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Institutions as constraints and resources: Explaining cross-national divergence in performance management

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Abstract

This article compares performance management practices in call centres from four telecommunications firms in the United Kingdom, France, Denmark, and Germany. Findings show that different combinations of institutional constraints, such as strong job security protections, and participation resources supporting worker voice were influential in shaping choices among policies to motivate and discipline workers. Performance management most closely approached a high-involvement model where both constraints and resources were high, where worker representatives were able both to restrict management's use of sanctions and to establish procedures that improved the perceived fairness of incentives. Findings contribute to debates concerning the role of contextual factors in the design and effectiveness of HRM.

KEYWORDS

call centres, comparative HRM, performance management, telecommunications

1 | INTRODUCTION

A large body of comparative research has shown that institutions at national and workplace levels can influence firms' human resource (HR) practices (Doucouliagos, Freeeman, & Laroche, 2017; Katz & Darbishire, 2000; Marsden, 1999; Maurice, Sellier, & Silvestre, 1986). Researchers disagree, however, on the mechanisms through which they produce or shape these practices. One argument holds that institutions supporting workplace participation, when combined with coordinated vocational training and collective bargaining, can provide critical resources for management to adopt high-involvement models relying on worker skills and discretion (Gittell & Bamber, 2010; Hall & Soskice, 2001). Other scholars focus on how institutions such as labour laws and encompassing collective agreements constrain management choices, discouraging firms from adopting low road HR practices relying on low wages and job insecurity (Bosch, Mayhew, & Gautié, 2010; Sherer & Leblebici, 2001).

In this article, we develop a framework for analysing the impact that different combinations of institutional resources and constraints have on the practices firms use to motivate and compensate their workforce, which we broadly place under the rubric of performance management. We apply this framework to explain variation in models of performance management adopted in similar call centres, based on a matched comparison of incumbent telecommunications firms in Denmark, France, Germany, and the United Kingdom.

We identify two distinct mechanisms through which labour market and collective bargaining institutions shape performance management. The first is via institutional constraints such as job security protections or contract provisions that restrict the use of certain sanction-based practices. The second is via participation resources that labour can use to establish procedures that improve the transparency, design, and perceived fairness of performance management. Although each mechanism can help to improve worker control and security, we argue that the overall approach to performance management will most closely approach a high-involvement model delivering mutual gains when both are present. The German case of Deutsche Telekom demonstrated the most favourable outcomes in this regard due to its strong job security protections, legal participation rights, and partnership structures at multiple levels of the firm. We argue that this configuration of institutions can make it easier for management to make credible commitments to workers that they will act in good faith when the latter accept more flexible patterns of performance management.

In the following sections, we first set out a framework for considering the influence of labour market and collective bargaining institutions on performance management. We then present a summary and analysis of the case study results. The paper concludes with a discussion of the contribution of our findings to current debates in the strategic and comparative HR literatures.

2 | CONCEPTUAL FRAMEWORK

Performance management is a central component of HRM or employment systems, consisting of the practices and policies an organisation uses to motivate and discipline its employees. These include goal setting, performance monitoring and feedback practices, coaching, sanctions, and rewards, such as variable pay and upgrading via promotions. The performance management system that an organisation adopts reflects a series of choices concerning how to respond to problems of incomplete contracts (Commons, 1924; Gibbons & Henderson, 2012; Stinchcombe, 1986), imperfect information (Simon, 1976), and the high costs associated with market sanctions, especially for the weaker party (Crozier, 1963). We view these organisational responses as differing along two dimensions.

The first dimension concerns the direct consequences and rewards attached to performance outcomes. Broadly speaking, organisations can adopt "incentive-based" models that reward performance through better pay, promotion, and investment in skills. Alternatively, they can adopt more narrowly "sanction-based" practices that rely on the threat of employer exit from the employment relationship via dismissal. Although these are not mutually exclusive (organisations can combine incentives and sanctions), they are underpinned by different mechanisms for encouraging adherence to specified standards, with incentives requiring more adaptability of the employment contract compared to sanctions.

The second dimension concerns the method of coordination, which we view as the response to the uncertainty or indeterminacy inherent in the employment relationship. Here, we follow Mintzberg (1979) in distinguishing between coordination by "standardisation" and coordination by "mutual adjustment." In the area of performance management, the former would involve an emphasis on centralised mechanisms for evaluating performance, including detailed performance standards and intensive monitoring. Mutual adjustment, in contrast, relies on adaptable performance standards that are governed with input from the workforce as new information arises, and thus trades control for greater flexibility.

The combination of these two sets of factors should together constitute the core distinguishing features of alternative "models" of performance management. Our central concern is to analyse how labour market and collective bargaining institutions shape choices among these models. We focus here on formal institutions established through law and collective bargaining, including employment protections, works councils and their participation or co-determination rights, and union agreements and their provisions. We argue that these institutions affect performance management in two ways.

First, institutions establish legal or negotiated *constraints* on the consequences that management is able to attach to performance outcomes—thus potentially limiting access to sanction-based practices and encouraging incentive-based ones. These could include, for example, strong job security rights, based on national legislation or collective agreements, which limit management's ability to dismiss workers on the basis of poor performance. They also may include negotiated or legal restrictions on certain monitoring practices. According to power resources theory, these constraints will be strengthened where unions and workers enjoy countervailing power to limit managerial discretion via stronger organisational capacity (Pulignano, Doerflinger, & De Franceschi, 2016), labour market power (Fligstein & Byrkjeflot, 1996), and/or participation rights (Doellgast & Berg, 2018). They are often influenced by strong employment protection legislation (EPL), such as provisions placing strict limits on valid reasons for dismissal (OECD, 2004). These negotiated and legal constraints make it more difficult to use the threat of dismissal or intensive monitoring practices to motivate workers. This may encourage management to adopt alternative policies based on incentives, and allow them to make more credible commitments to reciprocate cooperation from their employees. For example, Marsden and Belfield (2010) found that French and British firms facing stronger dismissal restrictions were more likely to use incentive pay.

