

**THE APPLICATION OF SYSTEMS OF
PERFORMANCE RELATED REMUNERATION
IN THE UK FOOD INDUSTRY**

BY

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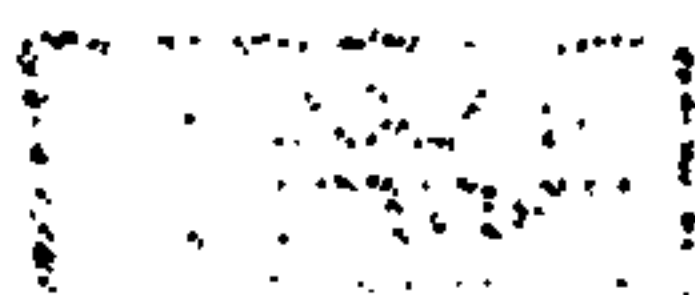
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SUMMARY

SUMMARY

This study investigates the relationship (or correlation) between the performance of employees and their remuneration in the United Kingdom (UK) food industry. Within the study, remuneration systems which involve a correlation between the performance of employees and their remuneration are referred to as Performance Related Remuneration (PRR).

Since the early 1980's, the use of performance based remuneration within UK organisations has increased to a level never witnessed before. Such remuneration systems have generally been employed as part of a wider management strategy to improve employee and organisational performance. In the companies of the 1990's, it has become "normal" to find part of the total remuneration package tied to individual, group or organisational performance. There are many systems of PRR in use in the 1990's and these include various forms of merit pay, profit related pay, payment by results, commission, profit sharing and employee share ownership plans.

This thesis is motivated by the increasing use of performance based remuneration systems and focuses on the use of such systems within one specific industry - the UK food industry. The aim of the thesis is to identify trends relating to the use of PRR within the industry and in particular examine the extent to which PRR is used, why such systems are used, the various systems in operation, and the way in which the various systems are implemented and managed.

The first part of the thesis contains a substantive literature review which examines several important aspects of PRR. In chapter 2, the objectives behind the introduction of PRR are examined - why do organisations introduce PRR and how can such systems contribute to the effectiveness of the organisation?. Chapter 3 examines the various theoretical approaches to motivation and attempts to establish a link between the theories of motivation and the use of PRR. The fourth chapter reviews the various developmental stages in the use of PRR in the United Kingdom over the last century, concentrating on developments during the 1980's. Chapter 5 begins by examining the various components of the total remuneration package but then concentrates on describing the many different systems of PRR available to organisations.

The remainder of the thesis is concerned with the data gathered on the use of PRR within the UK food industry. Such data was gathered during 1990 and 1991 through the use of survey questionnaires (for quantitative data) and personal interviews (for qualitative data). The hypotheses of the thesis are outlined in chapter 7. The hypotheses centre on five main areas: PRR and organisation size; PRR and trade union recognition; the objectives of PRR; PRR and performance appraisal, and; the types of PRR systems used. Once the hypotheses have been outlined, it is appropriate to test them using the quantitative and qualitative data gathered. A summary of the data together with statistical tests is contained in chapters 8 and 9. The final chapter of this thesis draws a range of general conclusions from the data and literature review and suggests further areas of study relating to the use of PRR.

Overall, the research illustrates that in the UK food industry, the use of PRR is very common. Whilst PRR remains an element of a wider performance management strategy, the majority (78.5 per cent) of respondents to the questionnaire survey indicated the use of a system(s) of PRR. The research also indicates that if an organisation has a performance based remuneration policy, it is more likely to operate more than one system of PRR than rely entirely on the benefits (and drawbacks) of one system. Of all the systems of PRR in operation, the most commonly used systems were merit pay, in the form of a salary increase or bonus, and profit related pay. Within the UK food industry, there also appears to be a trend relating to the systems of PRR covering different categories of employee. Whilst white collar/non-manual employees are more likely to be covered by a system of merit pay, based on individual performance, or profit related pay, blue collar/manual employees are more likely to be covered by a system of payment by results based on a collective or group performance. When the operation of a system of PRR does rely on the assessment of individual performance, such assessment tends to be based on a system of performance appraisal. These and other conclusions are discussed fully in Chapter 10.

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into the use of PRR across all industries, both public and private sector. The purpose of this thesis is to examine the use of PRR within one specific industry - the UK food industry. As yet, there has been no study or research which has focused on this particular industry. This thesis aims fill this void by identifying trends in the use of PRR within the UK food industry. It is hoped that management teams from the various sectors of the industry can learn from the experiences of others and use PRR in a way which will help to secure the objectives of their organisation.

One objective of the research is to identify the extent to which PRR systems are used within the UK food industry. Such findings can be compared to the use of PRR in other industries. It may also be possible to identify specific trends in the use of PRR, for example, is there a correlation between the use of PRR and: the category of employee; industry sector; organisation size, or; trade union representation?.

A further objective of this research is to identify the different PRR systems in use and how each system operates. Once again, it is hoped that trends can be identified, for example is there a correlation between the system of PRR in use and the category of employee or organisation size?.

A third objective of this thesis relates to the reasons for operating a system of PRR - why do organisations want to establish a correlation between the performance of employees and their remuneration?. Does the organisation aim to improve productivity, profit, quality, employee morale, staff recruitment and retention?.

Overall, this thesis sets out to examine and identify trends in the following areas, with regards to the use of PRR within the UK food industry:

- * the extent to which PRR is used;
- * why PRR is used;
- * the systems of PRR in use;
- * how the various systems are managed.

1.1 Organisation Performance

Prior to the industrial revolution of the eighteenth century, the organisation of work, and therefore labour, tended to be on a small scale. Such organisation was based on the cottage industries with networks of widely dispersed workers. The arrival of the industrial revolution initiated the movement of workers from rural settings to large industrial organisations in urban towns and cities. Further development of industrial organisations continued uninterrupted for more than one hundred years, until the second half of the nineteenth century. At this time, organisations were faced with new business pressures from the industrialised world:

- * increasing competition
- * trade restrictions
- * new technologies
- * the rapid growth of organised labour

As a result of such pressures, organisations began to evaluate their overall performance and effectiveness. Such evaluations have become a prerequisite for organisational success. Within these evaluations, organisations must consider how the following factors influence their overall performance:

- * the organisational structure
- * the quality of product/service
- * the demands of the customer/consumer
- * the competitive position
- * forward planning
- * technology
- * human resources (employees)

This thesis focuses on the contribution of employees to the overall performance of organisations. In particular, it examines how attempts are made at improving employee performance by forming a correlation between such performance, and subsequent remuneration - performance related remuneration (PRR). The underlying assumption is that if employee performance can be improved as a result of remuneration incentives, this in turn will improve the performance of the organisation.

1.2 Employee Performance

Within modern organisations, whilst labour is one of the most important

assets, it is also one of the major operating costs. As a result, it is essential that in return for such expenditure, employers are assured a high level of performance from their employees. In other words, in order to run efficient and productive organisations, employers must receive 'value for money' from their employees.

To be able to improve the performance of employees, the motivation of individuals, or groups of individuals would need to be considered. The topic of motivation will be discussed fully in chapter 3, but any successful motivation technique will involve stimulating the employees to behave in a way which is appropriate to the mission statement and strategy of the organisation and will result in the fulfilment of the organisational objectives. Ultimately the objective of organisations relates to increased efficiency/productivity whilst the strategy may be based on increased: rates of work; training; quality, and/or; flexibility.

Within organisations, there are many approaches to improving employee performance. These approaches will be examined in chapter 2, but include:

1.2.1 Reducing Worker Fatigue

This approach involves manipulating ergonomic factors such as rest pauses, temperature, humidity, and lighting intensity in an attempt to reduce worker fatigue and improve performance.

1.2.2 Human Relations Management

The theory behind this approach is that by smoothing out employment relationships between managers and staff, and between the staff themselves, improved levels of performance can be gained.

1.2.3 Management Systems

This approach suggests that different organisations require different management systems in order to obtain high levels of performance from their employees, such requirements depending on the type of business or industry. Some organisations require 'organic' management systems based on loosely defined responsibilities and relationships, free communication, and cooperation across hierarchical and divisional boundaries. Other organisations require 'mechanistic' management systems characterised by clearly defined duties, responsibility and authority, specified chains of command, and structured channels of communication.

1.2.4 Job Enrichment

The aim of this approach is to improve employee performance by increasing employee motivation through various aspects of work design such as increasing individual responsibility, recognition and achievement through management techniques such as job rotation, job enlargement, and the use of work groups. Horizontal job enrichment involves increasing employee control over the immediate job. Vertical job enrichment involves increasing employee involvement in the organisation and/or their jobs. This may be achieved by increased involvement in the organisation policy making, increased job responsibility, and increased opportunities for training and

advancement. Overall, job enrichment involves increased employee participation in organisational activities/processes.

1.2.5 Work Study

The principles of work study are: i) to find a better way of doing a job, and; ii) to establish how long that job should take. The aim of work study is to improve the performance and effective use of human (and other) resources.

1.2.6 Performance Related Remuneration

This approach aims at improving employee performance by increasing employee motivation through financial incentives directly related to the work performance of the employee. This is the approach with which this thesis is concerned and will be discussed fully in the following chapters.

Whilst it is clear that there are many approaches to improving employee performance, those mentioned above being some examples, there are several important points to note:

- a) each approach may not only be used on it's own but may be used in conjunction with one, or more, other approaches.
- b) what may be successful in one organisation may be unsuccessful in another organisation.

- c) each approach can be used in an attempt to improve the performance of individuals, or the performance of work groups (departments, sections, workplaces, organisations).

1.3 Employee Performance & Remuneration

The primary aim of performance related remuneration is to improve the performance of the organisation by improving the performance of the employees. Such performance improvement is dependent on the successful fulfilment of a series of objectives identified in a research paper by Angela M. Bowey, et al, "Effects of Incentive Payment Systems, United Kingdom 1977-80". From a series of fifteen possible objectives of incentive schemes, managers and supervisors considered those in Table 1.1, to be the most important. Performance related remuneration is therefore concerned with improving organisational performance by improving employee performance through a remuneration system which will help to guarantee the recruitment, retention, and effective deployment of a highly motivated workforce.

Table 1.1:
% OF RESPONDENTS FOR EACH OBJECTIVE

Objectives:	% of respondents
To increase earnings	69
To increase output	75
To improve quality	29
To improve labour flexibility	31
To reduce labour turnover	25
To reduce overtime	27
To improve recruitment	26
To motivate	48
To increase profits	43

Source: Smith (1989)

The use of performance related remuneration is based on the assumption that the motivation of employees will be increased, and performance improved, by the attraction and receipt of financial incentives. Whilst remuneration is a major inducement and can improve employee performance, it is dangerously simplistic to consider this as the only motivator. Motivation is a complex process with individuals having different needs and goals. Subsequently, there are various employment and organisational factors which can act as employee motivators. The application and effect of such factors must be considered when examining the use of performance related remuneration. It should be noted at this stage that remuneration does not simply refer to money in the form of salary, bonus and commission, for example. Remuneration is normally a reward package involving such aspects as:

- * salary
- * bonus
- * commission
- * profit sharing
- * pension scheme
- * sick pay
- * holidays
- * cars
- * housing assistance
- * medical benefits
- * low interest loans
- * subsidised catering
- * creches

Overall, remuneration can be considered as a total package involving all aspects of pay and employee benefits. The principle of remuneration will be discussed further in chapter 5.

As a consequence of the complexity of motivation, and the diverse nature of remuneration, there are many methods of relating the

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1.3.4 Merit Pay

This is a method which involves the assessment of employee performance and the provision, or non-provision of appropriate financial rewards. Merit pay often involves performance appraisal as the method of assessing employee performance.

1.3.5 Profit Sharing

The main principle behind profit sharing is that employees will be financially rewarded in a manner based on the financial performance and profitability of the organisation. Such financial reward is based on a bonus and can take the form of cash, shares, or share trusts.

1.3.6 Profit Related Pay

This is a system of remuneration where a proportion of the employee's earnings is related to the financial performance and profitability of the organisation.

1.4 The UK Food Industry

However categorised, the United Kingdom Food Industry is one the largest specialist industries in manufacturing and processing within the UK economy. Consumer spending on food currently represents over 11 per cent of all consumers' expenditure (NTC, 1991) and although this proportion has a tendency to diminish as, or when, the economy grows, food obviously remains of fundamental importance to national standards of living. In 1987, the UK food industry consisted of over 9500 businesses employing in excess of a half million employees. The 1987

gross output of these businesses was approximately £35,000 million, this representing over 9.0 per cent of the Gross National Product (GNP).

Overall, it is clear that the UK food industry has a major role to play within the UK economy both as an employer and as a contributor to the GNP. As a consequence, this thesis could have an important role to play within the future success and profitability of the UK food industry, and the corresponding impact on the UK economy.

The UK Food Industry has developed its present structure and characteristics over the past hundred years or so. At the beginning of the nineteenth century, most food production and processing was carried out on, or near, the farm, or at home, and could therefore have been describes as a small scale cottage industry. Rapid population growth, urbanisation and industrialisation however, required change, and this led to the development of improved production and processing equipment and processes, food transport and packing technology. In addition, there was also a significant increase in the role of international trading and specialist and multiple retailers.

Although the UK Food Industry was mainly established in the late nineteenth and early twentieth centuries, in many ways, its most remarkable period of growth in scale and concentration occurred post World War 2. In food processing, the continued development of both British multi-nationals and UK based American firms, plus an extraordinary period of merger and rationalisation, has resulted in the United Kingdom having the largest number of giant food companies

outside the USA, and the most heavily concentrated food industry in Europe. Of the largest 100 food businesses in the world, ranked by turnover, in 1974, 48 were based in the USA, 22 in the UK, 9 in France, 7 in Japan, and 5 in Canada (OECD, 1979).

Membership of the European Community (EC) has involved the adaptation of British legislation and the progressive application of rules and regulations determined by the institutions of the European Community rather than by parliament at Westminster. The UK Food Industry has been affected by this change, the industry being primarily concerned with Treaty provisions, and derived legislation of the European Economic Community, and more recently the removal of trade barriers in 1992. Although opinion polls indicate that the populace is less than enthusiastic about membership, and some politicians talk about withdrawal, for the moment, the UK Food Industry must operate in conformity to EC legislation. If Britain remains a member of the European Community then the EC policy dimension will take on an increased importance; even if Britain leaves the Community those firms with trading and business interests in other Member States will have to structure their operations to remain within the law, and so the EC policy dimension will still be relevant.

For the purposes of this thesis, the UK food industry can be defined as all businesses involved in the manufacture and processing of foodstuffs in the areas outlined in Table 1.2. below.

TABLE 1.2:
THE UK FOOD INDUSTRY

Area of Food Industry	Standard Industrial Classification 1980
Organic oils and fats	411
Slaughtering of animals and production of meat and by-products	412
Preparation of milk and milk products	413
Processing of fruit and vegetables	414
Fish processing	415
Grain Milling	416
Bread, biscuits and flour confectionery	419
Sugar and sugar by products	420
Ice cream, cocoa, chocolate and sugar confectionery	421
Animal feeding stuffs	422
Starch and miscellaneous foods	423
Soft drinks	428

The products in each area of the UK Food Industry and the corresponding value to the UK Economy can be summarised as follows:

Organic Oils and Fats:

In 1989, production within this sector of the UK Food Industry had an estimated value of £671.9 million. The products associated with this sector of the industry include:

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Fish Processing

In 1989, production within this sector of the UK Food Industry had an estimated value of £1177.0 million. The products associated with this sector of the industry include:

Fresh Fish
Shellfish
Frozen Fish
Canned Fish

Processed Fish
Fish Products

Grain Milling

In 1989, production within this sector of the UK Food Industry had an estimated value of £219.6 million. The products associated with this sector of the industry include:

Cereals: Flour
 Rice
 Oatmeal

Bread, Biscuits & Flour Confectionery

In 1989, production within this sector of the UK Food Industry had an estimated value of £3233.6 million. The products associated with this sector of the industry include:

Bread
Buns, Cakes & Pastries
Biscuits
Crispbread

Sugar and Sugar By-products

In 1989, production within this sugar/sugar by-products sector of the UK Food Industry had an estimated value of £262.2 million and represented the consumption of 529,600 tonnes of sugar and associated products.

Ice Cream, Cocoa, Chocolate and Sugar Confectionery

Although an accurate value of production within this sector of the UK Food Industry as a whole is not available, the production of ice cream alone, in 1989, had an estimated value of £203.2 million whilst the production of cocoa had an estimated value of £34.7 million.

Animal Feeding Stuffs

An accurate value of production within this sector of the UK Food Industry is not available, however, the products associated with this sector of the industry include:

Pet Foods
Cattle, Pig and Poultry Feeding Compounds

Starch and Miscellaneous Foods

In 1989, production within this sector of the UK Food Industry had an estimated value of £3237.2 million. The products associated with this sector of the industry include:

Breakfast Cereals	Soup
Spreads & Relishes	Pasta
Tea	Coffee
Baby Foods	

Soft Drinks

In 1989, production within this sector of the UK Food Industry had an estimated value of £6400.0 million. The products associated with this sector of the industry include:

Health Drinks
Fruit Juice
Concentrates
Mineral Water
Carbonates

Overall, it is clear that the UK food industry has a major role to play within the UK economy both as an employer and as a contributor to the GNP. As a consequence, this thesis could have an important role to play within the future success and profitability of the UK food industry, and the corresponding impact on the UK Economy.

1.5 Thesis Structure

Chapter 2 of this thesis examines the objectives behind the introduction of systems of PRR - why do organisations introduce PRR and how can such systems contribute to the effectiveness of the organisation?. Whilst the improvement of organisational performance through the improved performance of employees may be considered as the main objective, the chapter examines additional, or alternative, objectives behind the introduction of PRR such as: assisting with organisation change; attracting, recruiting and retaining employees; encouraging employee involvement; improving the flexibility of pay bargaining, and; helping to establish or maintain employee differentials. In addition, chapter 2 highlights the main alternatives to PRR which can be used in an attempt to improve the performance of individuals and the organisation as a whole. Such alternatives include performance appraisal, scientific management, reducing worker fatigue, human relations management, management systems and work design.

The third chapter of this thesis sets out to examine the various theoretical approaches to the motivation of employees. In addition

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union recognition; the objectives of PRR; PRR and performance appraisal, and; the types of PRR systems used.

