singular initiative without prior consideration to environmental factors, particularly the organisational culture. In order for a PRP scheme to operate successfully, it requires supporting infrastructure, in the form of a PM strategy. This reflects Brown's (1995:139) contention:

One point that needs to be emphasised here is that no single programme, policy or system is likely to have much impact on one organisation. For the human resource approach to the management of culture to have any realistic chance of success an integrated package of initiatives will be required.

Details of a PM strategy and its objectives should be informed to all those affected by it, in order to avoid suspicion and lack of acceptance. In implementing and operating a

scheme, consideration should be paid to the fact that acceptance of the scheme is critical to its success and every effort should be made to create a participatory environment which gives employees an opportunity to express their opinions.

In aiming to give at least some insight into the dynamic approach required for a successful PRP scheme, further research in relation to the areas discussed is likely to prove worthwhile and fruitful. However, specific areas of interest which may lend a further understanding into the area of PRP appear to be neglected by the literature evidence to date, thus a brief overview of those areas are outlined.

Implications For Future Research

The study raised a number of issues which may benefit from further research. These are listed below:

(i) During the course of this research, it was found that the extent of work carried out in the area of PRP within the Irish context was rather limited. Recommendations for further research into PRP in Ireland appears relevant, particularly as most of the research to date has been conducted by the UK and US, which have entirely different industrial relations structures to those in Ireland.

(ii) This study is limited in its expression of the opinions of only one trade union. A further insight into the opinions of other trade unions in Ireland, which represent other categories of staff, may be beneficial.

(iii) Further research into the types of organisations more prone to successful PRP schemes may be of interest. The study indicated a trend toward acceptance of PRP being more likely in younger organisations, while less likely in older ones. Furthermore, as this study was unique in its context, concerning its relatively recent change from a public limited company to a private limited company, PRP was partially a means of recognising this changeover. It would be interesting to discover if this strategy has been used by organisations in similar positions and the subsequent success, or otherwise, of PRP in them.

(iv) Much attention is given to the common difficulties experienced by PRP schemes, however, limited evidence is offered concerning a means to overcoming these difficulties. Areas of particular interest include subjectivity and means of achieving an objective measure of performance.

(v) The issue of the appropriateness of implementing PRP for managerial staff (as opposed to other categories of staff) has been raised. The findings of this study are inconclusive, as PRP has appeared to have a variable affect on such staff, thus this may require further consideration. Additionally, the scope of this study did not allow an opportunity to gain insight into the views of those who were not included in the scheme. It seems worthwhile to note that such staff were nonetheless affected by the scheme, (even though they may not have been directly involved in it), as targets set for management were likely to have been filtered downward throughout the organisation, possibly increasing their workload. It would be interesting to acquire

further knowledge into the affects of PRP on staff who are left out of PRP schemes within organisations.

(vi) Finally, brief consideration was given to the overt and covert nature of objectives in introducing PRP schemes. It would appear that the covert objectives, (i.e. PRP providing a substitution for promotion and the reduction of trade union influence), appeared utterly unsuccessful, in contrast to the overt objectives, (i.e. motivation, a means to improve individual and organisational performance and the improvement of teamwork), which appeared at least partially achieved. Further consideration of the overt and covert nature of objectives and their subsequent success may also be of some interest.

Conclusions

In examining the case study, it is apparent that a number of difficulties are hindering the success of the PRP scheme currently in operation. Subsequently, the question of 'fixing' individual factors in order to attain a successful scheme must be considered. The evidence of the literature would suggest that PRP schemes are unlikely to attain immediate success following initial implementation. Certain 'teething' difficulties appear inevitable. However, the ethos of PM incorporates an evolving process in centering its focus on continuous monitoring, adjusting and updating. Egan (1995:37) criticises this approach of 'most performance management systems take a "one size fits all" approach. "Here it is, make it work" is the normal attitude'. Essentially, PM systems require continuous evaluation and construction.