Second, institutions provide different *resources* for management and worker representatives to draw on in developing and overseeing flexible adjustments to performance standards—thus potentially encouraging coordination by mutual adjustment rather than by standardisation. One critical set of resources is based on collective worker voice via participatory bodies at the workplace and organisational levels, such as works councils or consultative committees. Where worker representatives are integrated into strong and influential joint consultation and decision-making bodies, we would expect workers to play a more central role in overseeing the implementation of practices and adjusting them based on changing circumstances. Past research in call centres has shown that strong participation rights can serve as a crucial resource for workers in preventing arbitrary performance monitoring and ensuring perceived fairness of incentives (Doellgast, 2012). Employers also have been found to benefit from stronger worker cooperation, associated with strongly institutionalised worker voice, in improving practices and processes (Ornston & Schulze-Cleven, 2015) and in identifying problems and best practices (Doucouliagos et al., 2017). Where collective voice is weak to moderate, managers have less incentive as well as fewer possibilities to integrate worker representatives into decision making, pushing them towards coordination by standardisation.

We have chosen to focus on formal labour market and collective bargaining institutions. However, we acknowledge that institutional resources may also be derived from training institutions that encourage investment in polyvalent skills (Hall & Soskice, 2001). We may further expect more polyvalent skills to complement high internal flexibility in work design (Sorge & Streeck, 1988); which in turn may make it more difficult to design precise performance standards. At the same time, recent research suggests that training institutions have declining or increasingly heterogeneous effects within countries—particularly the service sector settings we are studying here (Lloyd & Payne, 2016). It is also difficult to disentangle the effects of training institutions from job security arrangements, which encourage higher tenure and thus a more experienced workforce (Benassi, 2016). For these reasons, we treat skill-based differences as a potential alternative explanation to be examined, rather than as a central component of our model.

We develop a framework below that specifies the alternative performance management models that we expect to develop where management and labour face different combinations of institutional constraints and resources (see Figure 1). We assume for purposes of this framework that technology and competitive market segment leave management with a degree of freedom as to as to how far they standardise and rationalise work. This covers much service work, including many professional or semi-professional jobs, as well as manufacturing. In addition, as we are

		Constraints restricting disciplinary practices	
		Moderate	Strong
***Resources* supporting labour cooperation**	**Moderate**	**Managerial control model** Coordination by standardization + sanction-based I	**Bureaucratic high commitment model** Coordination by standardization + incentive-based II
	Strong	**Co-managed concertive model** Coordination by mutual adjustment + sanction-based III	**High involvement model** Coordination by mutual adjustment + incentive-based IV

FIGURE 1 Framework for analysing effects of institutional resources and constraints on performance management

focusing on unionised workplaces in Europe, our framework assumes the presence of at least moderate levels of collective voice and legal and negotiated constraints.

Moderate legal and negotiated constraints on their own—absent strong collective voice mechanisms—are blunt instruments for influencing the content of performance management. They are also ill-equipped to deal with the problem of contract breach when it is ambiguous. Thus, in Quadrant I of Figure 1, where both constraints and resources are moderate, we would expect a performance management model that most closely approximates *managerial control*, with sanction-based practices and coordination by standardisation. This can be seen as reflecting a combination of technical and bureaucratic forms of control—with standardisation of performance measurement and monitoring practices justified according to technical criteria, and enforced via progressive discipline and sanctions tied to administrative rules and procedures (Callaghan & Thompson, 2001; Edwards, 1979).

In Quadrant II, we expect moderate collective voice resources similarly to encourage a model of performance management that is characterised by rigid, bureaucratic rules—with high levels of standardisation in performance standards and measurement tools. However, limits on sanction-based practices may also encourage alternative forms of incentives, including performance evaluation, job ladders, and professional development. We term this a *bureaucratic high commitment* model of performance management. In a sense, management is forced to adopt incentive-based practices that encourage discretionary employee commitment to the organisation's or work group's goals—thus consistent with the notion of a shift from "control-" to "commitment-based" practices (Walton, 1985). However, these are not significantly co-designed with employees, and so more likely to be embedded in bureaucratic administrative rules that are uniformly applied.

There is a long tradition in the sociology of work explaining how management's rules can become bureaucratised as a result of pressures from employees who seek to use them as protection against arbitrary management action in the absence of more democratic channels of influence (Brown, 1973; Crozier, 1963). We expect performance management practices to be more flexible and adaptable where there is stronger institutional support for worker voice. At the same time, past research has shown that an important condition for effective exercise of voice is the ability to constrain exit via job security arrangements (Doucouliagos et al., 2017; Freeman & Medoff, 1984). This suggests that protection from sanctions will also shape the form that this flexibility takes.

Under conditions of strong institutional resources for voice but moderate constraints on dismissal (Quadrant III), we would expect stronger coordination with worker representatives to improve the transparency and fairness of performance management practices. However, this will not necessarily result in significant devolution of control, particularly where management is able to discipline workers through dismissal threats (Doellgast, Sarmiento-Mirwaldt, & Benassi, 2016). We term this mixed approach a *co-managed concertive* model. "Co-management" has been used to describe works councils that cooperate intensively with management on issues where there is a perceived common interest (Kotthoff, 1981), but that avoid overt conflict on zero sum distributional matters, often due to fears of layoffs or disinvestment (Greer & Hauptmeier, 2008). Tompkins and Cheney (1985) define "concertive control" as control achieved via negotiated consensus among workers to core values and practices. The combination of the two terms suggests a mixed model, whereby management derives flexibility benefits from some degree of negotiated consensus over performance standards, while also retaining its ability to limit the scope of employee control through sanctioning noncompliance.