Chapter 8 of the thesis presents and examines the data gathered from the quantitative research methodology - the questionnaire survey. The data presented is tested against the research hypothesis using chi-square tests. For ease of analysis, the data is presented in nine main areas: the representativeness of the survey; the use of systems of PRR; the objectives of PRR; trade union presence; alternative systems of performance management; the coverage of PRR; restrictions on finance available for PRR; the assessment of performance, and; the handling of grievances regarding PRR. Chapter 9 of the thesis presents and examines the qualitative data gathered from the company case studies. The use of PRR within each company is examined, including details of the various systems in operation and the implementation and management procedures for each system.

The final chapter of the thesis, Chapter 10, draws some conclusions from the findings of the research and summarises the trends in the use of PRR within the UK food industry. Such conclusions include references to the extent of use of PRR, the systems of PRR in operation, the use of different systems of PRR for different categories of employee, the link between PRR and performance appraisal and, the objectives behind the use of a performance based remuneration policy.

CHAPTER 2:

THE OBJECTIVES OF PRR

2.0 THE OBJECTIVES OF PRR

2.1 Introduction

Behavioural psychologists for many years have researched and produced motivation theories based on the reinforcement of behaviour. Whilst the concept of motivation, and the role of money as a motivator will be discussed fully in chapter 3, the underlying belief is that specific forms of behaviour can be encouraged (or discouraged) through the provision or withdrawal of rewards and punishments. Central to any system of PRR is the assumption that the provision or withdrawal of certain types of remuneration can be used to reinforce the behaviour of employees concurrent with the objectives of the organisation. It should be emphasised again that remuneration is not only concerned with monetary payments in the form of a wage, a salary, bonus or commission but refers to a wide ranging package of possible benefits which could include a company car, subsidised catering, housing assistance, child-care and share ownership. PRR is therefore a strategy used by organisations to help in the achievement of organisational objectives (Armstrong & Murlis, 1991) - the aim of this chapter is to highlight these objectives and explain how systems of PRR can help.

Before examining the various objectives behind the introduction of PRR into an organisation, it is useful to briefly mention the relationship between PRR and the wider concept of performance management. Performance management is a human resource management strategy aimed at achieving organisational objectives and may incorporate the establishment of performance objectives, training and development

plans, monitoring the performance of the workforce as well as a pay linkage. As Armstrong and Murlis (1991) state:

"Performance management therefore consists of a systematic approach to the management of people, using performance, goals, measurement, feedback and recognition as a means of motivating them to realise their maximum potential. It embraces all formal or informal methods adopted by an organisation and its managers to increase commitment and individual and corporate effectiveness. It is a broader concept than performance appraisal or performance related pay (PRP). These can indeed be important elements in a performance management system (PMS). But they will be part of an integrated approach, which consists of an interlocking series of processes, attitudes and behaviours which together produce a coherent strategy for adding value and improving results."

Whilst PRR may be therefore viewed as a part of a broad performance management system (PMS), an important link between PRR and PMS was established in a survey performed by the Institute of Personnel Management in 1991, *Performance Management: An Analysis of the Issues* (IPM, 1992). The survey concluded that those organisation which had a formal performance management system (PMS) were more likely than others to have a system of PRR. So whilst there are distinct differences between PRR and performance management, there appears to be a close association between the presence of such systems within organisations.

Indeed, the ultimate objectives of both systems would appear to have a common purpose - to improve organisational performance and achieve organisational objectives. The increasing popularity of performance management strategies, and the consequential use of PRR characterises a shift in the approach to the management of employees. Whereas "traditional" management focused on the control of employees through various formal and informal disciplinary measures, the "modern" style of management focuses on employee participation/involvement and communication in the hope of achieving employee commitment. The shift therefore is a move in the approach of employee management from control to commitment.

PRR is used to assist in the achievement of many organisational objectives but the single most important reason for using a system of PRR is to improve organisational performance through motivating the effective performance of individual employees (Lawler, 1983).

2.2 Improving Performance

In the modern commercial world, with high levels of competition and technological advancements, it is clear that if organisations are to survive, they must ensure a high level of organisational performance (Nash & Carroll, 1975; Institute of Personnel Management, 1982). Whilst organisational performance can mean many things, it is most commonly interpreted as meaning financial performance which can be measured in terms of profitability, turnover, return on capital and capital growth. If we consider the public sector, and the National Health Service for example, organisational performance cannot be

measured in financial terms but instead can be measured in terms of service and quality. Organisational performance can therefore mean many things including:

- * financial performance (profits/liquidity/capital)
- * customer service
- * quality of product/service
- * efficiency/productivity

Throughout the 1980's, systems of performance related remuneration have become extremely popular as a method of improving and maintaining organisational performance through the improved performance of employees. Since the 1940's, a number of studies have been performed to investigate the effect of financial incentives on organisational performance.

Argyle (1989) refers to a survey performed in the United States of 514 incentive schemes initiated in the late 1940's. This survey discovered increases in output of 39 per cent, increases in earnings of 17.5 per cent and decreases in labour costs of 11.5 per cent. Davidson et al (1958), report on a 1958 study of six British companies which found that the use on financial incentives increased output by 60 per cent with a corresponding increase in earnings of 20 per cent.

More recently, a United Kingdom survey carried out between 1977 and 1980, Bowey et al (1982), found that of 52 firms operating incentive schemes, 71 per cent had increased effort, 68 per cent had increased productivity and 85 per cent had increased the earnings of the

workforce. In addition to the above findings, Bowey et al report that 55 per cent of the firms had improved quality whilst obtaining these quantitative improvements.

A survey carried out in 1991 by the Institute of Personnel Management, IPM (1992), found that 74 per cent of organisations surveyed reported the use of a system of PRR. Of those organisations who operated a system of PRR but no other PMS, 62 per cent reported that the use of PRR had led to an improvement in organisational performance. In contrast, those organisation who reported the use of a system of PRR and a broader performance management system (PMS), 94 per cent stated that the introduction of such systems had led to improved organisational performance. These results therefore support the suggestion that the most successful schemes are set within a wider framework of enlightened employee relations policy and management practice (McBay, 1989).

Overall, systems of PRR attempt to improve organisational performance by:

1. Rewarding those employees whose performance is assessed to be of a high standard (Neale [ed.], 1991). Such an approach communicates to the individuals (or groups) that their contribution to the work of the organisation is highly valued. The overall message is simple - improved performance results in improved remuneration. An important issue which must be addressed when establishing a correlation between the remuneration of individuals, or groups, to their performance is

the notion of equity. Essentially, workers should feel that their remuneration in relation to their performance should be fair when compared with the remuneration and work performance of colleagues. As Smith (1989) suggests, equity can be said to exist when people compare their reward and contribution with those of other workers and feel any differences or similarities in reward are justified and acceptable.

2. Motivating all employees to perform well (Brading & Wright, 1990). Whilst the principle of rewarding high performers may well reinforce their behaviour, it is important to motivate those employees who are not performing so well. Good PRR systems must not therefore concentrate only on those employees who are already performing well, but must also consider the motivation of other employees - all employees must be encouraged to improve their performance and the attraction of increased remuneration may assist and support a change in behaviour.
3. Supporting a performance orientated approach to work. PRR systems are based on the output from work rather than the effort put in by individuals - as in a time based system. Employees are therefore encouraged to concentrate on the standard of the end product rather than the input or effort (Brading & Wright, 1990). PRR systems are based on output rather than input.
4. Encouraging the use of work systems appropriate to the organisation. By establishing a correlation between remuneration and the performance of individuals or groups, different work

systems can be emphasised (Currie, 1963). For example, work systems based on individual performance (personal initiative and contribution) or work systems based on collective performance (teamwork and cooperation).

5. Promoting forward planning and objective setting (Brindle, 1987). The central feature of many systems of PRR is the assessment of performance based the achievement of previously established plans and objectives. This management technique therefore encourages individuals and groups to plan their work activity and achieve predetermined objectives.

Further aims of PRR, which are related to the underlying objective of improving organisational performance include:

- * increasing the earnings of employees: the introduction of an equitable system of PRR gives the employee, who has the appropriate performance level; the opportunity to increase their earnings.
- * improving quality/reducing wastage: by focusing on the output of employees, and linking such output to their remuneration, employees should be motivated to provide a high quality product or service.

- * improving labour flexibility: by establishing a link between the acquisition of new skills and remuneration, employees will be motivated to become multi-skilled which will result in a more flexible workforce.
- * reducing industrial stoppages: one of the most common reasons behind industrial stoppages is employee remuneration. If employees are given the opportunity to "control" their remuneration through their performance level, such industrial stoppages are likely to become less common.
- * reducing absenteeism: employees are less likely to have high absence levels when being absent affects remuneration levels - an employee who has frequent absences is less likely to reach performance targets.
- * reducing overtime: if it is possible to improve the performance of employees through a system of PRR, higher productivity levels should result. This should enable organisations to reach production targets without relying on overtime.
- * reducing manpower: by improving the performance level of employees, it may be possible for some organisations to maintain a high production level with a reduced workforce. Whilst the prospect of redundancies is not welcomed by employees, a reduced workforce may help to guarantee the future survival of the organisation.

Whilst the primary objective of performance related remuneration is to improve organisational performance through the improved performance of employees, systems of PRR can be used to assist in the achievement of additional objectives. Such objectives include:

- * Organisation Change
- * Attracting, Recruiting and Retaining Employees
- * Encouraging Employee Involvement
- * Flexibility of Pay Bargaining
- * Maintaining or Establishing Employee Differentials

2.3 Organisation Change

PRR is one management technique which is often used to help facilitate changes within organisations. Although changes are normally introduced to improve the performance and effectiveness of organisations, most changes, be they minor or major, are normally met with suspicion from the workforce (Thompson, 1990). Such suspicion can often result in operational problems and therefore make the implementation of change very difficult. PRR is often considered to be a 'sweetener' for the 'bad taste' of organisational change. As Lawler (1983) states,

"When the reward system is considered and made part of the change strategy, it can make a positive contribution to a change effort."

PRR can generally assist in the acceptance and implementation of the following types of change:

2.3.1 Change in Organisational Culture:

Throughout the 1980's, and into the 1990's, there has been a continuing trend towards a performance culture within organisations. Employees are being encouraged to monitor their own performance and maintain or improve this performance in line with the overall objectives of the organisation. Employees are now being given responsibility for their own, or their groups', work performance and subsequent remuneration through individual or group PRR. This culture is in sharp contrast to the position earlier in the century where the performance of employees was a management problem.

From the management standpoint, one major change in organisational culture has been the move towards treating employees as assets rather than costs or liabilities. As a result of this culture change, managers are increasingly being held accountable for the performance and effectiveness of their human resources, or human assets, and are being given delegated control over the remuneration of their human resources - employees (Armstrong & Murlis, 1991).

In each of the situations mentioned above, it is essential that the reward management procedures of the organisation take into consideration the changing culture within organisations. In many cases, PRR has been introduced in an attempt to assist such a

transformation in organisational culture and encourage both management and employees to accept and participate in the performance orientated culture of the organisation (Neale [ed.], 1991).

2.3.2 Change in Technology:

One of the most significant developments in organisations throughout the past 20 years is the increased use of technology within most workplaces (Buchanan & Boddy, 1983). Traditionally, workers have been sceptical about the introduction of new or improved technology - technology is often considered to be a threat to jobs, machines doing jobs once done by workers. In an attempt to overcome such scepticism, management often involve the employees in decision making about new technology and generally provide a full training programme. In addition to such tactics, PRR is often used to illustrate clearly the benefits to be gained by the employee from the new technology - new technology can result in improved individual (and organisational) performance which will result in improved remuneration. As Smith (1989) states:

"Incentive schemes may do more than improve employee performance, for example, by clearing the obstacle to technical or organisational change."

2.3.3 Changes in Work Design:

In order to maintain organisational efficiency and competitiveness, organisations must adopt suitable working methods (Buchanan, 1979; Buchanan & McCalman, 1989). Occasionally, it is necessary to introduce new work designs which could include job enlargement, job rotation, group working, flexibility schemes and job enrichment. To facilitate the introduction of new work designs, organisations often introduce PRR. Again, this is to develop an association between the performance of individuals, groups or the organisation, and their remuneration (McBay, 1989). This association should encourage the employees to accept changes in work design which will improve their work performance.

Overall, where organisations seek to improve their performance through some form of organisational change, the introduction of a system of PRR may not only improve performance in its own right, but may be an contributing factor leading to the acceptance of the change on the part of employee, and management. Lawler (1983) does however provide a cautionary note regarding the use of PRR for the management of change:

"Pay systems can either facilitate or inhibit organisational change, although they should not automatically be assumed or counted on to do either."

2.4 Attracting, Recruiting and Retaining Employees:

During the past ten years, some employers have experienced difficulty in attracting, recruiting and retaining appropriately qualified and skilled employees. Such circumstances have arisen even although the unemployment levels within the United Kingdom have remained significantly high (Brading & Wright, 1990; Brindle, 1987; Curnow, 1989). When organisations are faced with such a skills shortage it is essential that attractive and competitive compensation packages are available to attract and retain appropriately qualified and skilled employees. Such compensation packages would normally include some element of PRR. The 'skills shortage' can be explained in three ways:

1. some occupations appear unattractive to potential employees;
2. some skills and qualifications are extremely high in demand;
3. the demographic trend suggests that there is/will be a shortage in the supply of school leavers.

2.4.1 Unattractive Occupations:

Within the modern industrial and commercial world, there remain some occupations which appear unattractive to the majority of job seekers. Such unattractiveness could be the result of poor working conditions, long and unsociable hours of work, or perhaps the general unpleasantness of the type of work. Faced with the problem of finding

employees to perform unattractive types of work, employers are required to allure employees with tactics such as appealing remuneration packages which could be wholly or partly based on a system of performance related pay.

2.4.2 Skills And Qualifications In High Demand:

In any industrialised country, there are likely to be a range of skills and qualifications which are high in demand. Such high demand is linked closely with the trends within the manufacturing and service industries. Currently, one trend is towards the use of computerised technology which means that there is significant demand for computer operators and programmers. Another trend is the forecasted shortage in graduates and higher qualified people in the 1990's (Greenhill, 1990). Essentially, job seekers who possess skills and qualifications which are high in demand can command attractive remuneration packages from potential employers. As Nash (1975) states:

"Jobs that require greater preparation, are more hazardous, and require skills that are in scarce supply are usually thought to deserve more pay than less demanding jobs."

Whilst an attractive basic pay is essential in the competition for scarce human resources Curnow (1989) suggests that many employers are also including as part of the total remuneration package, an element of PRR.

2.4.3 Demographic Trends:

The current demographic trends suggest that there is/will be a shortage in the supply of school leavers entering the labour market. The demographic trends for the 15-19 and 20 - 24 age groups are illustrated in Table 2.1 below.

Table 2.1: AGE DISTRIBUTION OF UNITED KINGDOM POPULATION
(THOUSANDS)

	1981	1986	1989	1991*	1996*	2001*
15-19	4735	4479	4079	3707	3499	3681
20-24	4284	4784	4651	4496	3724	3517

* - indicates projection

Source: Annual Abstract of Statistics 1991

Whilst the unemployment levels within the United Kingdom remain high, most employers tend to recruit a certain amount of school leavers to fill junior positions or commence training programmes and apprenticeships. If the supply of school leavers falls below the demand level from industry, the school leavers will need to be attracted to organisations through such tactics as appealing remuneration packages which could involve some system of performance related pay. In its report in 1988 entitled 'Young People and The Labour Market' the National Economic Development Council stated that:

"Over the next five years, the number of 16-24 year olds in the labour force will fall by 1.2 million, a decline of one-fifth - with a decline of 23 per cent in the 16-19 year old age group. Employers are going to find it much more difficult to recruit young people in sufficient numbers in the future." (Curnow, 1989)

Faced with such a position, employers will need to examine very closely their recruitment and retention policies. This will inevitably involve an examination of their remuneration policies and the role of PRR.

Overall, if employers are to attract, recruit and retain an effective workforce, it is important that satisfactory working conditions are provided. An important element of good working conditions is an attractive remuneration package. The trend over the past ten years has been to make remuneration packages attractive by developing a correlation between the performance of employees and their remuneration - performance related remuneration.

2.5 Encouraging Employee Involvement:

An increasingly popular trend in organisation management is to encourage employee involvement in the fulfilment of organisational objectives. Occasionally, employees become involved in organisational decision making and forward planning through consultation or employee representation on executive committees. Alternatively, employees can become involved by feeling that they are an integral part of the

organisation and that their work effort and commitment is an essential part of the organisational performance, efficiency and future survival. This integration of employee performance and organisational objectives can be achieved through PRR. This way, the employee infers an association between their own performance, the performance of the organisation and the provision of remunerative rewards.

In a study in 1989 by Kinnie and Lowe (1990), which looked at the use of performance related pay on the shop floor, they found a strong correlation between the use of PRR and increased employee involvement and commitment. More specifically, Kinnie and Lowe found that 100 per cent of the organisations surveyed stated that PRR improves employee commitment and capability. In addition, 75 per cent of those organisations surveyed cited that PRR was beneficial in that it led to better two-way communications. Performance related remuneration therefore encourages employee involvement and commitment by making employees feel that they are an integral part of the organisation and that their own performance has an influence on the performance of the organisation as a whole.

2.6 Flexibility Of Pay Bargaining:

Within many large organisations with several sites geographically widespread throughout the United Kingdom, pay negotiations have tended to take place on a centralised basis, usually at head office. Such a position left individual workplace managers with little or no control over remuneration budgets. Wage and salary systems within such

organisations were generally rigid and left very little room for managerial flexibility. Since the cut-throat competitive markets of the modern commercial world calls for optimum levels in organisational performance and efficiency, it is essential that managers are given control over remuneration budgets and are allowed some degree of flexibility in their operation. As Armstrong & Murlis (1991) state:

"Some central control over the implementation of salary policies and salary costs is necessary, but the aim should be to delegate as much authority as possible to the managers. The reward management procedures of the company must, therefore, be designed to achieve a delicate balance between the extremes of rigidity or anarchy."

Within the United Kingdom, the 1980's has witnessed a sharp decline in the power and influence of trade unions which has resulted from:

- a) the failure of trade union campaigns in the late 1970's;
- b) the dramatic reduction in trade union membership since 1979, and;
- c) the anti-union legislation introduced by the 1979 Conservative Government led by Margaret Thatcher.