Modifying factors which appear to be hindering the effectiveness of a scheme may not be the sole means to achieving success. Other considerations may be directly or indirectly impacting on the system's progress. Factors such as company history and culture as well as external factors such as inflation, or recent events within the company such as redundancies or downsizing policies may all override the significance of a merit increase. Therefore, it is suggested that the company be 'ready' or 'fit' to implement a PM system. As Murphy (1989:45) suggests: 'before changing the system the climate had to be managed in which such changes would be acceptable'.

In conclusion, it would appear that certain conditions are necessary for a successful PRP system. Included among these are: the use of clear, complementary and traceable objectives, jointly agreed upon by both appraiser and appraisee, an effective communications policy, particularly in regard to the scheme's objectives and feedback, a commitment to training and development, the use of an appeals system and adherence to the theoretical implications discussed. Furthermore, one of the most important considerations involves PRP implemented in a wider strategy incorporating supporting infrastructure; evidence would indicate that PRP in isolation has less chance of success.

The attainment of a perfect PRP system is certainly no easy task. However, it is worth considering that a perfect system may not actually be a thoroughly attainable objective, as PRP may be more effective within a continuously evolving strategy, involving constant re-adjustment and updating. Therefore, organisations should bear

in mind that PRP can no longer be considered a simple means to improve the motivation of employees and the current payment structure, it is a far more dynamic and demanding approach to the effective management of employees.

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APPENDIX A

Content of Interview with HR Directors, 1994

1. How did you come to choose this particular system?
2. What were the reasons for its introduction?
3. What was influential in introducing the scheme?

Which of the following factors were considered in introducing the scheme?

- fair way of reward
- to motivate the workforce
- cost effective reward
- way of reducing trade union influence

4. Why did the scheme only include managers, and not extend to other categories of staff?
5. Did the managers affected by the scheme have an input in the design and administration of the system?
6. Is the scheme part of an overall managerial strategy/performance management?
7. Objectives: What did you initially hope to achieve by the implementation of PRP?
8. How do you view it fits in with the organisations culture?
9. Rewards: Are there other types of reward systems in operation?
10. Success to date/ What has the scheme been most successful in achieving?
11. Benefits: Has it paid off financially? Is the cost of the scheme outweighing the total benefits?
12. What were the initial reactions of all parties affected by its introduction?
13. What is the affect on an individual if they don't receive merit increases, on account of performance?

14. What kind of affects has there been on teamwork to date?
15. What criteria is used in measuring targets?
16. Is subjectivity a difficulty with the scheme?
17. Is there a tendency to rate employees at a middle grading?
18. Is there an appeal system for those not pleased with their grading?
19. Does overruling assessments take place at all/often?
20. How do you monitor the system?
21. What difficulties has the scheme encountered?
22. Has it created an emphasis on short-term quantifiable goals?
23. What do you personally think of the concept of PRP?
24. Do you regard pay as the prime motivator?

PERFORMANCE RELATED PAY

AISLING KELLY

Section 1

Note: PRP refers to Performance Related Pay

Please answer each of the following items by circling the number which most applies to you.