In Quadrant IV, management is constrained from adopting sanction-based practices, and labour is able to participate substantively in shaping an alternative approach to performance management. We argue that where these conditions apply, performance management is most likely to approach a *high-involvement* model, relying on a combination of coordination by mutual adjustment and incentive-based performance management (Guthrie, 2001). This builds on Sorge and Streeck's (1988) notion of "beneficial constraints," which they argued underlay the success of the German production model. However, we place more emphasis on the importance of worker voice and countervailing power in establishing procedures broadly viewed as legitimate by both management and workers.

In the remainder of the article, we demonstrate the value of this framework in explaining variation in the performance management practices adopted by four different incumbent telecommunications firms in their call centres.

3 | AN OVERVIEW OF THE CASE STUDY ORGANISATIONS

Call centre employment has become increasingly standardised. The development of an internationally networked call centre subcontractor industry and diffusion of common technologies for call routing, work flow planning, and scheduling mean that work organisation can be easily centralised. Technologies for monitoring employee effort and performance permit managers to benchmark call times, sales, and service quality and even to track key strokes. Although employees do acquire firm-specific skills, many are generic and transferrable. A number of studies have linked these factors to intensifying performance management, narrowed worker discretion, and declining job quality (e.g., Bain & Taylor, 2000; Russell, 2009; Sewell, Barker, & Nyberg, 2012). At the same time, comparative studies have found large cross-national differences in call centre management practices—suggesting that institutions can have a significant impact on HRM (Batt, Holman, & Holtgrewe, 2009; Lloyd, Weinkopf, & Batt, 2010).

For this study, we carried out matched pair case studies in incumbent telecommunications firms, including TDC (Denmark), Deutsche Telekom—DT (Germany), France Télécom/Orange—FT (France), and BT (UK). All four companies experienced the liberalisation of their respective national telecommunications markets in the early-1990s (BT) to late-1990s (TDC, DT, and FT). They also share a history of state ownership, with governments selling all shares in the cases of BT and TDC and retaining close to 30% of shares in DT and FT. These changes in markets and ownership placed pressures on the case study firms to restructure call centre jobs, with similar goals of improving efficiency, productivity, sales, and service quality.

In all four firms, the majority of call centre employees were located within one or two large business units or subsidiaries: BT's "BT Retail" line of business; FT's two closely coordinated fixed (AVSC) and mobile (CCOR) divisions; TDC's "Consumer" business unit and "Call Center Europe" subsidiary; and DT's service subsidiary (DTKS). All companies had well-developed collective agreements or negotiating relationships with labour unions: the CWU and Prospect at BT; CGT, SUD, CFDT, FO, and CFE-CGC at FT; Dansk Metal at TDC; and ver.di at DT. FT and TDC also applied sectoral agreements, but they had limited impact on local practice, as both had more favourable company-level agreements. At all four companies, there had been substantial bargaining decentralisation, with many of the performance management practices we focus on here governed primarily by business unit or local agreements. Job security provisions were a major exception, as they tended to be company-wide and influenced by national legislation. Union density was high relative to national levels at all four companies, but did vary: around 90% at BT; 70% at TDC; 60% at DT; and (roughly estimated) 20% at FT.

In each case study, interviews were conducted with management and worker representatives, and one site visit was carried out at a large call centre workplace in each company, involving interviews with local management, worker representatives, and supervisors. In total, we conducted 109 interviews (22 in Denmark, 37 in France, and 25 each in Germany and the United Kingdom). Of these, 47 were with managers or supervisors, 35 with union representatives, and 27 with local worker representatives such as works councillors or local shop stewards. We compared call centres serving the "consumer" market segment in each case, which were primarily responsible for customer service, sales, and technical support. We thus broadly control for the effects of technology, task, product market, and customer segment. Interviews focused on the recent evolution of work organisation and skills, performance management, and working time or scheduling arrangements. Interviews were transcribed and coded in atlas.ti based on prior and emergent themes, and detailed reports were written summarising each company case study. A series of comparative reports that summarised the findings were distributed to interviewees and stakeholders at each company, and a conference was held to discuss findings with these stakeholders. This allowed their corrections and feedback to be integrated into the final report and our subsequent analyses.

4 | INSTITUTIONAL RESOURCES AND CONSTRAINTS

Table 1 summarises the key institutional factors affecting outcomes in each case study.

First, FT and DT are cases characterised by strong institutional constraints, which we would expect to restrict sanction-based practices. They both had strong employment protections, through the combination of EPL, collective agreements, and remaining civil servants, which made it difficult to act unilaterally to downsize employment or sanction workers. DT had additional constraints through works councils' strong co-determination rights, allowing them to limit monitoring and influence the criteria for sanctions and dismissals. Institutional constraints were more moderate at BT and TDC, which are in countries with weaker employment protections and which faced fewer legal or negotiated provisions supporting union influence over the use of performance criteria for dismissing workers.

Second, DT and TDC are cases characterised by strong institutional resources that support collective worker voice. In both companies, works councils and unions worked closely together to coordinate bargaining and consultation with each other and at different levels of the companies. They had traditions of labour-management cooperation combined with high union density and strong, democratic worker involvement in the design of management practices. Institutional resources supporting collective voice were more moderate at BT and FT, due to the weak formal participation rights of worker representatives. At BT, unions were cooperative and union density was high, but they lacked institutionalised structures for worker participation in decision making at the local level. At FT, although there were many forums for workplace consultation, these were weakened by the presence of multiple, divided unions; low union density; and a history of conflictual labour relations.