The reduction in trade union power and influence has allowed employers to decentralise pay bargaining to a local level and introduce flexible payment systems (Jackson, 1991). PRR is one of the most popular systems of remuneration to be introduced into organisations since the mid-1980's in an attempt to bring about or increase managerial

flexibility with regards to remuneration. PRR allows managers to remunerate employees according to their performance and also lets managers modify, if not replace, the traditional concept of an annual inflationary salary or wage increase. Once again, the emphasis is on a performance orientated culture and as Vicky Wright, writing in Neale (1991) states:

"In the current business environment performance related pay, whether in the form of incentives or rewards is frequently used to support a performance orientated 'culture'."

Overall, PRR allows managers to control the remuneration of employees concurrent with the objectives of the organisation.

2.7 Maintaining or Establishing Employee Differentials:

Whilst many employers have sought to harmonise the terms and conditions of employment for all employees including management, white and blue collar workers, they have tended to retain, or establish, wage and salary differentials. Such differentials mean that employees of the same grade can be awarded different remuneration packages according to their performance or contribution to the organisation (Neale [ed.], 1991). The message to employees is clear - an improved performance will result in improved remuneration. One of the most popular methods of creating remunerative differentials is through the use of a system of PRR. Performance related remuneration establishes a direct

correlation between the performance of employees and their subsequent remuneration and by rewarding employees of the same grade differently, creates employee differentials.

To summarise, the primary objective of performance related remuneration is to improve the overall performance and effectiveness of organisations. This should be achieved through the improved performance of individuals or work groups within the organisation. In addition, PRR can assist in the achievement of organisational objectives by:

- a) helping with various types of organisation change;
- b) helping the organisation to attract, recruit and retain the correct quantity and quality of employees;
- c) encouraging employee involvement and commitment;
- d) improving managerial control and flexibility over the remuneration of employees;
- e) maintaining or establishing employee differentials.

2.8 Dysfunctional Effects of PRR

Under the correct conditions, there is proof to show that the use of Performance Related Remuneration CAN assist in the achievement of a

variety of organisational objectives. As Smith (1989) states:

"A survey in the United states of 514 incentive schemes applied in the late 1940's discovered increases in output of 39 per cent, labour costs lower by 11.5 per cent, while earnings increased by 17.5 per cent. A 1958 study of six British companies found that the use of financial incentives increased output by 60 per cent, while earnings increased by 20 per cent. More recently, in 1985, an American survey of 330 programmes to improve worker performance found that financial incentives had by far the greatest influence on productivity."

Although PRR can have a positive effect on the achievement of organisational objectives, there are many occasions where the use of a system of PRR can have negative implications. These negative implications can be explained by examining some of the dysfunctional aspects of PRR. Such dysfunctional aspects include:

- a) the belief that one system of PRR will suit all organisations;
- b) subjectivity of performance assessment;
- c) PRR being used for the wrong reasons;
- d) excessive amounts of bureaucracy;
- e) lack of communication.

One System for All Organisations?

One factor which leads to the downfall of PRR is the belief that one system of PRR is appropriate for all organisations. This belief rejects the suggestion that all performance management strategies, including reward systems, have to be designed in line with such factors as:

- * the objective(s) of a performance related reward strategy;
- * the philosophy and objectives of the organisation;
- * the characteristics of the product or service;
- * the production process;
- * the expectations and demands of the workforce.

If a system of PRR is not designed and introduced without careful consideration of the environment within which the organisation operates, the success and subsequent lifespan of the system of PRR is likely to be extremely limited. As Armstrong and Murlis (1991) suggest:

"Badly conceived performance related pay schemes... can encourage people to focus narrowly on a task to do it too quickly and to take few risks. This is short termism, a major contributor to poor performance and hardly the behaviour we want in the innovative, flexible and responsive organisations of the 1990's."

In addition to considering the unique demands of the organisation and its employees when selecting or designing a system of PRR, it is important to consider the position of PRR in relation to the wider performance management strategy of the organisation. Where an organisation depends entirely on performance related rewards to improve or maintain the level of employee performance, the effect is likely to be minimal. The effect of a system of PRR on employee performance is likely to be more dramatic where PRR is set within a comprehensive performance management strategy. As Smith (1989) states:

"Effort or performance is more likely to remain at higher levels if money is mixed with such elements as job satisfaction, cohesive groups and self actualisation in a synergistic effect which brings forward the types of contribution which management require and pay for."

Subjectivity of Performance Assessment

One of the most common grievances regarding the operation of PRR relates to the lack of standardisation in the assessment of employee performance. Whilst some systems of PRR, including payment by results, can be based wholly or entirely on quantifiable and objective measurements, many of the other systems of PRR rely on the subjective judgement of a line manager. Since all individuals are unique, and different personal relationships and personalities inevitable, any subjective assessments of performance are likely to be influenced by many factors not directly related to the performance of the individual.

Where employees do not perceive equity in the operation of PRR, the success of PRR in assisting to achieve organisational objectives may be limited. In addition, explicit inequality in performance assessment can be divisive and demoralise employees. A successful performance based reward strategy therefore not only requires a well designed and carefully implemented system of PRR but requires committed and well trained managers who are capable of operating the system and who can be objective as possible when making assessments of performance.

The Purpose of Using PRR

The earlier part of this chapter focused on the objectives of using a system of PRR. Whilst it can be seen that the objectives can be many and varied, they all essentially relate to improving the work performance, or output of employees. In certain circumstances however, systems of PRR are often used for ulterior motives. Managers often use PRR not to reward employees according to their performance, but to assist with retaining key staff. In addition, where an employee is not eligible for promotion within an organisation, the system of PRR is often used to enable the individual to progress to the maximum of their pay scale in the shortest possible time period. Whilst PRR may be a useful method of achieving these ulterior motives, they tend not to be the reason for which systems of PRR are designed.

Excessive Bureaucracy

Whilst one characteristic of successful systems of PRR appears to be operational procedures which are straightforward to manage and monitor, many organisations design systems of PRR which are not only bureaucratic but are also difficult to understand. The complexities of such systems are not only difficult for the managers to comprehend, but are often outwith the understanding of the employee. In response to the criticism relating to the subjectivity of performance assessments, many organisations introduce complex performance appraisal systems which attempt to remove or at least minimise subjective judgements. In addition to these complicated methods of assessing performance, many systems of PRR incorporate intricate mechanisms which translate the performance assessment into an actual reward. Altogether, this increasing complexity and bureaucracy results in systems which are difficult to understand which in turn prove costly in terms of time and money.

Lack of Communication

Unless the objectives and operational details of the system of PRR are effectively communicated both to management and all other employees, there are likely to be problems regarding the use PRR. Firstly, it essential that everyone within the system of PRR is aware of their responsibilities. Without a comprehensive understanding of the operational aspects of the system, it is almost certain to fail. With regards to effective communication to employees, it is essential that

the employees are made aware of how the system operates and how it may affect them. This in turn will help to ensure that the perceived expectations of the employees are realistic and capable of being achieved. Should the expectations of employees be unrealistic as a result of misinformation or poor communication, the effects of PRR are likely to be negative.

Whilst there are several dysfunctional aspects relating to the operation of systems of PRR which may limit the success of PRR in assisting to achieve organisational objectives, a well designed system of PRR which is set within a carefully thought out performance management strategy can have a significant impact upon the performance of individual employees and the ultimate achievement of organisational objectives. As the Income Data Services (1989) state:

"Performance related pay is not a simple panacea for all the problems of an organisation. However, when carefully designed to meet particular circumstances and when set within a much wider context of performance management, it can act as a powerful agent for reinforcing organisational change and helping to improve efficiency and effectiveness. Whatever the pitfalls, the use of performance pay is likely to continue to increase."

2.9 PRR And Other Facets of Performance Management Systems

As mentioned earlier, PRR is not the only, or necessarily the best

method of motivating the workforce in an attempt to improve organisational performance. It was suggested that PRR may purely be an element of a broad performance management strategy aimed at the achievement of organisational objectives. As Neale [ed.] (1991) confirms, PRR is part of a long list of possible actions to improve human resource performance, it can play a part but is unlikely to be the sole means of gaining improved performance. The following are possible complementary management practices to PRR and whilst they are not directly related to remuneration, they are performance management strategies aimed achieving corporate objectives through at improved employee and organisational performance:

- * performance appraisal
- * scientific management
- * reducing worker fatigue
- * human relations management
- * management systems
- * work design

2.9.1 Performance Appraisal

Most authors who write on the topic of performance appraisal usually offer, in some form, a definition of performance appraisal. Pratt (1985) suggests that whilst most good managers, as part of a continual process, regularly assess and develop their staff, performance appraisal places an emphasis on a 'formal' system. He describes performance appraisal as:

"... a formal and systematic method of staff assessment and development... The key is on the formal part of the definition. Systems are formalised in that there are usually set procedures, documentation, etc."

It should be noted that other terms for performance appraisal include:

- Staff Reporting;
- Staff Assessment;
- Performance Review

A central feature to any performance appraisal system is the establishment of objectives against which the individuals performance is based (Anderson, 1986). At the beginning of the appraisal period, the individual is made aware of their performance objectives and reminded of the fact that their performance appraisal will be based on the accomplishment, or otherwise, of these objectives.

Within most performance appraisal systems, the appraisal of employees is normally carried out by each individual's immediate superior (Long, 1986). The advantage of this is that the immediate superior usually has the best knowledge of the individual's job content, objectives and overall performance. The main disadvantage of appraisal by an immediate superior is the issue of 'friendship'. With performance appraisal, it is quite possible for interpersonal relationships to bias performance rating, either positively or negatively (Lawler, 1983). It

is often impossible to see glaring deficiency in the performance of a friend although it is easy to exaggerate such a deficiency in the performance of someone who is not liked. Alternatives to this system of appraisal include (Torrington & Hall, 1987):

- appraisal by superior's superior (the grandfather appraisal);
- appraisal by personnel staff;
- appraisal by peers;
- appraisal by subordinates.

In addition, there are a further two methods of appraisal which can be used either independently of the above four methods, or can be used to complement them:

- self appraisal
- assessment centres

In order to carry out appraisals effectively, most systems contain the following three components:

Documentation

Forms for report and assessment together with relevant information and guidance. This component essentially serves as the focal point of most performance appraisal systems. Within report forms, different methods/techniques of assessment can be used including ranking, rating, forced choice rating.

Interview

The formal discussion of performance assessment between the appraiser and the appraisee. Such interviews are normally carried out at regular intervals, generally every year.

Follow-up

Some form of action resulting from the documentation and subsequent interview. Such action could involve training, regular problem-solving sessions, promotion, remunerative benefits or even disciplinary action. Continuous assessment is also part of the follow-up, this involves continual communication between the appraiser and appraisee regarding the work process, highlighting problems or praise.

The objectives of performance appraisal were examined by Gill (1977), the main ones being identified as:

- to assess training and development needs;
- to help improve current performance;
- to assess past performance;
- to assess future potential/promotability;
- to assist career planning decisions;
- to set performance objectives
- to assess increases or new levels of salary.

Overall, it would appear that the primary purpose of performance appraisal is to improve the efficiency of the organisation by maximising the utility of its human resources. In addition,

performance appraisal systems should benefit the individual by outlining their role within the organisation and by demonstrating the value of work done and the accomplishment of objectives.

2.9.2 Scientific Management

This approach to performance management was developed in the late nineteenth/early twentieth century by Frederick W Taylor (Taylor 1911). The approach of Taylor advocated that the performance of employees, and hence organisations could be improved by the introduction of scientific selection, education and development of workers (Buchanan & Huczynski, 1985). In addition, organisations should develop specific job descriptions, clearly established responsibilities, and systematic training programmes. Bilton et al (1982), in explaining the principles of scientific management suggest that left to their own devices, workers will do as little as possible and engage in 'systematic soldiering' - working more slowly together in order to keep management ignorant of their potential. Similarly, left to plan their own work, workers' output is further lowered - they will do things in the customary way rather than the most efficient way. The solution according to Taylor was to 'relieve' the workers of the necessity of planning their own tasks - the separation of manual and mental work. He claimed that management should specialise in organising work whilst the workers should specialise in doing the work. Taylor suggested that each job should be fragmented down into a series of tasks and the best possible way of performing each task identified. The workers should then be scientifically selected, educated and trained to perform one

specific task according to the way previously identified.

Scientific management therefore proposes that manual workers should become expert at performing one specific task within a job and that the whole job should be completed via a series of specialist 'task workers'.

Taylor essentially introduced what has become known as work study - the methodical study of work to devise the quickest and most efficient way of doing a job. Whilst scientific management can have beneficial results for the organisation as a whole in terms of increased production rates, less expensive training and lower basic wage levels, the effects on the individual workers must be considered. Task fragmentation results in work which is tedious and boring and leads to apathy, dissatisfaction and carelessness among workers. In the long run therefore, if scientific management is to result in the development of employee skills, improved employee commitment or high levels of performance, it must also take account of the feelings, attitudes, needs and desires of the employee.

2.9.3 Reducing Worker Fatigue

In the early 1920's, Elton Mayo and his colleagues from Harvard University focused on improving organisational performance by reducing employee fatigue. Mayo believed that if work fatigue was reduced, there would be a corresponding increase in employee performance. Accordingly, Mayo and his associates investigated the effect on

employee performance resulting from changes in ergonomic factors such as rest periods, temperature, humidity, lighting and catering arrangements (Bowey & Thorpe, 1987): Whilst it was found that employee performance was positively affected by changes in such ergonomic factors, the main finding of Mayo and his team was that employee job performance was effected more by the relationships between people than changes to any of the fatigue inducing factors that they had tested. Following on from the work of Mayo, there was considerable interest in 'human relations management' - the affect of human relationships on the performance of employees.

2.9.4 Human Relations Management

Fundamental to the whole approach of human relations management was the belief that conflict in the work situation was the basic cause of poor performance - it places an emphasis on people and their feelings and attitudes (Baird et al, 1990). Human relations management argued that in order to maintain high levels of performance, the relationships between management and the workers should be harmonious and friendly. Central to the human relations theory was the belief that within the workplace there were group norms and values which influenced the attitudes and behaviour of individuals. The aim of management was to use these group norms and values to their advantage by using them to fulfil the social needs of belongingness, involvement and commitment - this would assist in breaking down the 'barriers' between the workers and the management.

To improve performance therefore, managers should concentrate on management/worker communications aimed at smoothing out all conflicts and establishing sound, friendly and cooperative relationships between management and workers, and between the workers themselves (Storey, 1992). The emphasis therefore is on effective communications and harmonious relationships.

2.9.5 Management Systems

This approach to performance management suggests that in order to establish high levels of performance within an organisation, the management systems used within that organisation must be appropriate to its industry, technology and environment. The 'management systems' approach to performance management was investigated by Burns and Stalker (1961) in their studies of textile mills and electronic firms in Britain.

The belief is that whilst one management system may be successful in one organisation, it may not be successful in another, hence the management systems adopted must be appropriate to the requirements and characteristics of each organisation. For example, an organisation which is required to cope with rapid change and uncertainty will dictate an 'organic' management system based on loosely defined responsibilities and relationships, free communication, and cooperation across hierarchical and divisional boundaries. Such a management system is appropriate since it allows the organisation to have a flexible structure, capable of learning and adapting in response to

information and knowledge arising at any point within the organisation. On the other hand, some organisations require an alternative 'mechanistic' management system characterised by clearly defined duties, responsibility and authority, specified chains of command, and structured channels of communication. Such management systems are often required in organisations which are 'static' in the sense that they do not need to cope with rapid change or uncertainty. In addition, organisations which rely on rules and procedures for functional efficiency will also require 'mechanistic' systems of management.

Baird et al (1990) commenting on the work of Burns and Stalker suggest that their proposal was that the success, or otherwise, of an organisation depends on the nature of the organisation's management system and the environment in which it is operating. They state:

"The mechanistic organisation, characterised by rules, procedures, a clear hierarchy of authority and centralised decision making was more successful when the environment was predictable and stable, and less successful as the environment became unpredictable. The organic organisation, characterised by flexibility, decentralised decision making, and the absence of rules and procedures, was more successful in rapidly changing environments."

The management systems approach to performance management therefore emphasises the need for a management system appropriate to the demands and characteristics of the organisation.

2.9.6 Work Design

This is a wide ranging approach which attempts to improve employee and organisational performance by altering the context of jobs. The main performance management techniques within the approach of work design are:

- * Job Rotation
- * Job Enlargement
- * Job Enrichment
- * Quality Circles
- * Work Groups

Job Rotation:

If organisations adopt a scientific management approach to work design or are dependant on technological production lines, there is a high probability that employees will be performing routine, repetitive and mundane tasks for the majority of their working day. In such organisations, it is important that the problem of boredom and job dissatisfaction is overcome. One relatively simple solution to this problem is via the use of job rotation (Rawlins, 1992). Job rotation does not involve any changes to the job content or methods but involves the systematic movement of workers from one job to another at set intervals. For example, a worker employed on a car assembly line may spend a set interval such as an hour fitting doors, the next hour installing headlamps, the next hour fitting bumpers, and so on. Such

an approach alleviates the problem of monotony and boredom and is likely to reduce dissatisfaction whilst increasing employee performance.

Job Enlargement:

As the name suggests, job enlargement is concerned with increasing the amount of tasks performed by an employee. The central point of job enlargement is that it involves the horizontal expansion of a worker's job. Instead of performing one task repeatedly day in, day out, the employee will have a series of two, three, four or more tasks to perform as part of their job. The use of this approach could mean that instead of performing a fragmented task in a sub-assembly operation, the employee actually complete the whole assembly operation, thus giving the employee some satisfaction in completing a job, rather than only a part of it. In addition to possibly overcoming boredom/monotony, job enlargement reduces the dependency a worker may have on others who may control, the pace of a job and restrict an individual organising a job to meet his or her own needs (Torrington et al, 1991). For example, if the work involved assembling chairs, and the worker had previously only bolted the legs to the seat, job enlargement may involve the assembly of the whole chair including assembling the legs, attaching the back, and so on. Job enlargement may not only be used in situations which involve production lines but could also be used in any work area which is primarily monotonous and boring but will allow the expansion of job tasks. The effect of job enlargement on employee/organisational performance has been studied in several pieces

of research. The use of job enlargement in the Endicott plant of IBM in 1944 was examined by Walker (1950). Walker concluded that where the jobs of machinists were enlarged to include machine set up and inspection of finished quality, the result was improved product quality, less idle time for workers and machines, reduced scrap and a 95 per cent reduction in set up and inspection times. Job enlargement therefore seeks to improve performance by horizontally expanding a job and by doing so giving the worker a sense of achievement and satisfaction.