1 = Strongly Disagree

4 = Agree

2 = Disagree

5 = Strongly Agree

3 = No view

- | | | | | | |
|---|---|---|---|---|---|
| 1. I am allowed a high degree of influence in the determination of work objectives. | 1 | 2 | 3 | 4 | 5 |
| 2. I receive a considerable amount of feedback concerning my quantity of output on the job. | 1 | 2 | 3 | 4 | 5 |
| 3. The most important thing about a job is the pay. | 1 | 2 | 3 | 4 | 5 |
| 4. PRP has contributed to more effective teamwork within the organisation. | 1 | 2 | 3 | 4 | 5 |
| 5. I've got a clear idea of what this organisations goals and plans are for the future. | 1 | 2 | 3 | 4 | 5 |
| 6. Working as hard as I can leads to high quality work. | 1 | 2 | 3 | 4 | 5 |
| 7. My work objectives are very clear and specific. I know exactly what my job is. | 1 | 2 | 3 | 4 | 5 |
| 8. I really have little voice in the formulation of my work objectives. | 1 | 2 | 3 | 4 | 5 |
| 9. I am underpaid for what I do. | 1 | 2 | 3 | 4 | 5 |
| 10. I am provided with a great deal of feedback and guidance on the quality of my work. | 1 | 2 | 3 | 4 | 5 |
| 11. PRP has been successful in achieving an overall increase in company performance. | 1 | 2 | 3 | 4 | 5 |
| 12. Producing high quality work is rewarded with higher pay here. | 1 | 2 | 3 | 4 | 5 |
| 13. PRP was introduced for the sole purpose of increasing performance. | 1 | 2 | 3 | 4 | 5 |
| 14. The kind of work I like is the one that pays top salary for top performance. | 1 | 2 | 3 | 4 | 5 |
| 15. I am quite highly paid for what I do. | 1 | 2 | 3 | 4 | 5 |
| 16. It will take a high degree of skill and know-how on my part to attain fully my work objectives. | 1 | 2 | 3 | 4 | 5 |
| 17. PRP has contributed to an increase in my own performance. | 1 | 2 | 3 | 4 | 5 |
| 18. PRP has yet to overcome some difficulties within this organisation. | 1 | 2 | 3 | 4 | 5 |
| 19. PRP was introduced because it is a fair way of reward. | 1 | 2 | 3 | 4 | 5 |
| 20. I am often asked how I feel about things going on in the company. | 1 | 2 | 3 | 4 | 5 |
| 21. I can see how my work contributes to the organisation as a whole. | 1 | 2 | 3 | 4 | 5 |
| 22. There's too much emphasis on the short-term in my work objectives. | 1 | 2 | 3 | 4 | 5 |
| 23. My work objectives are quite difficult to attain. | 1 | 2 | 3 | 4 | 5 |
| 24. My boss is more realistic about what I should achieve because I am assessed for pay purposes. | 1 | 2 | 3 | 4 | 5 |
| 25. PRP makes me focus upon what I'm meant to achieve in my job. | 1 | 2 | 3 | 4 | 5 |
| 26. With PRP my individual efforts and achievements are recognised. | 1 | 2 | 3 | 4 | 5 |
| 27. I've got a clear idea about how the organisation is performing overall. | 1 | 2 | 3 | 4 | 5 |
| 28. PRP was introduced as a way of reducing trade union influence. | 1 | 2 | 3 | 4 | 5 |

- | | | | | | |
|--|---|---|---|---|---|
| 29. PRP has had no affect on my work behaviour, because I was already performing as well as I could. | 1 | 2 | 3 | 4 | 5 |
| 30. PRP has proven to have more disadvantages than advantages. | 1 | 2 | 3 | 4 | 5 |
| 31. PRP is a good idea for managerial staff. | 1 | 2 | 3 | 4 | 5 |
| 32. If a training need is identified there is a good chance I will get the necessary training. | 1 | 2 | 3 | 4 | 5 |
| 33. PRP has given me an incentive to work beyond the requirements of my job. | 1 | 2 | 3 | 4 | 5 |
| 34. I am generally told what is going on in the company. | 1 | 2 | 3 | 4 | 5 |
| 35. PRP has provided my organisation with a useful tool in increasing productivity. | 1 | 2 | 3 | 4 | 5 |
| 36. PRP has improved the quality of communication between me and my boss. | 1 | 2 | 3 | 4 | 5 |
| 37. PRP makes me show more initiative in my job. | 1 | 2 | 3 | 4 | 5 |
| 38. My organisation is good at identifying training needs. | 1 | 2 | 3 | 4 | 5 |
| 39. The principle of relating pay to performance is essentially a good one. | 1 | 2 | 3 | 4 | 5 |
| 40. The idea of performance related pay is fundamentally unfair. | 1 | 2 | 3 | 4 | 5 |
| 41. Performance pay has meant that good work is at last recognised and rewarded. | 1 | 2 | 3 | 4 | 5 |
| 42. The existence of performance pay has encouraged me to give sustained high performance at work. | 1 | 2 | 3 | 4 | 5 |

Section 2

Note:

- . Please tick the appropriate answer. Please expand on your answers whenever possible. There is additional space on the last page provided for further comments.
- . When asked to rank in order of importance, please use 1 as equalling most important.
- . PRP refers to performance related pay.