TABLE 1 Background on the case studies (2010–2012)

	BT	FT	TDC	DT
Job security provisions	Moderate EPL, moderate job security in collective agreements	Strong EPL and job security in collective agreements; high proportion of civil servants with very strong protections (70%).	Weak EPL and negotiated employment protections; moderately stronger protections for former civil servants (35%)	Strong EPL and job security in collective agreements; some civil servants with very strong protections (35%); Codetermination rights over dismissal decisions.
Institutional constraints	Moderate	Strong	Moderate	Strong
Workplace representation bodies and roles	Shop stewards represent employees through contract enforcement (via grievances); bargaining rights limited. Single channel.	Works councils have consultation rights; but weak influence of joint committees on practices. Dual-channel.	Works councils have consultation rights. Strong tradition of partnership on joint committees, with shop steward oversight. Single-channel.	Works councils have strong consultation and co-determination rights with veto across a range of management areas. Dual-channel.
Institutional resources	Moderate	Moderate	Strong	Strong(est)

In discussing our framework above, we observed that institutional resources can also encompass training systems, which may support higher and more polyvalent skills. However, we did not find systematic differences in training, skill levels, or work complexity. Initial training was roughly similar (4–6 weeks), and there was high tenure (15–20 years) among the core workforce in all cases. TDC and BT had somewhat lower average tenure compared with DT and FT, which we would expect based on their weaker job security arrangements. At the time of our research, however, TDC and BT also had the most multiskilled work design, with mixed teams responsible for a range of call types. At DT, work had been redesigned from a multiskilled team structure to more narrow specialisations across seven segments, with different teams of generalists and specialists. FT's employees were also more specialised, organised in two “levels,” with multiple specialisations within each and distinct “flows” for collections, sales, and service. However, management was experimenting with multiskilled teams in some areas. Taken together, this suggests that differences in training systems and skills are not a central explanation for the different models of performance management we observed at the four case studies.

In the following sections, we examine how the constraints and resources that are the focus of our analysis shaped performance management practices, based on the actors' perceptions of the strategies open to them and the decisions made on the basis of those perceptions. We first compare the use of monitoring, coaching, and dismissals and then the use of variable pay, competitions, and promotions.

4.1 | Performance monitoring, coaching, and dismissals

BT and TDC were both cases characterised by sanction-based practices, with intensive performance monitoring linked to progressive discipline, based on incremental stages of severity. In contrast, both FT and DT put stronger emphasis on developmental coaching, in the face of legal and negotiated limits on dismissals.

4.1.1 | BT

Prior to the early 2000s, there were few consequences associated with poor performance at BT. A new performance management model was implemented in 2003, which required benchmarking employees on a bell curve. Starting around 2008, the unions accused the company of grading people down, even though they were not objectively poor performers, simply to encourage them to take redundancy. This led to an explosion in grievance cases. In response, BT negotiated an agreement with both CWU and Prospect in 2010, stipulating that the company would clearly state its expectations, that the employees would perform accordingly, and that there would be no changes after a performance review. The unions encouraged their members to insist that targets were “specific, measurable, achievable, time determinate” (SMART). One union criticism was that, as part of the agreement, some appraisal categories were redefined (from “generally satisfactory” to “development needed”) even though the company had claimed that this would not be done.

According to one union official, this led to a “new” policy that lasted 6 months, after which BT returned to the “bell curve”-driven approach to performance management—even though this was not supposed to be used under the agreement. The system was, again, challenged by the unions. Union representatives observed that central management blamed this aggressive approach on “rogue and misguided managers who are acting alone”—but they felt that this was not true (Email communication, Prospect official, 15/02/2013). Managers also used so-called compromise agreements (car park deals) where somebody would be graded as having unacceptable performance and be given 3 months' severance pay rather than being put through the 2-year performance process, and were encouraged to leave as an “unregretted leaver.”

The CWU negotiated an agreement with BT Retail that identified standards of best practice in performance management.[1] However, these had limited impact on the practice of performance evaluation, with the union primarily ensuring transparency and fairness via filing grievances and representing employees undergoing progressive discipline.

In BT call centres, operators' targets included sales, hourly calls, financial reporting, repeat calls, contact resolution, transfers, complaints, customer satisfaction, and call handling time. Some targets varied between different segments, and each had a weighting that changed monthly and factored into an overall performance indicator. A traffic light system measured adherence to targets, as well as sign-on, shrinkage, and sick days. Employees who did not meet targets for 3 weeks would be placed on an informal coaching plan. If he or she did not improve, a performance case was raised. In the call centre we visited, almost every agent had been on a performance plan at least once. This whole process took about 10 weeks, but the agent could leave or appeal at every stage, with union support.

The number of actual dismissals varied significantly across BT: They occurred about once a year in the centre we visited, whereas at some centres, there could be multiple cases each month. The CWU shop stewards primarily oversaw each case to make sure management was adhering to the process outlined in collective agreements, and represented employees in grievances where they believed this process had been violated.

4.1.2 | TDC

Similar to BT, monitoring at TDC's call centres was intensive and constant, and employees could be dismissed if they did not meet performance goals. At the same time, coaching appeared to be more flexible than at BT, with an overall emphasis on training and development and fewer clear negotiated rules on the dismissal process that then needed to be policed by shop stewards.

TDC employees were given a number of hard targets, including talk times, compliance with schedule, sales, and customer service. A shop steward observed that there had been a shift in focus towards emphasising sales. However, there had also been a growing focus on customer service, which had declined in the mid-2000s and then become the target of an initiative called TAC: "Take Aim to the Customer." Increased focus on service in training, coaching, and targets helped to reduce customer complaints from 13% to 7% (Interview, Labour Relations manager, 24/4/12).

At the same time, weak job security allowed management to use the threat of dismissal to encourage adherence to targets. The result was a system combining coaching and team building with progressive discipline. For example, managers had sought to reduce employee absenteeism rates, which were 10–12% in the mid-2000s. They succeeded in drastically reducing absenteeism to between 3.5% and 6% by 2012, through both education and having "a very strict procedure of how many times can you be sick in a period, before [you are dismissed]" (Interview, TDC HR manager HQs, 23/4/12). Team leaders observed that a lot of time and effort were put into managing these cases, to try to decide on the right "decision" for each employee. However, the union only intervened in exceptional cases.