Job Enrichment:

The aim of this technique is to improve employee performance by increasing employee motivation through responsibility, recognition and achievement (Rawlins, 1992). The belief is that by giving an employee more control over their work, their job satisfaction will increase, they will be motivated and overall performance will improve. Job enrichment normally involves the vertical expansion of an individual's work, in that tasks or responsibilities which were formerly the responsibility of the individual's manager or supervisor are incorporated into the employee's job.

The phrase "job enrichment" was coined by the psychologist Frederick Herzberg who proposed a two-factor theory of motivation based on a series of motivators (see Chapter 3). Herzberg believed that in any job, there are characteristics of work which lead to satisfaction and motivation, he labelled these characteristics as motivators (Baird et

al, 1990). Herzberg's motivators include:

- * achievement
- * recognition
- * responsibility
- * advancement
- * growth in competence
- * work itself

According to Herzberg, the above motivators can be encouraged by job enrichment which could involve:

- * removing controls
- * increasing accountability
- * creating natural work units
- * granting additional authority
- * providing direct feedback
- * introducing new tasks
- * allocating special assignments

Overall, job enrichment is concerned with increasing the amount of worker autonomy in an attempt to improve motivation and performance through an increased sense of achievement, recognition, challenge and accomplishment.

Quality Circles:

A quality circle (QC) is a group of around five to ten specially trained workers from the same department, or doing similar work, who voluntarily meet on a regular basis to identify, investigate, analyse and solve their own work-related problems. As Evans (1990) suggests, QC's enable employees at the lowest levels in the organisation not only initiate ideas, but to communicate them upwards.

The basic aim of a quality circle is simple - a Circle Leader (perhaps a work-team supervisor) meets with their QC to tackle work problems with the objective being to improve quality and productivity. The initial expense of setting up QC's may be large and as a result, a firm commitment by senior management to the introduction of QC's is required - this also gives validity to the operation of any QC. Dessler (1983) gives many examples of the successful use of QC's in America where the introduction of QC's has led to savings, in many companies, of tens of thousands of dollars. In addition, whilst the primary aim of QC's may be to improve quality and productivity, the use of QC's to deal with work related problems, and problems with only remote connections to work, seems to improve morale, working relationships and overall job satisfaction.

Work Groups:

The principle behind the use of work groups is defined in Buchanan and McCalman (1989) when they quote Pehr Gyllenhammar, the President of

Volvo, who suggested that by ...

"...replacing the mechanical line with the human work group...employees can act in cooperation, discussing more, deciding among themselves how to organise the work and, as a result, doing much more".

Many similarities can be drawn between the use of work groups to improve employee performance, and the use of QC's. Both approaches are based on group interaction and communication, and the devolution of decision making and other responsibilities from supervisors or managers to individual work groups. The theory behind work groups is that by allowing groups of employees to discuss work related matters and make appropriate recommendations or decisions, their sense of achievement, job satisfaction and overall motivation will be improved.

2.10 Summary

To recap, performance related remuneration is a management strategy which may be used by organisations to help in the achievement of fundamental organisational objectives. The theory behind PRR is that specific forms of employee behaviour can be encouraged (or discouraged) through the provision or withdrawal of remunerative rewards. Such rewards could include an increased salary/wage, the provision of bonuses, commission, company car, subsidised catering, private health cover, housing assistance or share ownership plans. The central

feature of PRR is that an employee will only qualify for a remunerative reward if their individual, group or company performance reaches a pre-determined performance level. The workforce should therefore be motivated to at least reach such a performance level and in doing so, if the PRR system has been designed properly, assist in the achievement of various organisational objectives.

Whilst the main aim of any system of PRR is to improve organisational performance, this may not necessarily imply financial performance. Improved performance may also involve a measurement of customer service, efficiency/productivity or quality of product/service. An effective system of PRR should help to improve organisational performance by:

- * rewarding those employees whose performance is assessed to be of a high standard;
- * motivating all employees to perform well;
- * supporting a performance orientated approach to work;
- * encouraging the use of work systems appropriate to the organisation;
- * promoting forward planning and objective setting.

Whilst improved organisational performance may be the main objective of PRR, an effective system of PRR should also assist in the achievement of other corporate objectives. Such objectives may include:

- * assisting organisation change;
- * encouraging employee involvement;
- * attracting, recruiting and retaining appropriately skilled and qualified employees;
- * encouraging managerial flexibility over payment systems;
- * maintaining or establishing employee differentials.

It should be remembered that PRR is only one management strategy which can be used assist in the achievement of organisational objectives. It is likely that managers will not 'place all of their eggs in one basket' but instead may rely on a broader performance management strategy which may involve more than one method of improving organisational performance/achieving corporate objectives. Possible alternative or complementary management strategies include:

- * scientific management;
- * human relations management;
- * management systems;
- * work design (job rotation, job enlargement, job enrichment, quality circles, work groups).

When trying to achieve objectives, organisations could use one, all or any combination of the possible performance management strategies but it should be noted that what may be successful in one organisation may not be successful in another.

The success or failure of systems of PRR depends on the degree to which remuneration is effective in motivating employees to perform in a manner which is conducive towards the objectives of the organisation. Before examining how remuneration can be used to motivate employees, it is important to develop an understanding of the main theoretical approaches to the concept of motivation. The next chapter examines various theories of motivation under three headings - physiological theories, cognitive theories and social/behaviourist theories.

CHAPTER 3:

MOTIVATION AND PRR

3.0 MOTIVATION AND PRR

3.1 Introduction

Before examining the success or failure of Performance Related Remuneration systems in organisations over the past ten or twenty years, it will be beneficial to consider the general topic of employee motivation and try to assess the role of PRR in relation to the various motivation theories which exist.

Motivation is essentially an area of psychology which attempts to explain why people, or animals, behave in a certain manner. The study of motivation involves the examination of two aspects of behaviour. Firstly, motivation is concerned with the influences which cause specific actions in humans - the direction of behaviour. In addition, motivation also involves consideration of the intensity or strength of behaviour. Although humans can be motivated to act in a similar fashion, the degree of effort or commitment can vary enormously. For example, two students can be motivated to study, by the prospect of potential exams, but the degree or intensity of the behaviour can differ between the two students. Motivation is therefore concerned with both the direction and intensity of behaviour - what causes specific actions, and what determines the intensity of such action.

Throughout the twentieth century, there has been much written by social scientists on the subject of motivation. The theories which have emerged are many and varied, and often conflicting if not contradictory. Several names stand out within the psychological

theories of motivation such as Maslow, Herzberg, McGregor, Tolman, Hull, Locke, Watson and Pavlov. The objective of this literature review is to examine and evaluate some of the theories of motivation and relate them to the application of the basic principles of motivation to workplace situations, this area of motivation being known as employee motivation. Employee motivation is essential in any workplace if the goals and objectives of the organisation are to be fulfilled. At a basic level, a well motivated workforce will contribute more to, and help to guarantee, the profitability and success of the organisation. However, it is not only the organisation which will benefit; a well motivated employee is more likely to be satisfied and fulfilled within their organisational role. The responsibility for employee motivation lies with group or team leaders, often the supervisor or manager. Whilst some methods of motivation may be outwith their control, supervisors and managers are in the best position to motivate their staff on a day to day basis.

In order to examine some of the motivation theories, it is useful to categorise the various theories into three schools of thought: physiological theories; cognitive theories, and; social/behaviourist theories.

The *physiological theories* are based on the assumption that humans have a set of innate needs or drives and that these needs or drives constitute the biological determinants of our behaviour. Such theories suggest that humans are motivated to act in a specific way in an attempt to satisfy or fulfil a series of innate needs. These needs are with us when we are born and remain with us throughout life. The

suggestion from the physiological theorists therefore is that human beings merely react to their innate needs and will act in such a way that these needs will be satisfied. Such an approach can be described as passive-reactance, reacting in an automatic fashion to the innate drives which are present at any point in time. Social scientists associated with physiological motivation theories include Maslow, Herzberg, McGregor, Alderfer and McClelland.

In contrast to the physiological theories, the *cognitive theories* suggest that motivation is an active response by humans to factors both inside and outside the individual. The cognitive theories stress that motivation results from a conscious assessment of the effort and subsequent implications of certain actions. Cognitive theories propose that individuals will only perform specific actions once they have undergone a rational process of reasoned judgements of such actions, there is therefore an emphasis on the conscious and purposive nature of behaviour. The social science theorists identified with cognitive theories of motivation include Vroom, Lewin, Locke, Heider, Kelly and Tolman.

Social/behaviourist theories form the third school of thought and draw together two approaches to motivation: social theory and behaviourist theory. The base for these theories is the assumption that humans are motivated by external factors, the environment. The suggestion is that our actions are reflexive and instinctive and are the response to a specific stimulus or group of stimuli from the outside environment. The behaviourist theory places great emphasis on the effect of learning and reinforcement, and as a result the behaviourist theory of

motivation is closely connected to the psychological theories of learning and reinforcement. The social theorists are primarily concerned with the effect of society on the behaviour and actions of individuals. As a result, the social theorists are especially interested in the interaction between individuals and groups and the effect of society on behaviour. Bringing both approaches together, the social/behaviourist theories of motivation are concerned with the effect of the environment on the behaviour of individuals and place a specific emphasis on the effect of social interaction. Social scientists which can be associated with the social/behaviourist theories of motivation include Lawler, Watson, Taylor, Thorndike, Pavlov and Skinner. To be able to draw some conclusions about the importance and effect of motivation, especially in the workplace, it is necessary to examine each approach to the subject of motivation and assess their value and worth.

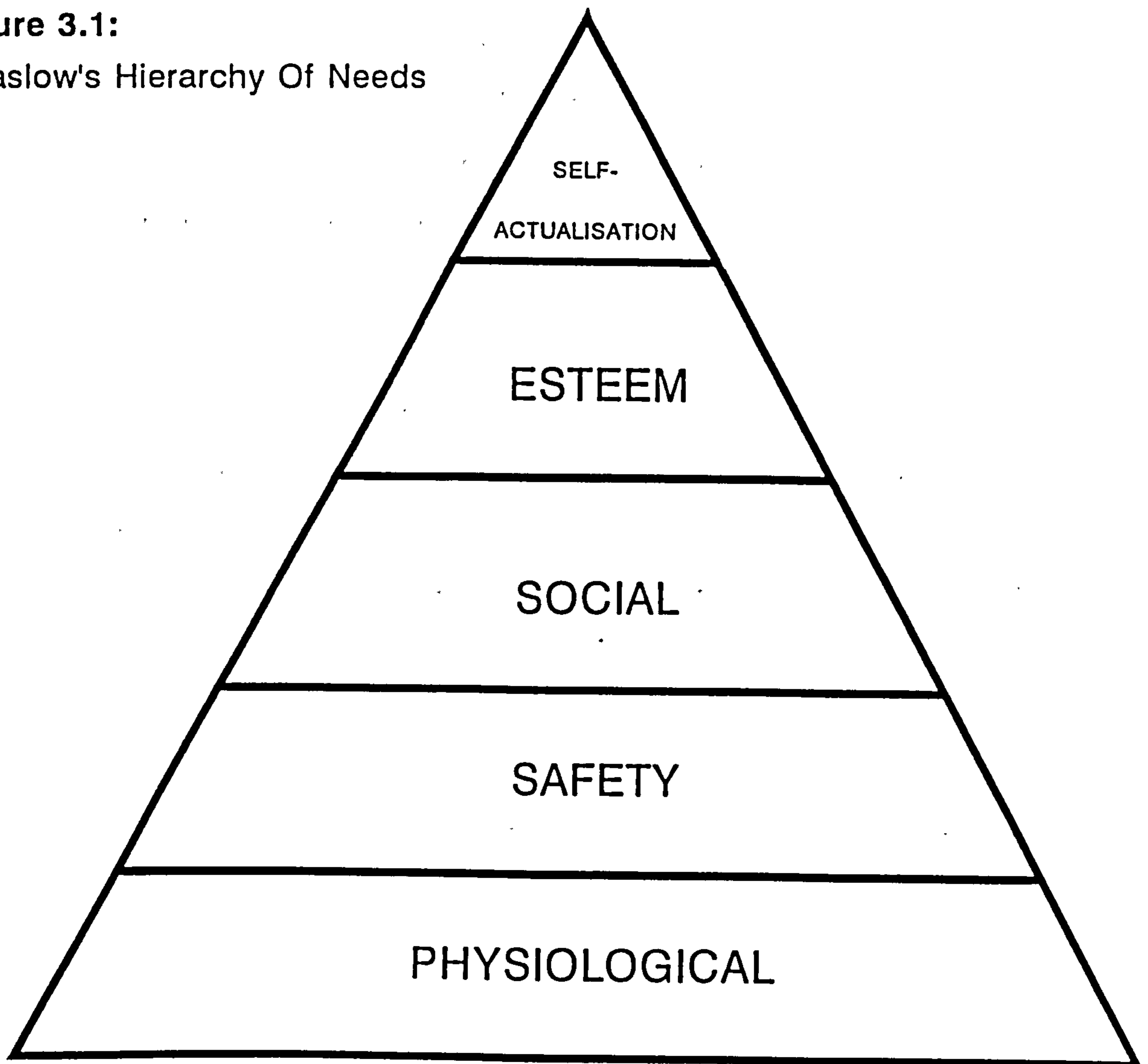
3.2 Physiological Theories:

3.2.1 A.H. Maslow

Perhaps the best known physiological theory of motivation is the 'Hierarchy of Needs' theory developed by Abraham H. Maslow. The theory suggests that each individual has a series of innate needs. If such needs are unfulfilled then the individual will be motivated to act in a specific manner in an attempt to gratify these unfulfilled needs. It should be noted that Maslow is concerned with needs and not wants. He advocates that all individuals have a set of human needs which are

prioritised on an ascending scale, primary needs dealing with physiology and safety, and secondary needs dealing with the psychological aspects of human existence - Maslow's hierarchy of needs. These needs in ascending order are: physiological, safety, social/love, esteem, and self actualisation, see Figure 3.1.

Figure 3.1:
Maslow's Hierarchy Of Needs



Physiological Needs: these are primary biological needs related to survival such as hunger, thirst, sleep and sex. Once these needs are satisfied, the safety needs emerge. Maslow suggest however that it is pointless trying to categorise all of the physiological needs because the list could be endless depending on how one defines the necessary requirements for survival. As Maslow (1970) states:

"It seems impossible as well as useless to make any list of fundamental physiological needs, for they can come to almost any number one might wish, depending on the degree of specificity of description."

Maslow views the physiological needs as the most important group of needs since an individual who is "missing everything in life in an extreme fashion" (Maslow, 1970) is likely to be motivated by the physiological needs, such as hunger and thirst, more than any other need.

Safety Needs: these needs are concerned with physical and psychological freedom from danger. Maslow (1970) categorises the safety needs as:

The need for ..."security; stability; dependency; protection; freedom from fear, from anxiety and chaos; need for structure, order, law limits; strength in the protector; and so on".

Maslow (1970) does however suggest that in a "smoothly running, stable, good society" the average individual does not have any real safety needs as motivators since the safety needs would only become apparent when there was a societal breakdown or where an individual had a mental problem or was an economic or social underdog. When the safety needs are satisfied, in whatever manner, motivation comes from social needs.

Social Needs: these needs, sometimes known as love needs or belongingness needs, refer to the needs for friendship, love, and acceptance/belongingness to a group. Maslow (1970) suggests that when a person's social needs are not satisfied...

"He will hunger for affectionate relations with people in general, namely, for a place in his group or family, and he will strive with great intensity to achieve this goal ...he will feel sharply the pangs of loneliness, of ostracism, of rejection, of friendliness or rootlessness".

Esteem Needs: if the previous three sets of needs are satisfied, then the need for esteem emerges. Esteem needs refer to the requirement to develop and maintain self-respect, respect from others, status and recognition. Maslow (1970) classifies the esteem needs into two subsidiary sets:

"First, the desire for strength, for achievement, for adequacy, for mastery and competence, for confidence in the face of the world, and for independence and freedom. Second, we have what we may call the desire for reputation or prestige, status, fame and glory, dominance, recognition, attention, importance, dignity or appreciation..... Satisfaction of the self-esteem need leads to feelings of self-confidence, worth strength, capability, and adequacy, of being useful and necessary in the world."

Self-Actualisation Needs: assuming that the first four categories of needs are satisfied, the need for self-actualisation surfaces. Self actualisation can be described as the need to fulfil ones potential. It is not concerned with the opinions or views of others but is only concerned with satisfying oneself that one is doing the best that they can - reaching what they believe to be their full potential. Maslow (1970) defines self actualisation as, "the desire to become more and more what one is, to become everything that one is idiosyncratically capable of becoming".

Whilst many writers (such as Smith, 1989; Rawlins, 1992; Baird et al, 1990) describe Maslow's hierarchy as having these five groups of needs, Maslow actually proposes that there are an additional two sets of needs which are "immediate prerequisites" (Maslow, 1970) for the satisfaction of the other five sets of needs. These needs are the need for freedom of speech and inquiry, and the need to know and understand.

The Need for Freedom of Speech and Inquiry: Maslow suggests that in order to satisfy the five groups of needs outlined above, it is necessary for the individual to have the freedom to express themselves, the freedom to investigate and seek information, and the freedom to encourage justice, fairness and honesty.

The Need to Know and Understand: Like the need for freedom of speech and inquiry, Maslow suggest that if the physiological, safety, social, esteem and self-actualisation needs are to be fulfilled, the individual must have the freedom to gain knowledge and understand. Maslow (1970) defines this as: "A desire to understand, to systemise, to organise, to analyse, to look for relations and meanings, to construct a system of values". Maslow (1970) stresses the importance of such conditions "since without them the basic satisfactions are quite impossible, or at least, severely endangered".

With regards to the hierarchical structure of his theory, Maslow suggests that individuals begin by trying to fulfil the lower needs (physiological) and only once these needs are satisfied will the individual be motivated to fulfil the next set of needs (safety). Such a procedure continues up the hierarchical structure with the fulfilment of one set of needs opening up the desire to fulfil another set of needs. Maslow believed, however, that very few people manage to satisfy the highest set of needs (self actualisation).