1. How do you view the concept of PRP?

2. Please rank in order of importance what you consider to be the key objectives of PRP within your organisation: (1 = most important, 8 = least important)

To improve the performance of the organisation, and the individuals and groups who work within it. _____

To motivate employees _____

To increase the commitment of employees to the organisation, by encouraging them to identify with it's mission, values and objectives. _____

To improve the recruitment and retention of high quality staff. _____

To reward good performance. _____

To reinforce existing culture, values and performance expectations. _____

To promote organisational change. _____

To remove the bargaining process away from a collective/trade union element. _____

Please state any other objectives which you feel to be important:

3. Do you think that PRP has been successful in achieving it's objectives:

To a great extent To some extent No opinion Not at all

4. Do you consider that PRP is of any benefit to the organisation? Yes No

If YES, please rank the following benefits of PRP that apply to your organisation in order of importance:

It is a tangible means of recognising achievements. _____

It increases motivation. _____

It clarifies and prioritises goals. _____

It improves profit performance overall. _____

It improves teamwork and co-operation among management. _____

It focuses people's minds on performance and continuous improvement. _____

The advantage of PRP is that the reward is monetary. _____

Please include any others which you feel to be important:

5. Do you see any drawbacks with the PRP system in your organisation? Yes ___ No ___

If YES, please rank in order of importance, the drawbacks with the current system of PRP:

It is difficult to measure individual performance objectively. _____

PRP negatively affects teamwork, and co-operation can suffer. _____

PRP encourages employees to exercise a narrow focus on short-term quantifiable results, which neglects longer-term and qualitative issues. _____

It is principally unfair in discriminating between individual employee contributions. _____

The amount of pay involved is not enough to substantiate any change in performance. _____

It is not successful in improving employee motivation. _____

It assumes that money is the best reward. _____

Please state the reasons for your response:

Finally, please provide the following information about yourself:

i) Are you Male ___ Female ___

ii) How long have you worked

a) for this organisation? _____

b) in your present position? _____

iii) Please state the last performance rating you received?

iv) Do you feel that the rating you received was a fair assessment of your year's work?

Yes ___ No ___

Please state the reasons for your response:

Are you a member of a trade union? Yes ___ No ___

Please tick the appropriate age category:

Under 35 _____

35 - 45 _____

Over 45 _____

Additional Comments:

APPENDIX C

Categorising the questionnaire into its original source

The format of the survey is largely based on the IPM survey on 'Performance Management in the UK, an analysis of the issues.' However, it further combines elements of Kessler and Purcell's survey entitled 'The Templeton Performance Related Pay Project: Summary of Key Findings', and Marsden and Richardson's research entitled 'Does Performance Related Pay Motivate?'

The questions are categorised into areas covered in the literature, which are an important element in the assessment of any PRP scheme. It should give good insight as to how employees affected by PRP view the actual scheme and the manner in which it is administered. It includes issues regarding teamwork, goal-setting, disadvantages, and how employees view being rewarded in a monetary fashion. These are all vital areas to be analysed when assessing the effectiveness of a PRP scheme. On discovering the views of employees regarding the scheme, the ultimate success, or otherwise, of PRP within that particular organisation should become apparent.

The questions are categorised as follows:

Task Goal Attributes

Participation in goal setting

Q 1, 8

Feedback on Goal Effort

Q 2, 10

Goal Specificity

Q 7

Goal difficulty

Q 16, 23

Teamworking

Q 4, 24

Benefits

Importance of Pay

Q 3, 14

Adequacy of Pay

Q 9, 15

Team/Organisational Clarity

Q 5

Effort-Performance/Performance-Reward

Effort-Performance

Q 6, 25, 29, 37

Performance-Reward

Q 12, 26, 33

Contribution to Department/Organisation

Q 21

Short-term Goals

Q 22

Clarity of Organisational Performance

Q 27

Section 2

(Taken and diluted from Kessler & Purcell)

This section deals with 'Your views on PRP' and 'Performance Management issues'.