TDC managers had in some ways greater discretion over performance-based dismissals compared with BT managers, with a less transparent process of progressive discipline. At the same time, management action was policed by union shop stewards, who were trusted to challenge dismissals they viewed as unfair or where employees had not been given the opportunity to improve. This was less governed by clear rules and more by an ongoing process of consultation and interest representation.

4.1.3 | FT

Similar to BT and TDC, there was also intensive monitoring in FT's call centres: Calls were recorded, and individual performance was measured along a number of different metrics. In contrast to BT and TDC, however, FT placed much less emphasis on progressive discipline, with no clear sanctions attached to poor performance. Local managers explained this as due to both the high number of civil servants in the workforce, as well as restrictive employment protection rules in France:

> *France Télécom is an old public company with civil servants. So in general, people who are older than 38 are civil servants … in 80% of cases, so they have protected employment, and even if they make serious mistakes or they are not at the right level, you can't do much. [… .] In France it is necessary to have several warnings, a reprimand, etc. to be able to build a case for dismissal. But France Télécom doesn't go into this area. Instead, we try with managers … with human resources … how to help them to progress, to put them in a new position. (Interview, FT CC manager 2, 8/4/10)*

These limitations shaped the culture of coaching, training, and development. Each team leader listened to the team's calls and carried out a debriefing to identify areas of improvement, while a trainer dedicated to several teams organised individual training. The team leader met with the trainer regularly to develop a work plan for each customer advisor:

> *So, there is a tacit agreement between the team leader, the trainer, and the customer advisor, saying, in this area, you are not at the expected level, so we are going to put in place help or a personalized course, we'll put in place everything you can imagine, to be able to help you improve. (Interview, FT CC manager 2, 8/4/10)*

One concern was reducing high levels of absenteeism, which could be between 6% and 10%. Local managers described several strategies, including offering more flexible working time or encouraging "team spirit" "because results are individually motivating but also motivating for the team" (Interview, FT CC manager 2, 8/4/10). It was striking, in comparison with the BT case, that considerable effort was placed on developing a combination of intrinsic or team-based forms of motivation.

4.1.4 | DT

At DT, performance monitoring was more regulated than at the other three case study companies, due to strong works council co-determination rights in this area. The "works agreement" included negotiated limits on monitoring frequency and data use, and individual employees were strongly protected from dismissal on the basis of performance results. Similar to FT, these constraints on discipline encouraged management to emphasise developmental coaching.

The works council had allowed more monitoring over time, as part of trade-offs for stronger job security and limits on outsourcing. Calls were recorded for the first time in the late 2000s, through an "Intelligent Routing & Reporting Platform" (IRRP). Three times each week, team leaders would look at a sample of calls and recorded "screenshots." Team leaders could recognise employees' voices (names could not be recorded) and would go over the calls with them and develop training plans.

One works councillor observed that "Many employees see this as a monitoring/control system: 'The system sees everything that I do.'" (Interview, DTKS works councillor, 21/6/12). Another observed that although team leaders were supposed to use the tool for training purposes, they could abuse it to put additional pressure on individual employees to meet increasingly strict targets (Interview, DTKS works councillor, 14/9/11).

A strong focus, as at FT, was on further training. Team leaders had conversations with employees about which additional qualifications they needed and would sometimes discuss "whether they really think that this is the right job for them." The works council was trying to stop this practice, which was prohibited in the central works agreement (Interview, DTKS works councillor, 21/6/12).

As at TDC, the works council played an active role in the methods used to reduce sickness absence. The absenteeism rate was 8–10% across DTKS, but in some areas, it was up to 40% (Interview, DTKS works councillor, 14/9/11). DTKS responded to this by putting out baskets of fruit and giving special recognition to employees who had low absenteeism. For long-term sickness, the company agreement stipulated a thorough investigation, followed by an invitation to a voluntary conversation with management. The agreement determined the exact process to follow, who could participate, and the role of the works council. Dismissal was one possible outcome, but it was rare because it had to be extremely well documented to withstand scrutiny from a labour court.

4.2 | Incentives, variable pay, competitions, and promotions

The second area of performance management concerns the flexibility and coverage of performance incentives. These are closely related to monitoring, coaching, and dismissals, in that their evaluations rely on information from monitoring and they can substitute for or complement sanction-based practices. BT and FT both limited variable pay to sales-focused call centre jobs, but all staff had base pay progression linked to formal performance evaluations. In contrast, TDC and DT developed relatively sophisticated variable pay systems across job roles.

4.2.1 | BT

At BT, variable incentives were limited to bonuses attached to meeting targets only for sales-focused call centre jobs. Management explained this as due to the CWU's long-standing resistance to variable pay: Sales targets were viewed as more objective and easier to measure and compare, and so were more acceptable from the union's perspective. If sales employees hit 85% or more of their sales targets, they were eligible to receive a monthly bonus. If they hit over 105% they got an "Accelerator" for the quarter, which increased with higher sales. They were eligible for a "standard commission on bonus" of 35% of "On-target earnings." If employees did not achieve 85%, they would receive the additional coaching and feedback under a performance plan. If they did not improve, they would eventually be dismissed. Across the company, all employees were eligible for certain competition-based incentives: High performers could enter a national competition for a prize and would get recognition from their manager through, for example, a £25 voucher or a prize.

Outside of the sales area, the primary incentives were pay increases linked to formal performance evaluations. Annual negotiations at group level established pay increases for pay bands, overtime rates, and London weighting. In addition, the unions negotiated an overall pay raise, which would then be distributed based on performance. New employees would usually join the pay scale at 80%, and after 4 years (if performance was satisfactory), they would progress to the top of their scale. Then they would have quarterly and annual reviews, which would rank them in four categories, from "underachieving" to "outstanding." Employees' "grade" at the end of the financial year would determine how much of that union-negotiated pay raise they would receive. There was also an inflationary pay review each January, which was negotiated with the CWU.