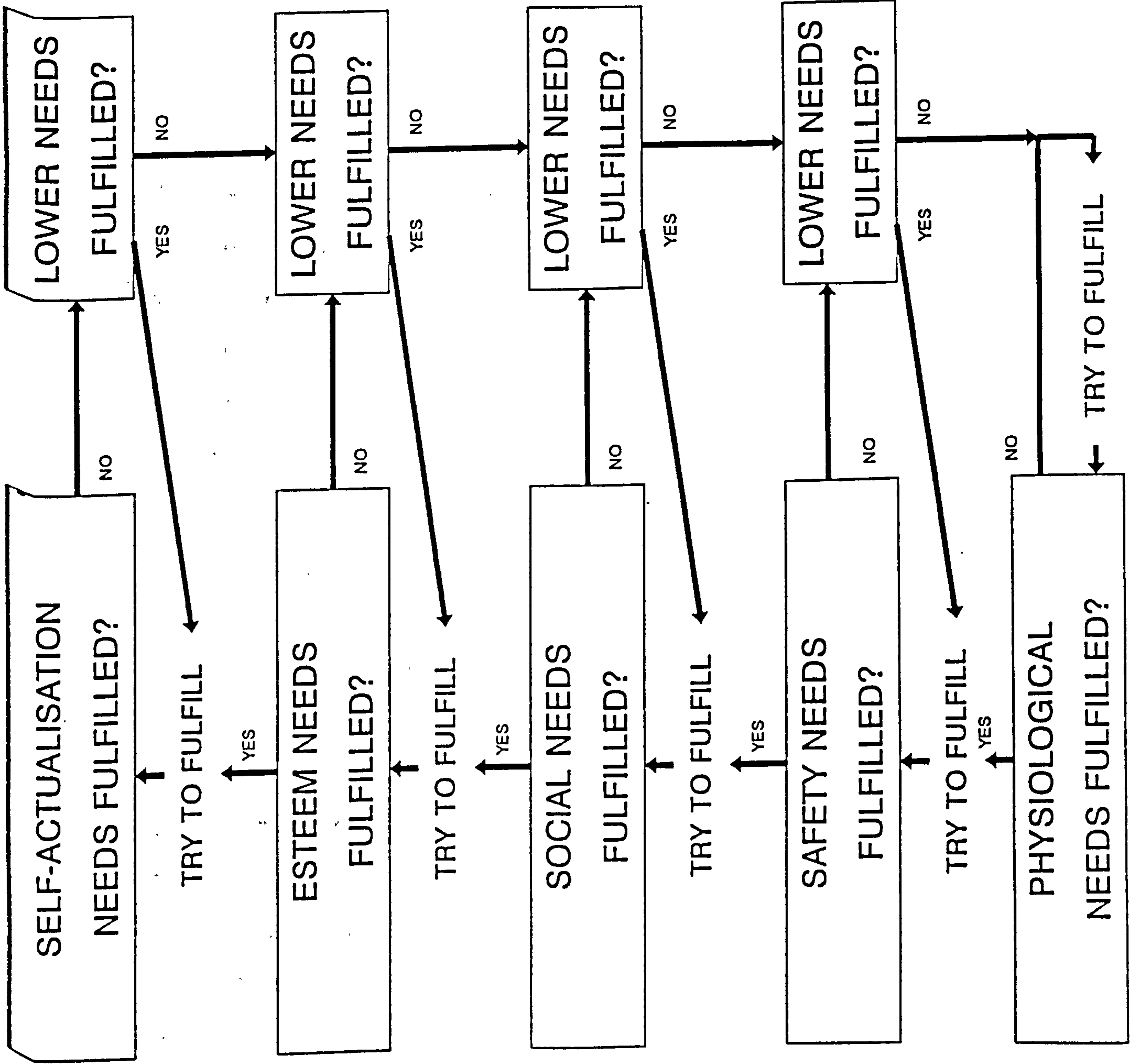


Figure 3.2:
Maslow's
System

It should be noted that the ascending scale is not a one way process - if lower needs become unfulfilled, then the individual will revert back to being motivated by the lower set of needs. Maslow did not believe, however, that his hierarchy would apply rigidly to all individuals. He believed that some individuals would try to fulfil higher needs at the expense of not fulfilling lower needs. The structure and systems of Maslow's Hierarchy of Needs might be summarised as in Figure 3.2.

3.2.2 F.W. Herzberg

The 'Two Factor Model' of motivation developed by Frederick W. Herzberg is essentially concerned with explaining motivation at work - employee motivation (Herzberg et al, 1959). Herzberg and his colleagues performed a study in an attempt to develop a theory of employee motivation by determining "What people want from their jobs". The investigation centred on approximately 200 accountants and engineers in the Pittsburgh area of the U.S.A. Engineers and accountants were selected for the study since it was found that managerial and professional people such as these were able to give exceptionally vivid accounts of their work experiences (Herzberg et al, 1959).

Following the investigation, Herzberg concluded that there were two sets of important influencing factors which affected employee behaviour at work - dissatisfiers (or hygiene factors) related to the context of jobs and satisfiers (or motivators) related to the content of jobs. As Herzberg et al, 1959 state:

"When our respondents reported feeling happy with their jobs, they most frequently described factors relating to their tasks, to events that indicated to them that they were successful in the performance of their work, and to the possibility of professional growth. Conversely, when feelings of unhappiness were reported, they were not associated with the job itself but with conditions that surround the doing of the job."

Dissatisfiers (or hygiene factors) are therefore elements related to the context of jobs which do not result in the individual being satisfied but merely prevent the individual from being dissatisfied - they must be correct/appropriate to avoid dissatisfaction. Examples of hygiene factors include working conditions, salary, supervision, status, security, personal life, relationships with peers, relationships with supervisors, relationships with subordinates, and company policy and administration. Since most of these factors can be classed as being extrinsic to the individual, avoidance of dissatisfaction should be relatively simple. A central feature of Herzberg's theory is that although an organisation may have appropriate hygiene factors for each employee, such a situation will not motivate the employee but merely remove the barriers to motivation - the dissatisfiers. As Herzberg (1959) states:

"Improvement in these factors of hygiene will serve to remove the impediments to positive job attitudes. When these factors deteriorate to a level below that which the

employee considers acceptable, then job dissatisfaction ensues. However, the reverse does not hold true. When job context can be characterised as optimal, we will not get dissatisfaction, but neither will we get much in the way of positive attitudes."

It is therefore essential that the hygiene factors are correct before the motivators can have any effect - if there is any dissatisfaction then the individual cannot be motivated. The hygiene factors of Herzberg tend to reflect stages one, two and three of Maslow's Hierarchy of Needs.

The satisfiers (or motivators) are those factors within the workplace which resulted in the individuals being satisfied at work. The workers are therefore motivated by such factors since they lead to satisfaction. Examples of motivators could be achievement, recognition, responsibility, advancement, growth and the work itself. Such factors are essentially intrinsic to the individual and can therefore be difficult to satisfy. Herzberg views the satisfiers as elements related to the content of jobs which allow the individual employee to develop their occupation as a source of personal growth. He therefore suggests that employees will be motivated by such factors as they allow them to satisfy the need for self-actualisation. The satisfiers or motivators reflect to a certain extent stages four and five in Maslow's Hierarchy of Needs, esteem and self-actualisation.

3.2.3 D. McGregor

Douglas McGregor is perhaps best known for his analysis of motivation at work (McGregor, 1960). The base for McGregor's theory on motivation is the belief that there is a direct correlation between the way managers treat their workers and worker motivation. According to McGregor, managers can have two views on worker's attitudes to work - one which will result in low levels of motivation (Theory "X"), and one which will result in higher levels of motivation (Theory "Y").

Theory "X" is an elitist management approach where workers are treated with little or no respect with an emphasis on control, discipline, conformity, obedience and dependence. According to the theory, the attitude of managers towards workers is based on the following beliefs (Evans, 1990):

1. The average human being has an inherent dislike of work, and will avoid it if he can.
2. Because of this human characteristic dislike of work, most people must be coerced, controlled, directed, threatened with punishment to get them to put forth adequate effort toward the achievement of organisational objectives.
3. The average human being prefers to be directed, wishes to avoid responsibility, has relatively little ambition and wants security above all.

Overall, McGregor's Theory "X" is patronising and makes no allowance for worker individualism, ambition or autonomy. At this point, a cautionary note should be emphasised: if you treat people as if they are dumb, rebellious, easily led, lazy, and feel the need to control them and form them into submission, they may come to believe that they are inferior, and furthermore, they will almost certainly rebel against such treatment.

Theory "Y" approaches employee management from an entirely different viewpoint from that of Theory "X". Indeed, where Theory 'X' is based on aspects of management such as discipline and control, Theory 'Y' emphasises decentralisation, delegation, participation and consultation. The main characteristics of the Theory 'Y' approach to management can be summarised as follows (Evans, 1990):

1. The expenditure of physical and mental effort in work is as natural as play or rest.
2. External control, and the threat of punishment are not the only means of bringing about effort towards organisational objectives. People will work, and discipline themselves in the service of objectives to which they are committed.
3. People are committed to objectives in proportion to the rewards associated with achieving the objectives.
4. The average human being learns, under proper conditions, not only to accept but to seek responsibility.

5. The capacity to exercise a relatively high degree of imagination, ingenuity, and creativity in the solution of organisational problems is widely, not narrowly, distributed in the population.
6. Under the conditions of modern industrial life, the intellectual personalities of the average human being are only partially utilised.

Overall, Theory 'Y' advocates participative management and suggests that in order to motivate workers, it is necessary to allow them to use their abilities and skills within the workplace, because by doing so, they will feel involved as an integral part of the organisation.

3.2.4 C.P. Alderfer

The E.R.G. (Existence, Relatedness, Growth) approach to motivation adopted by Clayton P. Alderfer suggests that people are motivated to act in a specific manner in an attempt to bring about individual satisfaction. Alderfer (1972), defines satisfaction as, "the outcome of an event between a person and his environment. It refers to the internal state of a person who has obtained what he was seeking".

Such satisfaction depends on the fulfilment of three sets of innate needs: existence, relatedness and growth. Whilst these needs are innate, the E.R.G. theory adopts an 'open system' in that individuals are constantly interacting with the environment which in turn affects their behaviour.

Existence needs are essentially concerned with survival and hence are related to material and physiological factors. Examples of existence needs include hunger, thirst, and in the employment field, pay, fringe benefits and working conditions. Relatedness needs recognise that people do not live in a self-contained vacuum but engage in relationships with other people and groups within society. Accordingly, individuals are motivated to seek satisfaction in their social relationships and will behave in such a manner that their relatedness needs will be fulfilled. Relatedness needs are therefore concerned with social processes such as sharing, acceptance, confirmation, understanding and influence. Growth needs essentially refer to creating the optimum use of existing capacities, and the development of new capacities. Satisfaction of growth needs depends on the individual developing to their full potential, as Alderfer (1972) suggests, "satisfaction...depends on a person finding the opportunities to be what he is most fully and to become what he can".

The E.R.G. theory developed by Alderfer has some similarities with Maslow's Hierarchy of Needs: the existence needs correspond closely with Maslow's physiological and safety needs; the relatedness needs correspond to the social/love needs, and; the growth needs correspond with Maslow's esteem and self-actualisation needs. Although these similarities exist, Alderfer, unlike Maslow does not suggest a rigid hierarchical structure and does not propose that only one set of needs can be present at any time.

Overall, Alderfer's E.R.G. theory of motivation is based on the satisfaction of three sets of needs, existence, relatedness, and

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3.2.5 D.C. McClelland

The theory of motivation developed by David C. McClelland is based on the assumption that individuals have three innate needs which are of primary importance (McClelland, 1961):

1. The need for achievement (n.ach), described as the need for competitive success and high standards of personal excellence.
2. The need for affiliation (n.aff), described as the need for warm, friendly and compassionate relationships with other individuals/groups.
3. The need for power (n.pwr), described as the need to control or influence others.

According to McClelland, all individuals have each of these needs although the level or intensity of the needs varies between each person. Some people can therefore have a high level of n.ach and low levels of n.aff and n.pwr, whilst others have a high level of n.aff and low levels of n.ach and n.pwr. McClelland applies his theory to the field of management and suggests that a high n.ach is important for junior and middle management jobs whilst senior management jobs require a high n.pwr. According to McClelland, a high n.aff is not helpful at any level of management.

Overall, the motivation theory developed by McClelland is based on the desire to fulfil three innate needs (n.ach, n.aff, and n.pwr) which are present in differing extents in all individuals. The relationship between the three needs has important implications within management careers.

3.3 Evaluation of Physiological Theories

The central feature, and main strength of the physiological theories of motivation is that they identify a basic motivational influence on every individual - their innate needs. It is clear that the behaviour of all human beings, irrespective of their age, sex or cultural background, is influenced by the presence of innate needs - they are motivated to satisfy or fulfil their natural physiological needs. The set of needs present in any individual, at any point of time is unique to that person and depends on such factors as their physiological state, age and their rate of growth. Physiological needs could include hunger, thirst, safety, belongingness and self-fulfilment.

The main criticism of the physiological theories is that they rely entirely on passive reactance to innate needs and make no allowance for the influence of rational cognitive decisions or the effect of societal and environmental factors. There is no suggestion that individuals can be motivated by any other factor apart from physiological needs such as societal pressure or the value judgements taken when arriving at a decision.

3.4 Physiological Theories and PRR

Since the physiological theories of motivation are based on the presence of a set of innate needs within each individual, a system of Performance Related Remuneration could only serve to improve or increase employee motivation if the provision of additional aspects of remuneration would assist in the satisfaction of these innate needs. With reference to Maslow's Hierarchy of Needs, for example, remuneration could help to satisfy needs in each level of the hierarchy. At the lowest level, remuneration in the form of cash could help to satisfy the hunger needs. At the second level, remuneration again in the form of cash could help to satisfy safety needs by purchasing safety equipment such as a burglar alarm. In each level of the hierarchy, it is therefore possible that remuneration could assist in the fulfilment of certain needs.

In Herzberg's Two Factor Model of Motivation, remuneration is not considered to be a motivating factor, indeed it is a factor which requires to be appropriate in order to avoid dissatisfaction. Herzberg does however agree that remuneration can play a role in successful motivational schemes. As Herzberg (1959) comments:

"Reports on the Lincon Electric Company of Cleveland, Ohio and the George A. Hormel meat-packing plant at Austin, Minnesota, suggest good examples of the efficacy of money incentives for increasing production, job satisfaction, and company loyalty. [In such systems,] money earned as a direct reward for outstanding individual performance is a

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3.5 Cognitive Theories

As stated earlier, the cognitive theories of motivation are based on the assumption that the behaviour of individuals is determined by a process of conscious and rational evaluations of the outcome and value of such behaviour. The cognitive theorists therefore emphasise the thinking, judging and rational processes which take place prior to action.

3.5.1 E.C. Tolman

One of the earliest cognitive theories to emerge was formulated by Edward C. Tolman, an American psychologist. Tolman proposed an 'Expectancy Theory Of Motivation' (Buchanan & Huczynski, 1985). This theory suggests that the behaviour of individuals is not based on needs or drives but is determined by the presence of goals and the probability or expectancy that their behaviour will lead to the attainment or achievement of these goals. Geen, Beatty and Arkin (1984), suggest that Tolman's Expectancy Theory of Motivation is based on the assumption that, people are not driven by deprivations and needs but rather are guided to important goals by perceptions and cognitions.

Tolman argues that the behaviour of individuals is determined by their expectations of the consequences of such behaviour. Individuals will behave in a specific manner once they have established that there is a high expectancy that such behaviour will have desired results such as the attainment of goals. According to Tolman therefore, individuals

form a mental association between behaviour and the outcome of behaviour. Such associations generate expectancies that certain behaviour will result in certain outcomes. In contrast to the physiological theories of motivation which adopt a universalistic approach where the assumptions of the theories apply to everyone, the expectancy theory developed by Tolman allows for individual motivation and the influence of society.

3.5.2 V.H. Vroom

Victor H. Vroom supported the Expectancy Theory approach of Tolman but developed the idea further and in addition to the concept of expectancy, introduced the notions of valence and instrumentality. The base for Vroom's theory is analogous to Tolman's expectancy theory - that individuals will behave in a specific way when there is a high expectancy that such behaviour will result in a desired outcome. As Vroom (1964) states, "an expectancy is defined as a momentary belief concerning the likelihood that a particular act will be followed by a particular outcome".

The second aspect which Vroom introduces to his theory is the concept of valence. Valence essentially refers to the value of outcomes or goals. According to Vroom, outcomes can be positively or negatively valent. We can value some outcomes highly and hence desire them (positive), or we can value outcomes lowly and try to avoid them (negative). The valence of outcomes or goals have potential valence - we believe that certain behaviour will result in certain outcomes with a specific value even although the reality may be different. We now

therefore have the concepts of expectancy and valence as being part of a cognitive process affecting motivation - we are motivated by the fact that we expect specific behaviour to result in specific outcomes and that such outcomes will have a degree of valence. Buchanan and Huczynski (1985), commenting on the work of Vroom suggest that behaviour depends on the outcomes that an individual values, and the expectation that a particular type of behaviour will lead to those outcomes.

The third aspect to be introduced by Vroom is the concept of instrumentality. Vroom suggests that in addition to expectancy and valence, the behaviour of individuals is influenced by the degree to which additional desired goals can be attained as the direct result of such behaviour. Whilst expectancy and valence are concerned with how behaviour results in one specific outcome or goal, instrumentality is concerned with how additional goals are attained as the result of such behaviour, a by-product or bonus. Vroom therefore proposes that the behaviour (or motivation) of an individual depends on a cognitive process which evaluates:

- a) the expectancy that specific behaviour will result in the attainment of a specific goal;
- b) the value of the desired goal, and;
- c) the degree to which such behaviour is instrumental in the attainment of other additional goals.

3.5.3 F. Heider & H. Kelly

The 'Attribution Theory Of Motivation' was developed by Harold Kelly who drew upon the pioneering work of Fritz Heider. Kelly suggests that our behaviour is influenced by a cognitive process which tries to relate the past behaviour of ourselves, and others, to specific causes - what were the causes behind specific behaviour?. The attribution theory is therefore concerned with how we attribute explanations, or causes, to specific events or behaviours. Kelly argues that it is such attributions which influence or motivate our future behaviour. As Geen, Beatty and Arkin (1984) suggest, "attributions refer to the perceived causes for the outcomes of behaviour, with implications for the motivation of future behaviours".

Kelly believes that we can explain behaviour by internal attributions or external attributions. The internal attributions involve explaining actions or behaviour as the result of something inside the actor such as personality, mood, intelligence or disposition. External attributions involve explaining actions or behaviour as the result of something external to the actor such as the weather or society. Our attributions of behaviour also depend on three sources of information;

Consensus: this information tells us whether or not the behaviour is characteristic of the immediate social group. Do most people behave this way (the situation causes the action) or is the behaviour uncharacteristic of the immediate social group (something inside the actor causing the behaviour).