Q 31,32, 38, 34, 20, 36

My own additional questions include the following:

Issue: Effectiveness of Implementation
Q 11, 35

Issue: Disadvantages of it:
Q 18, 30

Issue: Teamworking:
Q 4

Issue: Reason for its introduction:
Q 13, 28, 19

Questions taken from Marsden and Richardson's survey '*Does Performance Related*

Pay Motivate?

Q 37, 39, 40, 41 & 42.

APPENDIX D

Re: Enclosed Questionnaire

Dear 2~,

The enclosed questionnaire is part of a major research project being undertaken by Ms. Aisling Kelly on the issue of Performance Related Pay.

Aisling is being sponsored by us through a scholarship in Dublin City University which will result in a Masters Degree in Human Resource Management.

This is the first major scientific study of a Performance Related Pay undertaken in Ireland and we believe it will make a significant contribution to the understanding of this area of remuneration.

The questionnaire is totally confidential and no individual response can be identified. none of the responses will be seen by or be available to myself or any other member of management.

I would very much appreciate if you could take the time to complete the questionnaire and return it to Aisling in the prepaid envelope provided not later than Friday, 16th June, 1995.

Many thanks for your co-operation.

Best regards

APPENDIX E

Issues Addressed for Trade Union Interview

1. How do trade unions view PRP systems in general?
2. What is the members typical reaction to the implementation of PRP?
3. How does it affect the union?
4. Do members typically support the idea of PRP initially?
5. Do you believe PR is effective in improving work performance?
6. Do trade unions get involved in monitoring the system?
7. Is the union generally consulted prior to the introduction of PRP, in the majority of cases, or do they tend to be excluded?
8. Do you perceive PRP to have negative or positive affects on your members?
9. Have union officers had training in dealing with these types of initiatives?
10. Do you think PRP discriminates at all against any category of worker?
11. There's evidence in the UK to suggest a growing trend in de-recognition or diminishing of representative rights through the use of a PRP system. Have you found this to be the case in Ireland?
12. Do you perceive any danger in the individualistic nature of PRP, and the possibility of it eroding solidarity, and ultimately commitment to he union membership? In your view, does it reflect a new era in employee-management relations?
13. Do you think PRP is only a part of a broader strategy (a performance management strategy)?

APPENDIX F

Structure of the Follow-up Interview with the HR director, 1996

1. Have you found a difference in reaction to the scheme, or indeed to the schemes success, in differing subsidiaries?

2. Have you any hard/objective evidence on the measurement of success?

3. Was the individual organisational culture taken into account when implementing the scheme within various subsidiaries?

4. Is there any specific evidence to show that PRP has been successful in achieving its initial objectives?

5. Information on Subsidiaries:
 - When were they established
 - The number of employees in each one
 - The structure of the management team
 - Turnover

6. In assessing performance, one organisation stated that the assessments consisted of two assessors, their supervisor and their supervisors boss. Is this practice applied throughout all of the subsidiaries?

APPENDIX G

MANAGEMENT
PERFORMANCE
REVIEW
& POTENTIAL
ASSESSMENT

Name

Job Title

Company

Reviewer

Reviewer's Manager

Target Year

Objectives and Results

Objective	
Results	
	Rating _____
Objective	
Results	
	Rating _____
Objective	
Results	
	Rating _____

Objective	
Results	
	Rating _____
Objective	
Results	
	Rating _____

Achievements during the year outside the objectives previously set	
	Rating _____

Performance Evaluation

Overview of Performance

To illustrate both effectiveness and shortcomings with specific reference, as appropriate, to each of the four criteria groupings

Ratings against Performance

Strategic/business awareness

Personal delivery

Leadership

Implementation

Overall performance rating *taking into account results and how they were achieved*



Reviewer's manager's comments	

Job holder's comments	

Agreed by	
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Job holder		Date	
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Reviewer		Date	
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Reviewer's manager		Date	
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Development Plan