The performance evaluations were controversial, in that they could be subject to BT's "bell curve" style ranking system (discussed above):

> *If your performance is "not meeting targets," it should be clearly advertised to you and you should get performance plans to get you back on track where necessary. But because of the requirement for quarterly levelling you often find that there are targets for a certain distribution of marks, though the company absolutely denies this. A certain percentage needs to go to the bottom, the Jack Welch model. (Interview, Prospect official, 06/07/2011)*

Thus, the challenges associated with a punitive system of performance management spilled over into the operation and adaptability of incentives—here, in the form of performance-based raises. This system was already conflict-ridden, and so there was limited scope for unions to work cooperatively on developing a more transparent system of performance-based pay incentives.

4.2.2 | FT

Similar to BT, variable performance-based incentives at FT were limited to sales roles. Before the mid-2000s, fixed line and internet call centres had small incentives that were around 5% of salary (based on meeting individual goals), whereas mobile call centres had individual variable pay that averaged 15–17% of salary; and group variable pay that averaged 5% of salary.

By 2010, the system was standardised across these groups but limited to sales positions, which represented around 40% of customer advisors. For this group, variable pay was linked to sales in relation to certain objectives and multiplied by coefficients based on service quality and performance (e.g., number of calls handled per hour). In order to get variable pay, it was necessary to reach at least 70% of the objectives in each of 10 product families. However, if customer satisfaction was low, then sales would be multiplied by zero.

The CGT had long fought against introducing variable pay but noted that sales employees were initially happy with the system because it increased their pay. However, its level had fallen by close to 60% over 5 years. As at BT, management also used small competitions across the workforce, which had no direct union involvement.

Again similar to BT, the major performance incentives across FT's call centre jobs were individual pay or job grade progression linked to formal performance evaluations. Based on biannual reviews, team leaders and department heads recommended high-performing employees for discretionary increments or *augmentations managériales*.

> *The manager decides, based on the development of the sales employee or other employee, regardless of the status of the person … his manager decides, based on his skills and performance, and the way he conducts his work, if he deserves a large increase or no increase. (Interview, call centre trainer, 26/5/10)*

One union representative observed that in the past year, 70 employees in his region received these increments in a workforce of 800–850 (8–9%; Interview, FT central works council rep CGT, 8/12/11).

From management's perspective, performance evaluations and promotions were important tools in the absence of the ability to sanction poor performance:

> *There aren't any sanctions, we have to try to make them improve as much as possible anyway. Of course, we have annual meetings—and there we evaluate the level [of performance], that could be insufficient, that could be an obstacle if someone wants to do another job or to get a promotion. So there are consequences [for poor performance]. (Interview, FT call centre team manager, 8/4/10)*

However, from the union's perspective, these created systematic inequality and took pay out of union control: "They all do the same work, but there are none who are paid the same" (Interview, FT call centre union rep, 19/5/10).

4.2.3 | TDC

Unlike BT and FT, TDC used variable pay for all employee groups: both sales and service. Call centre employees received around 7–10% performance-based pay, on top of base pay. The largest component for most groups was individual-based sales commission. However, the union had successfully argued for aggregating nonsales-based performance metrics at the team level, which was tied to a team-based bonus:

> *The sale is individual, but the other things we need to reach together. And that's one of the agreements, because we know that they [management] want … they want the individual to be the most of it … all of it. But we don't, so that's the agreement. (Interview, TDC call centre shop steward, 24/4/12)*

Management estimated that 60% of variable pay was based on individual performance and 40% on team performance. Union representatives had also sought to improve the fairness and transparency of the sales commission system through joint committees:

> *We have meetings every month, where we discuss any changes to the parameters, and if they have we discuss if they're fair. We have an agreement where everything about our bonus, how if changes come along what do we do. [….] This agreement defines how this bonus should be managed. You cannot make any changes that you just like, it should be a fair and meaningful change to the employee and for the company here, and also to the customer. (Interview, Call Center Europe shop steward, 15/5/12)*

The same shop steward described one example in which the works council successfully argued for additional compensation for employees who did coaching and training: "we agreed that they be compensated, and they were happy and motivated."

4.2.4 | DT

DT went furthest by introducing a system of "pay at risk." When the DTKS subsidiary was established in 2007, the new collective agreement had introduced a pay system with 80% fixed salary and 20% dependent on meeting goals in different areas. By 2012, in the general sales and customer service area, 67% of variable pay was based on a combination of individual and team performance and 33% on DT or DTKS performance. Team goals were in five areas with different weights, including customer satisfaction, call handling time, products, sales, and product bundling. These goals were agreed at the team level: If two-thirds of the team objected to goals, this would be brought to a local joint committee that would review the objection. They could also contest the calculation of goals after the second or fourth quarter. One works councillor observed that in his region, 70–75% of teams met their goals. Company (DTKS or DT-wide) goals were set by the joint advisory board, and employees got this portion of their variable pay only if they were met.

However, employees in the more specialised "sales and customer retention" area had a greater proportion of pay at risk, with 30% variable pay—with all or almost all of this based on individual performance. This created insecurity: For example, a sales employee in the lowest pay group made €24,000/year—and €7,200 of this was be dependent on meeting her goals. Some employees made only 30–50% of their goals, particularly if they were out sick for a period of time.

A key feature of the DT case is the deep involvement of the works council in the design and operation of performance management. When the new system was introduced, the works council was initially able to get agreement for protections to avoid major pay insecurity. This was accomplished largely through the joint committee and appeals process. Meetings of the joint committee were held every quarter, and one works councillor noted that 52 appeals (at the team level) were made to the committee in her region in one quarter, out of 300–350 teams (Interview, DTKS works councillor, 28/9/10).