Consistency: such information can tell us whether or not the behaviour is characteristic of the person. Do they normally behave like that or is there something causing uncharacteristic behaviour.

Distinctiveness: this information makes it possible to assign certain factors (people/situations/things) as being the specific causes of behaviour. If an individual behaves in a similar manner in most situations, or towards most people/things then the action is not distinct. If however, an individual acts in a specific manner in certain situations, or towards certain people/things then the behaviour can be described as being distinctive.

Kelly's attribution theory therefore suggests that behaviour is motivated by the reasons/causes we attribute to previous forms of behaviour.

3.5.4 K.A. Lewin

The 'Phenomenal Field Theory Of Motivation' owes much of its development to Kurt A. Lewin (Lewin & Cartwright, 1951). Lewin suggests that each individual has a phenomenal field where everything of which we are conscious at any time, every thought, feeling, percept, memory, falls into a pattern of consistent organisation and whenever anything disrupts the organization of the field, a state of tension is set up inside the person, and this tension prods the person into taking action to restore organization.

Lewin therefore believes that the sum of our consciousness makes up our phenomenal field and that we are motivated at all times to keep this field as consistent as possible. If there is any tension or irregularities in the field then we will be motivated to seek goals which reduce and resolve the tension. Such goals therefore have to be attainable and consistent with our phenomenal field.

3.5.5 E.A. Locke

The 'Goal Theory Of Motivation' developed by Edwin A. Locke suggests that individuals are motivated when they are set specific goals (Locke & Latham, 1984). The goal theory is therefore primarily concerned with employee motivation. Participation in goal setting is essential as is feedback on performance. Locke proposes that motivation, and corresponding performance is best when goals are difficult but based on agreement. Overall, the important aspects of Locke's goal theory are:

- a) the setting of difficult goals;
- b) participation in goal setting, and;
- c) feedback on performance with guidance and advice.

The goal theory of motivation is similar to the concept of management by objectives where the assumption is that employees can be motivated by managers setting specific objectives.

3.6 Evaluation of Cognitive Theories

The main strength of the cognitive theories of motivation is that they identify the importance of conscious rational decision making as a factor which influences behaviour. The suggestion is that before individuals behave in a certain manner, they make a conscious decision as to the likely outcome and perceived value of such behaviour. Before buying a car, for example, the individual will make a decision based on their requirements of the car, the cost, the availability of alternatives, and so on. It is only after such a rational process that the individual will behave in a specific manner - to buy, or not to buy the car. The cognitive theories suggest that all human behaviour follows such a cognitive process - this is where the weakness of the cognitive theories can be identified. The cognitive theories take no account of reflexive or impulsive actions and therefore do not allow for the presence of innate needs. Cognitive theories must therefore explain reflexive/instinctive actions such as falling asleep.

3.7 Cognitive Theories and PRR

Since the central feature of the cognitive theories is a rational and conscious process which evaluates the outcome of actions, a system of Performance Related Remuneration will only be useful if the provision of remuneration is valued highly. Each of the cognitive theories, for example, Tolman's Expectancy Theory of Motivation and Vroom's Expectancy, Valence and Instrumentality Theory of Motivation, suggest that individuals are motivated by the outcome of specific actions -

such outcomes being assessed by a rational and conscious process. If the outcome of an action is considered to be valuable, such behaviour will be repeated. If however, the outcome of an action is not considered to be valuable, or not valuable enough, the behaviour will tend not to be repeated.

The importance of cognitive theories in relation to the use of PRR is the value of remuneration to the individual. If the individual values remuneration highly, be it in the form of cash or some other remunerative benefit such as a company car, they will be motivated to behave in a way that remunerative benefits will be received. If however the individual does not value remuneration highly, they will not be motivated by the offer or lure of remunerative benefits.

3.8 Social/Behaviourist Theories:

The social/behaviourist theories explain motivation by referring to factors outside the individual. This is in sharp contrast to the physiological theories which are based on innate or internal needs, and the cognitive theories which emphasise the cognitive process of rational thinking and reasoning internal to the individual. The social/behaviourist theories therefore suggest that the causes of behaviour (motivation) are outside the organism, in the environment and that all of man's behaviour is therefore determined by, and is solely a product of, factors external to him in his environment.

The behaviourist approach to motivation cites reinforcement of behaviour as being the external influence determining motivation whilst the social approach specifies social interaction and social demands as being the source of human motives.

3.8.1 J.B. Watson/E.L. Thorndike/I. Pavlov/B.F. Skinner

The behaviourist approach to psychology, including motivation, owes much of its development to the influence of John B. Watson. Watson believed that the behaviour of humans, and animals, was directly determined by their interaction with the external environment. According to Watson, behaviourism can be defined as:

"...that division of natural science which takes human behaviour - the doings and sayings, both learned and unlearned, of people as its subject matter (and) attempts to formulate, through systematic observation and experimentation, the generalisations, laws and principles which underline man's behaviour." *Gillham (1981)*

Behaviourism therefore attempts to explain human behaviour by reference to influences in the external environment. One of the earliest psychologists to formulate a behaviourist theory was Edward L. Thorndike who studied the relationship between animal behaviour and the environment. Although his research was based on the behaviour of animals, his conclusions have subsequently been applied to human behaviour.

The principle developed by Thorndike was 'The Law Of Effect'. Thorndike proposed that the behaviour of animals was directly affected by the consequences of such action. In particular, he argued that if specific behaviour was followed by rewards then the actions are more likely to be repeated. Conversely, behaviour which was followed by punishments tended not to recur. Rewards therefore have a positive affect, encouraging specific behaviour, whilst punishments have a negative affect, discouraging specific behaviour. Such a conclusion reflects the doctrine of hedonism which suggests that our behaviour is determined by the search for pleasure and the avoidance of pain. Thorndike's law of effect lays a heavy emphasis on the concept of reinforcement - maintaining specific forms of behaviour by reinforcing consequences, be they positive or negative. It is this concept of reinforcement which remains central to the behaviourist theory of motivation. Further work on reinforcement will be examined later.

The work of Thorndike also plays an important part in the psychology of learning in that future behaviour is influenced to a great extent by the way we learn, and pay attention to, the likely consequences of specific behaviour from previous experiences. A central feature to Thorndike's law of effect is his belief that the relationship between behaviour and the environment is a simple one. He suggests that animals, or humans, react in an automatic fashion to the consequences of behaviour.

"Thorndike saw the effects of rewards and punishments not as something his subjects thought about, but as an automatic strengthening or weakening of responses by their consequences - that is by the environment." *Mook (1987)*

Overall, Thorndike proposes that human behaviour is motivated by the extent to which past actions have been rewarded or punished. The law of effect therefore laid the foundations for a stimulus-response framework within the psychology of learning/motivation. Such a framework was developed by Watson and is based on the assumption that behaviour is regarded as a series of responses to specific stimuli and that the relationship between a stimulus and response can either be strengthened (by rewards) or weakened (by punishments).

The stimulus-response concept has been examined further by two psychologists within the behaviourist tradition, Ivan P. Pavlov and Burrhus F. Skinner. These two psychologists differentiated between two types of responses: respondents and operants.

Respondents can be described as responses which are elicited by a specific stimulus. Such responses are therefore reflexive and are caused by identifiable stimuli. Whilst inbuilt reflexes can be classed as respondents, such as leg withdrawal from a pinprick, additional respondents were identified by Pavlov in his experiments of classical conditioning. As a result of his experiments, Pavlov could, in certain situations, attach a specific response to a particular stimulus. His most famous experiment was with 'salivating dogs'. Essentially, Pavlov conditioned the dogs into associating the ringing of a bell and the provision of food. At first he fed the dogs as normal but subsequently introduced the ringing of a bell prior to the provision of food. Eventually, the dogs formed an association between the bell and the food and consequently started to salivate (expecting food) at the sound of the bell. Such an experiment illustrated that behaviour can be

influenced by the presence of a specific stimulus (Classical Conditioning).

The second type of response, operants were investigated by Skinner. An operant can be described as a response which is not elicited by a stimulus. Such behaviour can therefore be described as voluntary rather than reflexive - responses which have no association with stimuli and hence are emitted by the organism. Such responses can however be reinforced by the presence of a positive reinforcing stimulus (Operant Conditioning). As Mook (1987) suggests, the heart of Skinner's system is his restatement of the law of effect. He presents his law of conditioning for operants: if the occurrence of an operant is followed by the presentation of a reinforcing stimulus, the strength (of the operant) is increased. And there is the converse law of extinction: if the occurrence of an operant already strengthened through conditioning is not followed by the reinforcing stimulus, the strength is decreased.

Both classical and operant conditioning are important contributions to the psychology of learning and reinforcement (motivation). In the first, an animal or human learns an association between two external stimuli - eg. a bell and food - whereas in the second, the animal or human learns an association between a piece of behaviour and an external reinforcing stimulus. Overall, the behaviourist approach to motivation emphasises the concept of behavioural reinforcement - whether behaviour is rewarded or punished.

The social theory of motivation, like the behaviourist approach, is based on the influence of external factors on behaviour. Central to the social theory is the belief that our behaviour, and motivation, is determined by our interaction with individuals and social groups. The social theory of motivation is therefore concerned with interpersonal behaviour and with group processes. According to the social theorists, examples of human motives resulting from social interaction and social demands include; aggression, altruism, and affiliation. The conclusion from the social theorists is that our behaviour is largely determined by our comprehension of the behaviour, attitudes, and opinions of our fellow human beings.

3.9 Evaluation of Social/Behaviourist Theories

The strength of the social/behaviourist theories of motivation is that they recognise the importance of societal and environmental factors as influences upon behaviour. The suggestion is that the behaviour of individuals can be influenced either by societal pressure or by the manipulation of each persons environment. Aspects central to the social/behaviourist theories are learning, reinforcement and conformity. The main weakness of these theories is that they, like the physiological theories, tend to rely on a passive reactance assumption of human behaviour suggesting that individuals react to the environment/society in a reflexive and instinctive manner - there is no account taken of cognitive processes.

3.10 Social/Behaviourist Theories and PRR

At first glance, the social/behaviourist approach to motivation may be considered to be identical to the cognitive approach to motivation. Whilst both approaches refer to the outcome of behaviour as being the important aspect of motivation, the cognitive approach relies on a rational and conscious decision making process whereas the social/behaviourist approach relies on an automatic stimulus-response framework.

The use of PRR within the social/behaviourist theory of motivation depends on whether the employee considers remuneration to be a reward. The theory suggests that actions followed by reward will be encouraged whilst actions followed by pain or punishment will be discouraged. It is therefore clear that if the social/behaviourist theory is accepted, and remuneration is considered to be a reward, employees will be motivated to behave in such a way that the result of their actions will be a reward in the form of remuneration.

3.11 Critique and Conclusion

Each of the three approaches to motivation which have been examined; physiological, cognitive, and social/behaviourist, appear to have both strengths and weaknesses. Ironically, however what appear to be the weaknesses of one theory can be considered as strengths of an alternative theory.

The main strength of the physiological theories is that they identify a number of innate needs which are present within all humans no matter what age, nationality or cultural background. Such innate needs include hunger, thirst, safety and social acceptance. The main weakness or criticism of the physiological theories is that they rely purely on passive reactance to the presence of innate needs. In other words, there is no consideration of motivation resulting from behavioural or environmental influences. In addition, the theories take no account of conscious evaluation of the likely outcome of behaviour. By taking a passive reactance standpoint, there is no reference to the possibility of active cognitive processes relating to individuals and their behaviour.

The central feature of the cognitive theories is an active process involving the conscious assessment of the effort and subsequent implications of certain actions. The feature provides the base for both the strength and weakness of the cognitive approach. The strength relates to the identification that behaviour and motivation can be determined/influenced by conscious judgements of the outcome of specific behaviour. Cognitive theories, therefore, identify a process of reasoned judgements, which can take place prior to specific actions/behaviour. The criticism of the approach relates to the suggestion that all behaviour is preceded by a cognitive process of reasoned judgements. Such an approach does not allow for the possible presence of reflexive/instinctive actions or innate needs.

The strength of the social/behaviourist approach is that it takes account of behaviour modification and social interaction as aspects

inherent to any theory of motivation. This approach, therefore, suggests that human action or motivation can be influenced firstly by behaviour modification through processes such as learning and reinforcement, and secondly, through social interaction and the corresponding social pressure from individuals or groups. The main criticism of this approach is that it suggests that humans always react to social/behaviourist influences in a reflexive and instinctive manner. This suggestion leaves no room for the possibility of cognitive processes which can influence actions and behaviour.

Overall, it appears that each of the three approaches that have been examined have strengths which help to explain the motivational processes behind human behaviour. Individuals appear to be motivated partly by innate needs, partly by cognitive processes and partly by external influences. It seems that, the degree to which these innate needs, cognitive processes, and social/behaviourist influences can be used to explain motivation depends on two factors:

- a) The stage of development of the individual, both physically and mentally; and
- b) The external environmental circumstances.

For example, the motivation behind a baby crying is more likely to be innate needs rather than the result of a cognitive process. Similarly, the motivation behind a company executive changing jobs is more likely

to be the result of a cognitive process or social/behaviourist influences than the result of innate needs.

The use of remuneration as a motivating influence for employees largely depends upon the value which the individual places upon money. If the employee places a high value on money, or any associated benefits, then the attraction of increased remuneration will assist in motivating the employee. On the other hand however, if the employee places little value on money, or its associated benefits, then a system of PRR is unlikely to motivate the employee or directly affect their performance.

In conclusion, therefore, motivation, and the value of PRR as a motivating factor can be explained by reference to the three approaches to motivation theory, the applicability of each approach depending on the development of the individual and the external environmental influences. If the provision of increased remuneration helps in satisfying innate needs, carries a high cognitive value or is considered to be a reward then it is likely that employees will be motivated through the use of PRR. The use of PRR as a method of motivating employees has increased greatly in recent years and the next chapter outlines the main developments in the use of systems of PRR in the past 20 years.

CHAPTER 4:

REVIEW OF PRR

4.0 REVIEW OF PRR

4.1 Introduction

The practice of paying, or remunerating, individuals for their labour is not new, it dates back at least to the times of Christ. Reference to the payment for labour is made in The Holy Bible, The Gospel according to Matthew, Chapter 20, verses 1-2:

"For the Kingdom of heaven is like a landowner who went out in early morning to hire men to work in his vineyard. He agreed to pay them a denarius for the day and sent them into his vineyard."

The aim of this chapter is to examine recent developments in one approach to employee remuneration - the practice of establishing a direct correlation between the remuneration of employees and their work performance (performance related remuneration - PRR). Whilst PRR has been present in various forms for several hundreds of years, the main developments in PRR have occurred since 1900.

Around 1900, employers tended to remunerate employees in one of two ways - on a time basis or an incentive basis. If the employer used a time based system, the employee would be paid according to the amount of time worked. The base for the time based approach was an hourly rate for the job which could be used to calculate a daily, weekly or monthly wage. The main problem with the time based system was that two

employees could be paid identical amounts even although their work effort and performance differed significantly. This problem tended to result in an overall low level of production and employee performance.

In order to try and improve employee performance, some employers adopted a system of PRR - an incentive based approach to the remuneration of employees. As Smith (1989) states, incentives motivate, at least to a point, and organisations are increasingly eager to capture this motivational effect by paying for, and thus recognising, achievement and contribution. Currie (1963) also emphasises the need for a relationship between performance and remuneration by suggesting that, the success or failure of management will depend in large part on their ability to provide adequate incentives of the right type for all in industry. Under a system of PRR, the level of employee remuneration is directly related to the level of work accomplished (performance) - the emphasis being on the results of work rather than the time spent at work.

Following World War I, there was a spurt of activity regarding the use of incentive schemes as the base for remuneration systems. Such developments were, however, cut short by the depression of the early 1920's with high levels of unemployment, the development of organised labour unions and organisations fighting for survival. Further use of incentive based remuneration systems occurred around the late 1920's but this again was affected by a depression in the 1930's. Nash and Carroll (1975) note that, during the 1930's, organisations were so embroiled with conflict, which arose when their employees were organised into labour unions, that attention to personnel issues, including compensation programs, waned substantially.

Large scale use of incentives as a base for remuneration systems started to occur following World War II. It should be noted that the trend towards the use of incentive based remuneration systems was closely associated with the development, power and influence of personnel departments within organisations. As personnel management became recognised as an important and necessary branch of good general management, the influence of personnel managers on organisation policy increased. Such increased influence affected the development, introduction, utilisation and overall effectiveness of incentive based remuneration systems. A feature of the 'new' remuneration system was the increasing use of job evaluation.

Before it is possible to relate the remuneration of employees directly to their work performance, it is essential that each organisation ensures that the philosophy and technicalities of their basic remuneration system are sound. Job evaluation is a management technique often used to enable organisations to rationalise and validate their remuneration system by removing anomalies and creating an easily understandable pay structure. It may be useful at this stage to provide a brief explanation of the theory and use of job evaluation systems.

The underlying approach of job evaluation is to create a job hierarchy where the relative position of each job within an organisation can be easily identified, as Armstrong and Murlis (1980) emphasise, job evaluation schemes set out to measure the relative value of the job not the job holder. Job evaluation schemes, on the whole, do not determine rates of pay but instead create a job hierarchy by evaluating different

jobs using the same yardstick so that the relative importance of one job to another is clear. It should be noted that job evaluation is concerned with measuring the relative importance of a job, not the job holder, and whilst the performance of the individual should not be evaluated, this may be difficult when the individual has been in a position to personally influence what he/she does. Job evaluation is essentially concerned with relationships - comparing jobs with other jobs and comparing jobs against pre-defined standards. Overall, job evaluation aims to create a hierarchical framework of jobs which reflects the relative importance of any job to another.

There are basically four different types of job evaluation which can be classified into two groups:

Non-Analytical

- Ranking
- Job Classification

Analytical

- Points Rating
- Factor Comparison

The non-analytical types of job evaluation are concerned with making comparisons between 'whole jobs' - the jobs are not broken down into constituent parts or factors. On the other hand, the analytical types of job evaluation are concerned with comparing jobs by reference to the different aspects or factors of each job.

Ranking:

Ranking is considered to be the simplest method of job evaluation. It aims to judge each job as a whole and place it in a hierarchy of jobs by comparing one job with another, using job titles and job descriptions, and arranging them in order of importance. Whilst this technique is simple and does not attempt to break down the job in any way, it is normally only effective when used for small units. When used for larger units, the judgements become multidimensional and are open to inconsistencies. A further drawback of ranking is that it does not measure the difference between jobs - whilst it can show that one job is more important than another, it does not show how much more important.