Strengths		Development needs	

Development action plan to <i>build on strengths and address personal development needs</i>	

Assessment of potential in relation to future career development	

Reviewer's manager's comments	

Agreed by	
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Job Holder		Date	
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Reviewer		Date	
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Reviewer's manager		Date	
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VARIABLE INCENTIVE PAYMENT
SCHEME

REVIEW FORM

1994/'95

NAME: _____

TITLE: _____

PLANNING PERIOD:

FROM: _____

TO: _____

PERFORMANCE PLANNING

1. Key Objectives set for Planning Period

- | | |
|----|-------------|
| 1. | Weighting % |
| 2. | Weighting % |
| 3. | Weighting % |
| 4. | Weighting % |
| 5. | Weighting % |
| 6. | Weighting % |
| 7. | Weighting % |
| 8. | Weighting % |

Reviewer: _____ Reviewee: _____ Date: _____

PERFORMANCE REVIEW

2. Achievement against each Performance Objective %

1.

2.

3.

4.

5.

6.

7.

8.

OVERALL RATING:

DID NOT ACHIEVE Performance Standards	PART ACHIEVEMENT of Performance Standards	MET MOST Performance Standards	ACHIEVED Performance Standards	EXCEEDED Performance Standards
Employee did not meet Performance Standards in most key respects - less than 50%	Employee met Performance Standards in some key respects - 50% to 75%	Employee met most Performance Standards but was unable to meet them in one or more respects	Employee met Performance Standards in all key respects	Employee met all Performance Standards without exception and often went beyond expectation

Reviewer: _____ Reviewee: _____ Date: _____

EMPLOYEE COMMENTS

OPTIONAL COMMENTS ON PERFORMANCE ACHIEVEMENTS IN THE YEAR,
OR THE PERFORMANCE REVIEW PROCESS

LAST YEAR

APPRAISER

EMPLOYEE NAME _____

Objectives and/or Key Responsibilities	Measures	Actual Performance & Supporting Facts	Factors Affecting Performance		Performance Rating		
			Internal	External	Priority	Actual	Possible
<u>Development Required</u>				Total Actual Ratings (A)			
<u>Career Ambitions/Potential</u>				Total Possible Ratings (B)			
				Overall % Rating (A divided by B x 100)			

LAST YEAR

SELF ASSESSMENT - APPRAISEE

Objectives and/or Key Responsibilities	Actual Performance	Supporting Facts and Information	Factors Affecting Performance	
			Internal	External

NEXT YEAR

APPRAISER

EMPLOYEE NAME

Objectives	Measures	Priority	Support and Development Internal External		Review Dates	Other Comments

Development Required

Career Ambition/Potential

NEXT YEAR

APPRAISEE

Objectives	Measures	Support and Development Supporting Facts and Information Factors Affecting Performance	

PERFORMANCE RATING CALCULATION

<u>OBJECTIVE</u>	<u>PRIORITY</u>	<u>ACTUAL (MAX 10)</u>	<u>TOTAL ACTUAL</u>	<u>TOTAL POSSIBLE</u>
A	3	7	21	30
B	3	7	21	30
C	2	8	16	20
D	3	8	24	30
E	3	6	18	30
F	2	7	14	20
G	1	5	5	10
			<hr/>	<hr/>
			119	170

$$\frac{119}{170} = 70\% \text{ Overall Performance}$$

PERFORMANCE MANAGEMENT

SELF ASSESSMENT

- WHAT HAVE I DONE PARTICULARLY WELL AT WORK IN THE PAST YEAR?

- WHAT HAVE I DONE NOT SO WELL?

- WHAT OBSTACLES HAVE I MET?

- WHAT SKILLS/AND ABILITIES ARE NOT BEING USED?

- IN WHAT AREAS OF MY JOB DO I NEED MORE EXPERIENCE AND TRAINING?

- TO HELP MY DEVELOPMENT WHAT ADDITIONAL THINGS MIGHT BE DONE BY:

(A) MYSELF (B) MY MANAGER
(C) THE COMPANY?

- WHAT ARE MY CAREER AMBITIONS?