In 2012, the collective agreement dropped the former 70/30 base/variable pay split in the specialised sales area in favour of 80% of the salary being secured for everyone: "We succeeded in getting agreement after several days of strikes" (Interview, DTKS works councillor, 21/6/12). Workers in the lowest pay group got a 3% pay increase and other pay groups a 2.3% pay increase.

After the 2012 agreement, the old model of setting and reviewing variable pay continued to operate in the sales area, but the works council succeeded in modifying the system for nonsales employees. From 2013, this group would be evaluated based on the "six most important goals" or the "Big Six." This was in response to concerns that employees were not able to influence all of the different goals they were given, and felt it was creating too much stress. The new goals were overseen by and approved by the advisory board at the beginning and end of the year (Interview, DTKS works councillor, 27/8/13).

Management had also long used team competitions with prizes—like a trip or an iPod, but the works council was fighting with management for greater decentralisation:

> *We have a central works agreement about that, that this [local competitions] should be exclusively a subject of local co-determination. [….] So there was a wide range of arguments, and in the end we as the works council are coordinating these competitions, when they are running nation-wide, and also give a recommendation—so co-determination is clearly taking place at the local level. (Interview, DTKS works councillor, 21/6/12)*

DT is thus unique among our cases in having very high union and works council involvement in both the design and implementation of a range of performance incentives, including these smaller competitions.

5 | COMPARISON OF PERFORMANCE MANAGEMENT MODELS

The case studies showed a similar trend towards increased centralisation and standardisation of performance management practices. Call centre employees were expected to meet multiple targets in call handling time, compliance with schedules, customer service, and sales. In all cases, performance was evaluated using a combination of individual- and team-based metrics, remote monitoring, and side-by-side listening with coaches.

At the same time, each case adopted a distinctive set of practices to meet similar overall goals and with similar technological tools. We argue that these differences were related to patterns of institutional constraints, primarily through job security arrangements, and institutional resources, in the form of employees' capacity to influence the design of alternative practices.

Based on the framework we developed in Section 2 (Figure 1), the four cases map onto the four quadrants associated with different performance management models. BT most closely resembles a *managerial control* model, characterised by a focus on both sanctions and coordination by standardisation. Collective agreements built some predictability into coaching, feedback, and progressive discipline—ensuring that this was carried out in a standardised way that gave employees opportunities to improve through intensive coaching. In addition, performance-based incentives were limited to sales roles, where performance was easily measured, and were aggregated at the team level. However, these rules were relatively blunt instruments in influencing the actual design of the performance management system, which had become more punitive over time. There was quite a lot of measurement and individual-based control focused on performance. In addition, labour relations concerning implementation of these rules were relatively conflictual, with performance management at the centre of this conflict. Significantly, BT showed the highest level of conflict over incentives and variable pay with arguably the lowest actual union influence. Performance evaluations were superficially linked to incentives, but also had a strong disciplinary focus—connected with weak job security and the broader system of sanctions. Much of this conflict was focused around cases that went into grievance where the unions could keep management to agreed rules.

FT's practices superficially were similar to those at BT. Performance incentives were also restricted to sales roles, although they encompassed measures of service quality. There was a strong emphasis on performance evaluation and promotion to motivate improved performance. However, stronger job security at FT, connected with national legislation and the large number of civil servants, meant these evaluations could not lead to dismissals. This encouraged management to adopt what we describe as a *bureaucratic high commitment* model, characterised by a stronger focus on incentives with coordination by standardisation. It was impossible for FT managers to use progressive discipline, which ruled out a competitive “bell curve” style of benchmarking performance. Instead, managers adopted other practices to motivate employees—primarily through frequent coaching and development, as well as performance evaluation and sales incentives. Unions had some influence on the practices adopted, but primarily through opposing intensified monitoring or linking more control-oriented forms of performance management to employee stress.

Management at BT and FT could reach agreement on variable pay for sales staff because in this activity, there are relatively objective criteria that are less dependent on management judgement. Such criteria are more easily enforced by grievance handling. In sales, employees also have greater control over their earnings because they have control over their effort (Schloss, 1898). Thus, where institutional resources are relatively weak, worker representatives are more likely to support incentives based on objective performance measures that give some protection against management bad faith.

TDC and DT both had stronger institutional support for ongoing employee involvement in management decision making compared with BT and FT—which encouraged coordination by mutual adjustment. However, they differed in their emphasis on sanctions or incentives. The performance management model at TDC represented a *co-managed concertive* approach, combining a focus on team building, team-based competitions, intensive training and coaching, and individual- and team-based variable pay with progressive discipline and the threat of dismissal. There were weak constraints, compared with FT: It was much easier to dismiss employees for poor performance. Compared with BT and FT, variable pay was permitted for a wider range of metrics. One reason for this is that the union also had stronger voice through local works councils that allowed union representatives to influence the design and transparency of variable pay, as well as to ensure that the process for evaluating performance and implementing sanctions was viewed as fair. This created a workplace environment in which the union facilitated or supported management's work, helping to create a cooperative culture in which there was some perception that practices were negotiated and overseen via mutual adjustment. At the same time, the lack of the hard "constraint" of job security also opened the possibility for sanction-based practices. Interestingly, there was also less labour conflict associated with this sanction-based model compared with BT, which suggests that stronger worker voice supported the perceived fairness and transparency of both incentives and the process of managing performance evaluation and dismissals.

Finally, DT relied on a performance management model that most closely resembled the *high-involvement* ideal, with a focus on training and development and a heavy reliance on team-based coaching and performance-based pay. These practices were contested and changed over time as the direct result of collective negotiations, with works councils who had strong voice in their design and implementation. Similar to TDC, consultation with worker representatives could serve as resources for gaining agreement on potentially controversial measures. However, in contrast to TDC, DT faced clear constraints on use of sanction-based practices, due to both strong job security in collective agreements and works agreements that limited how performance information was monitored and used. As a result, DT adopted practices that achieved a balance between management demands for, for example, more tightly linking pay with performance, and some degree of worker control over those practices. Works councils' power to introduce and maintain negotiated constraints had declined over time, but they were seeking to rebuild that power through creative compromises under more challenging conditions.