Job Classification:

Job classification is concerned with placing jobs in pre-determined grades. The grades are defined using recognisable characteristics such as the levels of skill, responsibility, knowledge, equipment, education and training required to do the work. Once the grades are determined, each job can be allocated a grade by comparing the job description with the definition of the grade. Whilst job classification is also a simple method of job evaluation, it is not suitable for complex jobs which do not fit neatly into one grade.

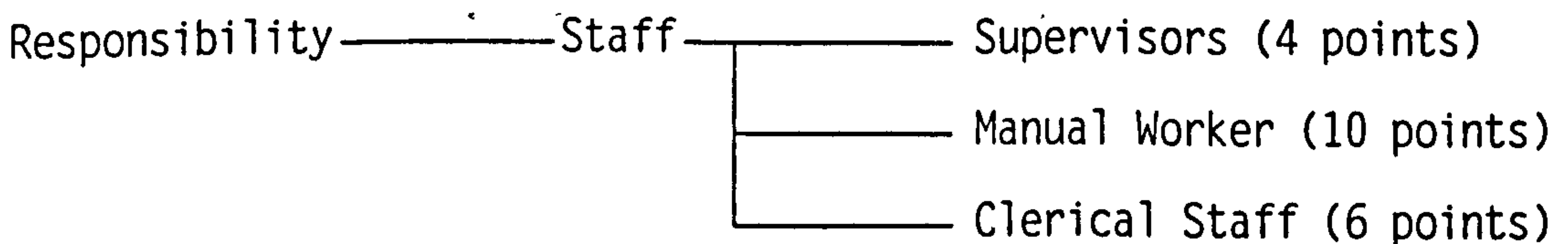
Points Rating:

The point rating method of job evaluation was devised by M.R. Lott in 1924 and analyses jobs in terms of separately defined characteristics

or factors. The starting point for points rating is to select a series of main factors which are common to all, or nearly all, jobs within an organisation. Such main factors could include skill, responsibility, effort and decision making. These factors are analysed for each particular job and allocated points which reflect the relative importance of such factors in the job. Within each main factor, sub-factors can be identified, defined and allocated points which relate to the weighting of the main factors. It is also possible for sub-factors to be further broken down and analysed into degrees with points being allocated for each degree up to a maximum of the points allocated to the sub-factor. For example, if one of the main factors is responsibility and is allocated 100 points, the sub-factors could be:

Responsibility: (100 points)	Staff	(20 points)
	Equipment	(20 points)
	Raw Materials	(30 points)
	Finance	(30 points)

In addition, if we take the sub-factor, responsibility for staff, this may be broken down into degrees as follows:



When all jobs have been analysed using the points rating system, a system of ranking by points allows a number of grades to be fixed in a hierarchical fashion (normally around eight). Points rating job

evaluation is commonly used in organisations within the United Kingdom and has the advantage that it provides a rationale why jobs are ranked differently and appears to be objective, even if it is not. The main disadvantage of a points rating system is that it is complex and potentially expensive to develop, install and maintain.

Factor Comparison:

Factor comparison is a system of job evaluation which combines aspects of ranking and points rating, and in addition aims to attach monetary values to jobs. This system is based on examining a series of key jobs in terms of selected factors which the jobs are thought to be composed. Normally, five factors are considered: skill; mental requirements; physical requirements; responsibility, and; working conditions. The key jobs are analysed factor by factor to produce a rank order for each factor. Once the ranking order has been established, the basic rate for each key job is identified and the proportion of the basic rate paid for each factor is established. Table 4.1 illustrates an example of factor comparison given by Bowey et al (1982):

TABLE 4.1:
EVALUATING THE TOTAL RATE FOR ANY JOB

Key Job	Basic Rate	Skill		Mental requirements		Physical requirements		Responsibility		Working conditions	
		MV	R	MV	R	MV	R	MV	R	MV	R
Fitting	20	9.0	1	5.0	1	2.0	2	3.0	1	1.0	4
Welding	18	8.0	2	3.0	2	1.0	4	2.0	2	3.0	2
Driving	16	6.0	3	3.0	3	3.0	1	1.5	3	2.5	3
Labouring	14	4.0	4	2.0	4	1.5	3	1.0	4	5.5	1

MV = Monetary Value R = Rank

Once the key jobs have been analysed, and rankings and rates of pay established for each factor, any other job can be allocated a rate of pay by considering each factor in turn, comparing it with the key jobs and allocating an appropriate monetary value. The main criticism of the factor comparison method of job evaluation is that it links together the processes of remuneration and job evaluation which are best kept separate although they may be indirectly related.

Whilst the aforementioned are the four most popular systems of job evaluation, there are in addition many proprietary brands of job evaluation which have been developed recent years. Some of these proprietary brands are based on the same foundations as those previously described whilst others are based on new theories of work content and subsequent remuneration. The most important of these new techniques include:

- * Hay/MSL - Guide-chart Profile Method
- * Inbucon - Direct Consensus Method
- * Urwick Orr - Job Profile Method
- * Professor Paterson - Decision Band Theory
- * Professor Jaques - Time-span of Discretion Theory

Overall, the use of job evaluation has been increasing for many years and has been proven to assist with reviewing/implementing grading structures. technological/organisational change, avoiding discrimination and ameliorating anomalies in payment systems. As a note of caution however, it should be remembered that job evaluation

systems should be designed/chosen, implemented, maintained and evaluated properly if they are to be successful.

Since the late 1930's the number of employees receiving incentive payments has increased gradually. This trend is illustrated in Table 4.2 which shows statistics produced in the Ministry of Labour Gazette (1987).

TABLE 4.2:
PERCENTAGE OF MALE EMPLOYEES IN BRITAIN
RECEIVING INCENTIVE PAYMENTS
(All Industries)

<u>YEAR</u>	<u>PER CENT</u>
1938	18
1947	24
1951	28
1961	30
1974	41
1983	47

Although the use of incentive based remuneration systems has continually increased since the period around World War II, the presence of Income Policies in the 1970's had a major affect on the introduction and use of such systems.

In February 1974, a Labour Government came into power under the leadership of Harold Wilson, although Wilson was to be succeeded by

James Callaghan in October 1974. On defeating Edward Heath's Conservative Government, the newly formed Labour Government had to deal with the serious problem of increasing inflation.

One approach adopted by the Government in an attempt to control inflation was the introduction of various stages of incomes policy. The Stage 1 incomes policy was introduced in 1975 and set a limit of £6.00 per head per week increase in pay, but only for those employees earning up to £8500 per annum. Employees who had annual earnings in excess of £8500 were to be given no increase. The Stage 2 incomes policy was introduced the following year and set a 5% pay limit with a £2.50 minimum and a £4.00 maximum increase per week per head.

At the same time as the introduction of incomes policies, the trend in management philosophy was moving away from the use of incentive schemes as the best method of controlling and motivating employees to work better. The trend at that time was towards the use of job enrichment, group working and participation as methods of encouraging better performance from employees. The effect of the stage 1 and stage 2 incomes policies together with the fashionable management philosophies was a reduction in the proportion of employees who received incentive payments between 1974 and 1977. This reduction is illustrated in Table 4.3 using statistics from the Department of Employment, New Earnings Surveys.

TABLE 4.3:
PERCENTAGE OF MALE EMPLOYEES RECEIVING
INCENTIVE PAYMENTS 1974-1979
(Per Cent)

	1974	1975	1976	1977	1978	1979
Manual Employees:						
In all industries and services	41.4	41.2	37.9	36.8	42.3	44.0
In manufacturing	43.4	40.9	39.9	39.5	45.0	47.0
In non-manufacturing	39.2	41.5	36.1	34.3	39.8	41.1
Non-manual Employees:						
In all industries and services	7.9	7.3	7.6	7.2	10.6	12.9
In manufacturing	8.2	8.5	8.6	7.9	15.3	18.0
In non-manufacturing	7.7	6.8	7.3	6.9	8.8	11.0

These statistics show that the proportion of male manual workers in all industries who received incentive payments dropped from 41.4% in 1974 to 36.8% in 1977. This trend however, was to be reversed by the final stage of the Labour Government incomes policies.

The Stage 3 incomes policy was introduced in August 1977 and was to be labelled the 'social contract'. This policy set a maximum increase of 10% in a company's wage bill, however extra payments above this 10% limit were to be allowed providing they arose as a result of a self-financing productivity scheme. In addition to the introduction of the Stage 3 incomes policy, management philosophy appeared to change between 1977 and 1979 to one which considered incentive payment systems

as the only way by which productivity could be improved. As a result of the Stage 3 incomes policy and the changing management philosophy, the period between August 1977 and May 1979, when the incomes policies ended, saw a considerable growth in the coverage of performance related incentive schemes.

Whilst the developments of the mid/late 1970's catalysed a growth in the use of performance related remuneration systems, the conditions behind such renewed interest were not common across all industries.

Several years prior to the mid-1970's, many parts of the public sector had been making preparations for the introduction of work measured payment by results schemes on a large scale for manual workers. In the health service, coal mining, water authorities and local authorities, for example, decisions had been made (in some cases as far back as the late 1960's) to introduce several forms of performance related remuneration. There were two identifiable problems in certain public sector industries - low pay and poor productivity - and it was hoped that such problems could be remedied by the introduction of incentive based remuneration systems.

In general therefore, most of the public sector schemes had a long gestation and preparation period and were generally introduced by managers who believed that this was the best way to proceed. Only a few of the public sector groups had hastily drawn up incentive schemes in an attempt to combat the problems associated with the incomes policies of the 1970's.

The picture in the private sector was radically different, especially in the manufacturing industries where the recent trend had been a steady decline in the use of incentives. Following the introduction of the Stage 3 incomes policies in 1977, many private sector industries adopted incentive schemes as a method of financing increased remuneration via increased productivity.

Within the first few months of the introduction of Stage 3, many incentive based remuneration systems were hastily designed and quickly implemented with little thought for the suitability of the scheme. The nature of incentive schemes in the late 1970's also changed from systems which were complicated and difficult to implement to systems which were simple in nature and easy to implement. The simplistic nature of the 'new' incentives schemes resulted directly from the immediate need for a way round the restrictions imposed by the Stage 3 incomes policy.

Another feature of the 'new' incentive schemes which assisted speedy implementation was the base for measuring performance. Whereas many previous incentive schemes were based on individual performance, the 'new' incentive schemes tended to be based on group or organisational performance since they did not require complex procedures for measuring performance and could be applied to all levels of staff.

Overall, the incomes policies of the 1974 Labour Government were instrumental in reversing the increasing trend of the use of incentive based remuneration systems which was present in the early 1970's. Since the late 1970's, and the introduction of the Stage 3 incomes

policy, the trend in performance related remuneration has returned to one which is increasing on an annual basis.

Up until the late 1970's, the main type of incentive based remuneration system was Payment by Results (PBR) where employees were paid according to the number of tasks performed/units produced. Since the early 1980's however, there has been a move away from 'traditional' PBR schemes to remuneration systems such as merit pay, profit sharing and employee share ownership. There have been several studies throughout the 1980's which have attempted to determine the level of usage of performance related remuneration schemes and the different schemes in operation.

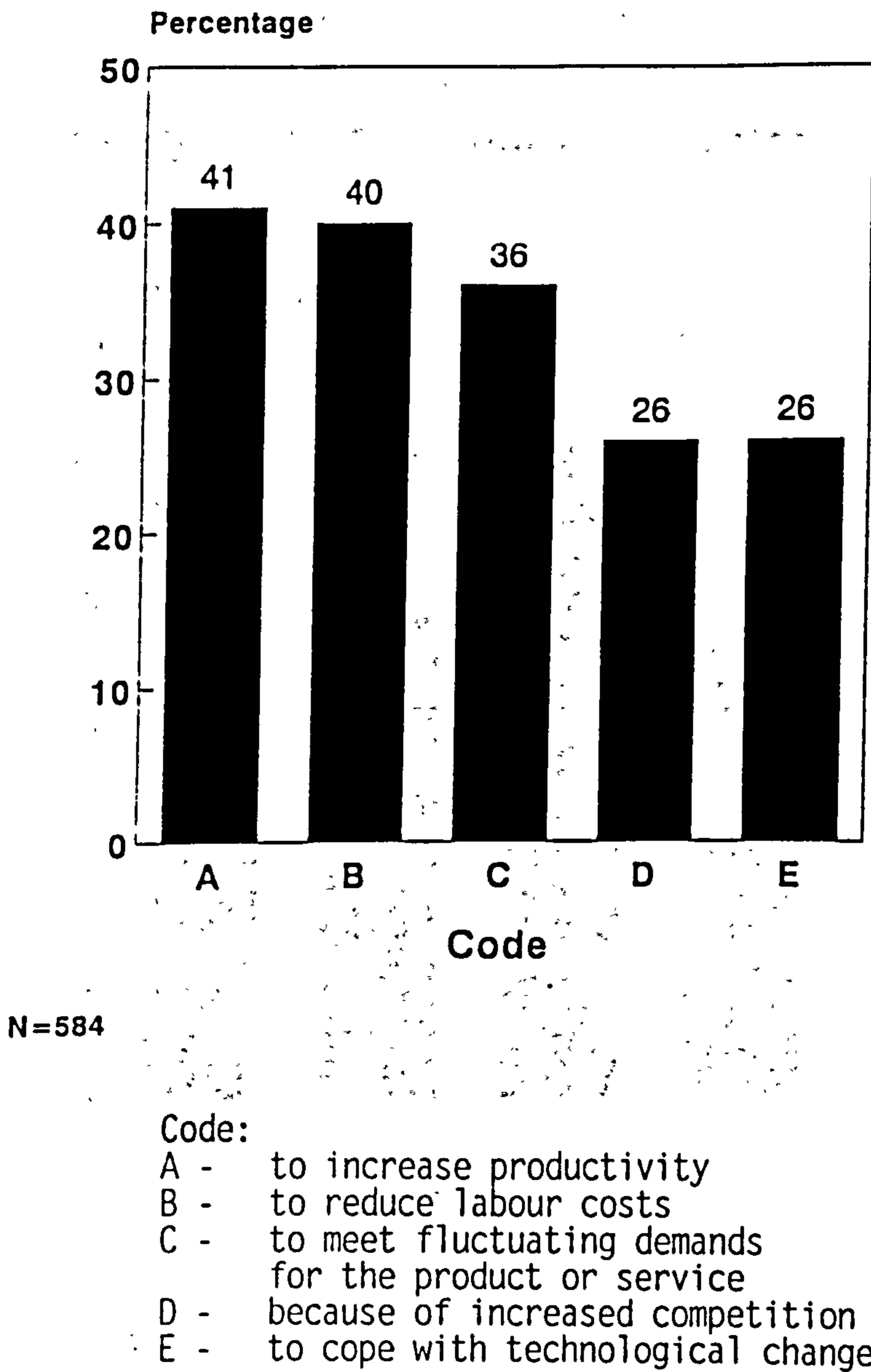
Two studies which examined the use of performance related remuneration were carried out by ACAS - Labour Flexibility in Britain: The 1987 ACAS Survey, and; Development in Payment Systems: The 1988 ACAS Survey.

4.2 Labour Flexibility in Britain: The 1987 ACAS Survey

The aim of the 1987 survey was to examine the extent to which employers had introduced labour flexibility into their organisation, and the different forms such flexibility could take. Among the forms of flexibility examined were:

- * Flexibility in numbers
- * Flexibility in crafts and skills
- * Flexibility in hours of work
- * Flexibility in labour costs and rewards

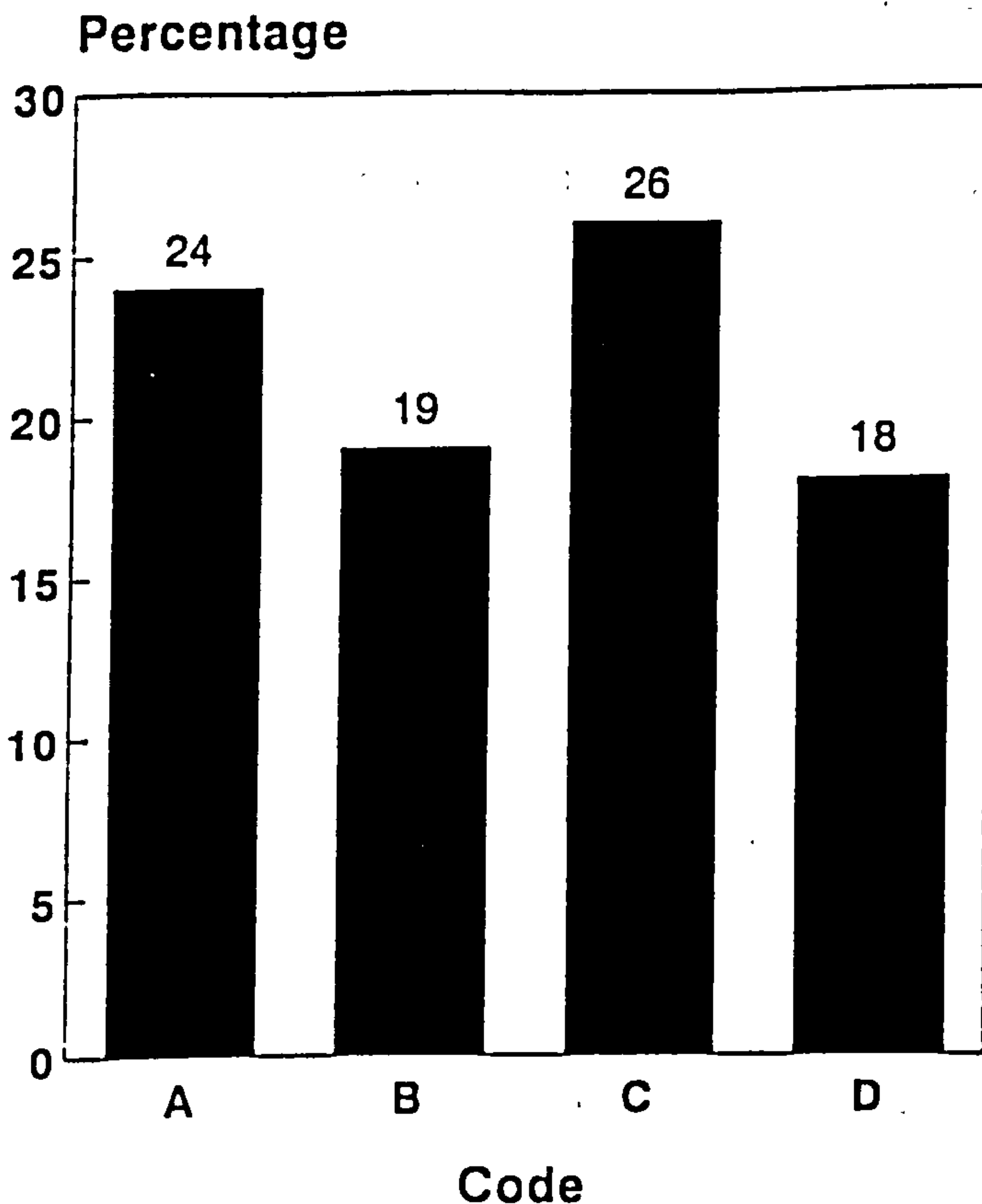
**Figure 4.1:
Reasons For Introducing Flexibility**



In addition to examining the forms of flexibility which had been introduced, the survey sought to establish the reasons for introducing flexibility. The findings could be illustrated as in Figure 4.1.