6 | CONCLUSIONS

There are notable limitations to the generalizability of our research findings. The number of organisations is small, they were formerly covered by public sector arrangements, and they have a similar legacy of employment practices from past collective agreements. At the same time, our research design is distinctive in the close matching of nearly identical workplaces based in similar organisations and market settings across different countries. Although we are not able to control for all factors influencing the strategic choices of managers, our interviews suggest that the factors we have identified played a significant role in shaping these choices.

Our findings and framework make two major contributions to the HRM and employment relations literature. First, they answer the calls of recent reviews to broaden and deepen the empirical focus, theory, and methods used in strategic HR research. One critique holds that HRM is increasingly dominated by psychological theory, leading to a narrower focus on individual attitudes and behaviours (Godard, 2014; Harley, 2015; Kaufman, 2012). A related critique is that strategic HR research treats firms as closed systems, in which management choices are predominantly rational and driven by alignment with business strategies (Marchington & Grugulis, 2000; Batt & Banerjee, 2012, p. 1745–1746). Thus, for example, although we were able to find several recent HRM studies examining the influence of contextual factors on performance management, these either focused on factors such as organisational culture and employee relations climate (Haines III & St-Onge, 2012) or broader organisational strategy within multinational firms (Mellahi, Frynas, & Collings, 2016).

A central remedy proposed in these critical reviews is to integrate institutional context more systematically into the study of HRM (Brewster, Mayrhofer, & Smale, 2016; Delbridge, Hauptmeier, & Sengupta, 2011). In this paper, we place institutions at the centre of our analysis and demonstrate that they play a crucial role in encouraging sharply contrasting approaches to fostering motivation and commitment across nearly identical jobs in organisations competing in similar market segments. Our findings and framework imply that models seeking to specify "best practice" or "best fit" HRM strategies are incomplete without accounting for the manner in which institutional context constrains or enables different bundles of practices. Indeed, the high-performance work systems (HPWS) literature typically includes employee voice and job security arrangements in an HPWS "bundle" that also includes flexible performance incentives of the kind we observed at DT (Laroche & Salesina, 2017). We demonstrate that both voice and job security can be significantly strengthened or weakened by labour market and collective bargaining institutions—and thus may not be as subject to managers' strategic choice as is often assumed in the HR literature.

Of course, the insight that institutions influence HRM is not a new one for employment relations researchers and is a central theme in our own past research (Doellgast, 2012; Marsden, 1999). However, employment relations scholars have faced challenges in reconciling empirical findings that demonstrate increasingly heterogeneous HR practices within countries with the dominant macrofocused theories that posit coherent, nationally specific institutional systems. Two particularly influential frameworks are the varieties of capitalism literature, which argues that employers' strategies draw on institutions as resources for coordination (Hall & Soskice, 2001), and power resource theories, which focus on how institutions establish constraints on employer discretion (Baccaro & Howell, 2017). These models are useful as ideal types but do not generate clear predictions concerning the practices employers adopt in real organisations subject to pressures and resources from changing institutions.

A second contribution of our study is thus to develop an original, integrative framework for theorising how different combinations of institutions affect management practice. We draw on past theories explaining organisations' responses to broader systems of institutional resources and constraints, while also examining the underlying logic to how those resources and constraints combine in different ways. Our framework builds on Mintzberg's (1979) distinction between coordination by standardisation and by mutual adjustment, as well as Simon's (1951) insights that the employment relationship is based upon a deal whereby employees accept management's right to direct their labour within a zone of acceptance. We identify four models for regulating the zone of acceptance and its performance requirements: managerial control, bureaucratic high commitment, co-managed concertive, and high involvement, each underpinned by a different mix of institutional constraints and resources.

In contrast to the varieties of capitalism literature, our framework assumes that very similar business models or strategic imperatives can be accomplished via these contrasting HR approaches. It also posits that institutional mechanisms are not necessarily complementary to one another but rather configurational—in that they combine in distinctive ways at the organisational level with different effects on practice and outcomes.

North (1990) proposes that we should consider institutions as the “rules of the game” that shape the strategies that players can adopt in pursuit of their interests. In Stinchcombe's (1986) words, rules of exchange survive when they ensure that both parties “get what they want.” They can facilitate cooperation by closing off “worst-case scenarios” (Scharpf, 1997). In our study, the “game” is managing relationships governed by a loosely defined zone of acceptance, and the worst-case scenario is that its open-ended nature will be exploited by the stronger party to press its advantage at the weaker party's expense. As the costs of exit are usually more severe for the employee than the employer, the protection by due process rules for dismissals, and their knock-on effect attenuating related disciplinary measures, helps to redress this imbalance so employees can feel more at ease with flexible performance criteria—enabling the “game” of performance management to be played differently.

One general conclusion is that the interests of both parties in the employment relationship should be considered simultaneously when analysing institutional effects on human resource management. To get the weaker party to buy into more flexible patterns of working, the stronger one needs to be able to make credible commitments that it will act in good faith. In this study, institutional rules governing employment protection and employee participation were part of the context within which the firms operated. According to their strength, they provided the basis for such commitments, enabling management to achieve more flexible models of performance management. Where these institutions provide stronger guarantees that joint welfare will be pursued, we anticipate that the outcomes for workers will also be improved.

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CONFLICT OF INTEREST

The authors declare that they have no conflict of interest.

ENDNOTE

[1] CWU, "Together we will make a difference," available at http://www.cwu.org/together-we-make-a-difference-agreement-between-bt-retail-and-cwu.html (accessed January 2013), p. 4.

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