Among the reasons given for introducing various forms of flexibility, the most commonly cited reasons were: to increase productivity (41%); to reduce labour costs (40%); to meet fluctuating demands for the product or service (36%); to cope with increased competition (26%), and; to cope with technological change (26%).

**Figure 4.2:
Flexibility in Remuneration Systems**



N=584

Code:

- A - have introduced merit pay over the last three years
- B - plan to introduce or increase merit pay
- C - have introduced profit sharing over past three years
- D - plan to introduce or increase profit sharing

The survey highlighted some important developments in payment systems, and in particular the trend towards performance related remuneration. The results of the 1987 Survey, which relate to performance related remuneration could be summarised as in Figure 4.2.

Clearly, the statistics show that from the 584 organisations participating in the survey, around one-quarter had introduced some form of merit pay (24%) or profit sharing (26%) between 1984 and 1987. In addition, around one-fifth of respondents had plans to either introduce or increase merit pay (19%) or profit sharing (18%). Whilst the survey concentrated on private manufacturing companies and is not fully representative of UK organisations, it is clear that even within this category of organisation, the interest and use of performance remuneration systems has grown substantially since the early 1980's.

The 1987 survey also identified a trend towards the harmonisation of the term and conditions of employment. Harmonisation is defined within the survey as:

"a narrowing or elimination of the differences in the basis of the treatment of manual and non-manual workers regarding pay, fringe benefits and other conditions of employment."

The survey indicated that in the period 1984-1987, around 40% of those organisations surveyed had harmonised terms and conditions such as common: holiday arrangements; car parking; restaurants; pension schemes; sick pay schemes, and working hours. In addition, a further

13% of respondents indicated that they had plans to harmonise terms and conditions.

4.3 Developments in Payment Systems: The 1988 ACAS Survey

In the 1980's, much of the conciliation and advisory work of ACAS was related to the difficulties faced by employers and employees in the design and operation of payment systems. As a result, ACAS felt that they should know about the trends and developments of payment systems within UK organisations and therefore conducted The 1988 ACAS Survey: Developments in Payment Systems. In particular, ACAS wanted to know what payment systems employers used and developed to deal with the major organisational problems present at that time, such as:

- * recruiting employees
- * retaining employees
- * motivating employees
- * maintaining high productivity/profit levels
- * coping with managerial accountability

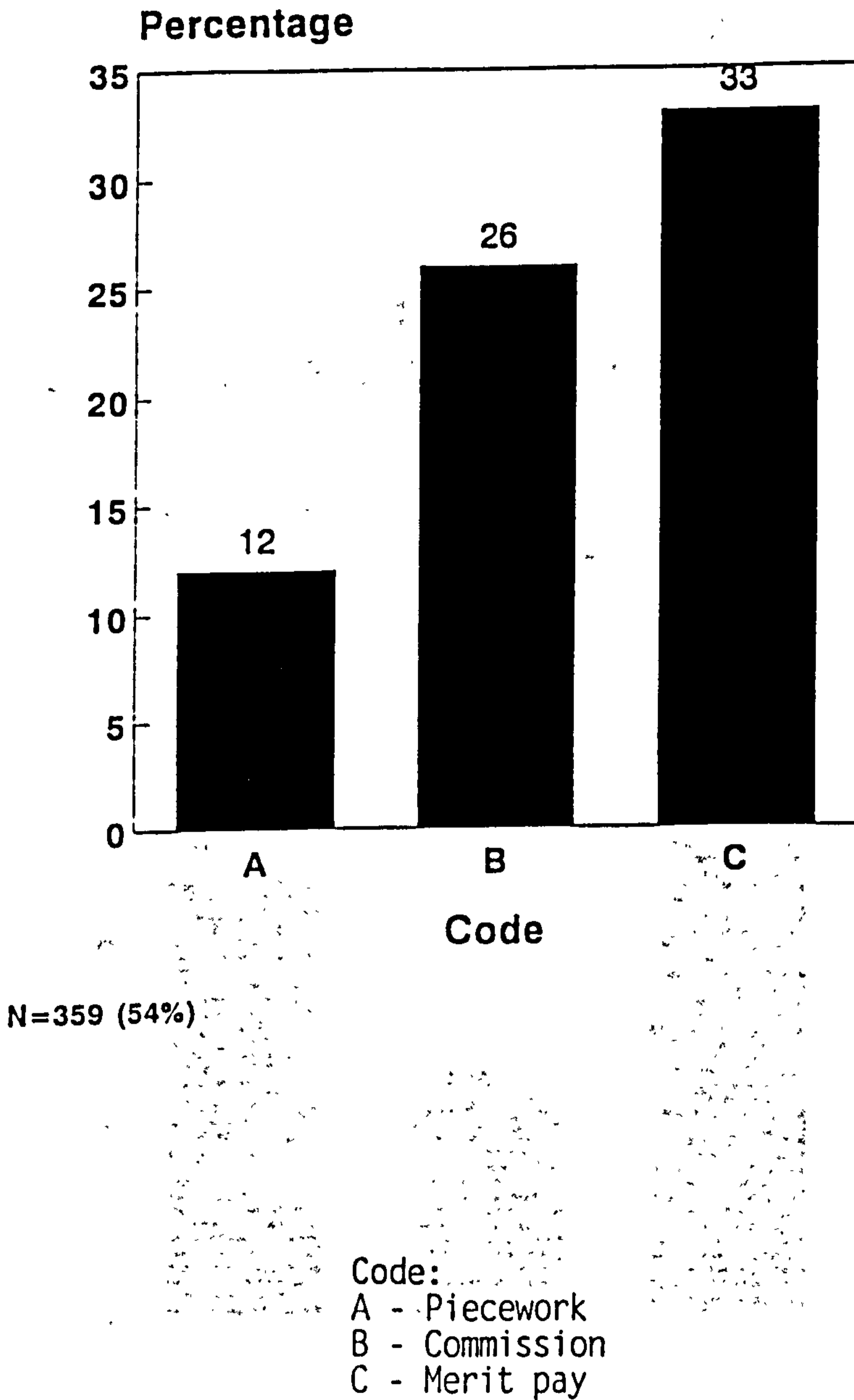
Whilst this ACAS survey again over represented private manufacturing establishments, the findings of the survey are useful for drawing broad conclusions about the development of payment systems in the UK around 1988.

The first aspect to be examined in relation to the development of payment systems was the use of time rate payment systems where

employees are paid a flat rate for each hour, day, week or longer period which they work. From the 664 respondents to the survey, around two thirds confirmed that they used some form of time based payment system for at least some of their employees. The second area to be examined was the use of payment systems based where employees move through a pay or salary scale according to their length of service. Around three fifths of respondents used this payment systems for at least some of their employees although the use of such systems was most common in public administration, education, health, banking and financial services. The first two areas of the survey therefore indicate that time based and incremental increase based payment systems are very common within organisations in the UK. The majority of the survey was concerned with how employers formed an association between the performance of employees and their remuneration.

The overall results of the survey indicated that payment systems based on performance related remuneration were very widely used and indeed, some three-quarters of respondents confirmed the use of some form of payment system which linked the performance of employees to their remuneration. The payment systems used varied widely in their design and included individual incentives (piecework, commission payments, merit pay) and collective incentives (work group based, enterprise wide based, and profit related incentives). From the respondents who used some form of PRR, 54 per cent reported that they used individual incentives for at least some of their staff, whilst 53 per cent reported using some form of collective incentive. The use of different systems could be illustrated as in Figure 4.3 and Figure 4.4.

**Figure 4.3:
The Use of Individual Incentives**

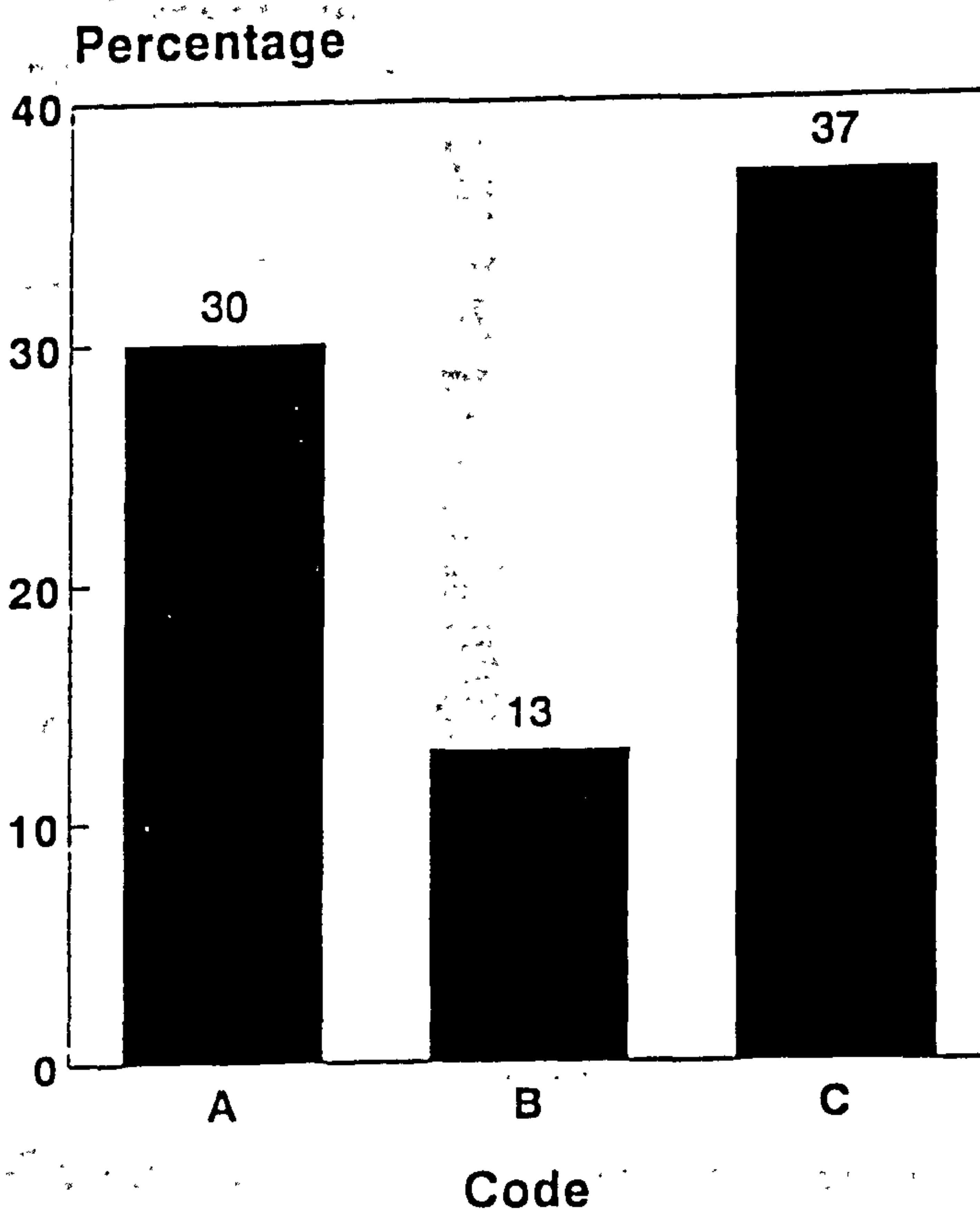


From Figure 4.3, it is clear that the most preferred method of relating performance to remuneration on an individual basis was through the use of merit pay (33%). Whilst commission also seems to have been popular (26%), it is surprising that even from a survey biased towards private

manufacturing, the use of piecework as an individual incentive was comparatively low (12%). Where organisations cited a reason for introducing merit pay, the responses were as follows:

* Unable to measure output of employees	29%
* Improve motivation	45%
* Reward Individuals	80%
* Reward Extra Skills	24%
* Other Reasons	7%

Figure 4.4:
Use of Collective Incentive Schemes



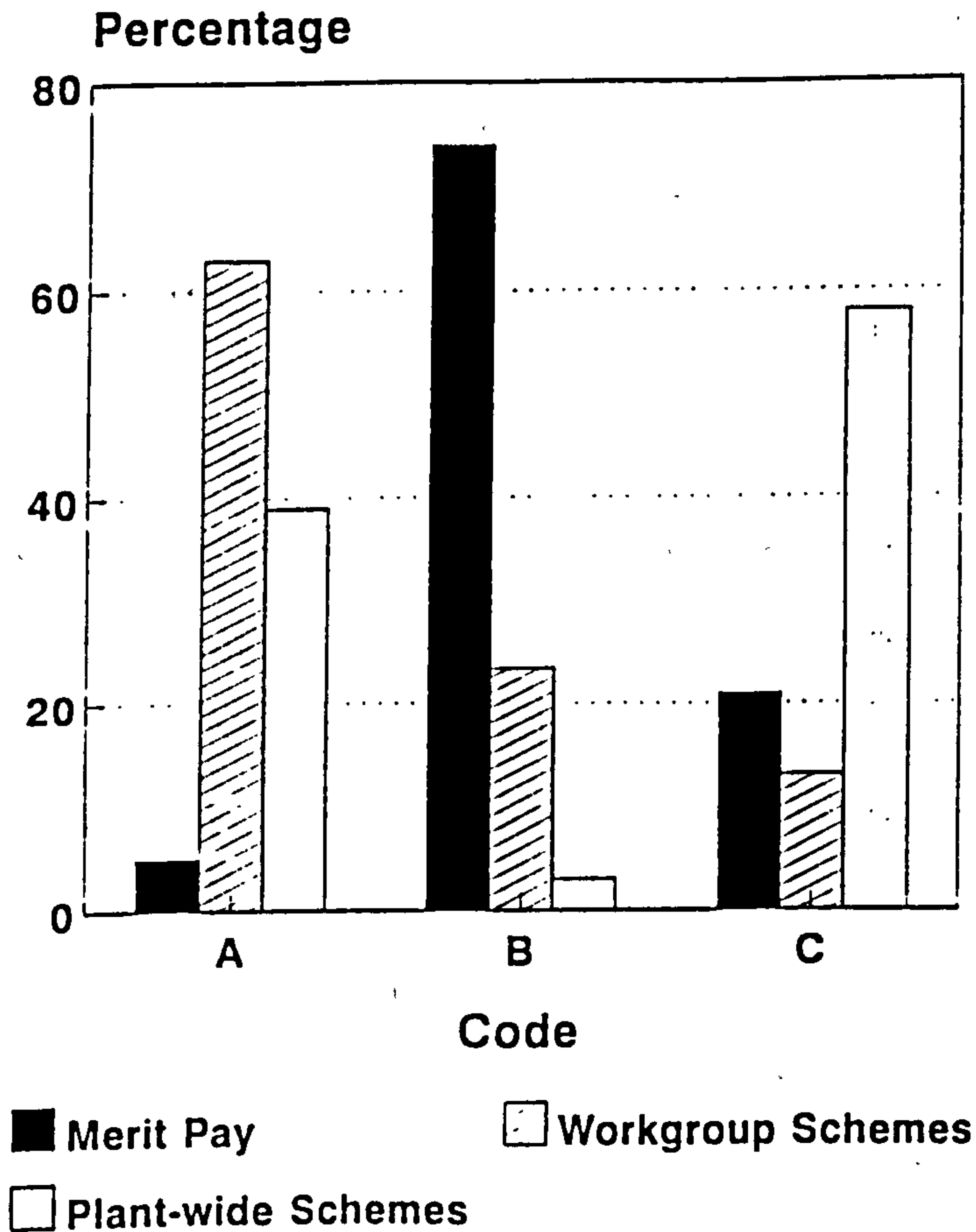
N=352 (53%)

Code:

- A - Work Group Incentives
- B - Plant and Enterprise Wide Schemes
- C - Pay Schemes Linked to Profits

The research findings which can be illustrated as in Figure 4.4 suggest that when remuneration was linked to the performance of a group of employees, the most popular system of remuneration was via the use of schemes based on the profit level of the organisation (37%). The next most popular method of remunerating performance on a collective basis was through the use of work group based incentives (30%).

**Figure 4.5:
Staff Covered By Systems Of PRR**



Code:
A - Manual Staff
B - Non-manual staff
C - Both manual and non-manual

In comparison to the use of pay schemes linked to profits and work group incentives, the use of plant and industry wide schemes was significantly lower (13%). One part of the survey also examined which categories of staff were covered by differently based systems of performance related remuneration. The survey used two simple staff categories: manual and non-manual, and identified which of three systems of PRR were related to each category. The three systems of PRR used were merit pay, work group schemes and plant-wide schemes. The results could be summarised as in Figure 4.5.

From the figure, it is clear that those organisations which used merit pay generally used it for non-manual staff whilst those organisations which used work group and plant-wide schemes concentrated on applying them to manual staff.

The main finding of the 1988 ACAS Survey was that whilst the types of performance related remuneration systems used in UK organisations varied greatly, the overall trend was towards an increasing interest in all types of incentive payment with the use of such schemes being directed at the fulfilment of a series of organisational objectives. The two ACAS surveys together show that during the second half of the 1980's, the use and popularity of performance related remuneration systems within modern organisations was highly significant. Even although the surveys were biased towards private manufacturing organisations, the introduction of merit pay, profit sharing and other forms of incentive payments between 1984 and 1987 was obviously substantial and in 1988 three quarters of the respondents to the survey used some form of performance related remuneration system.

Four further studies concerned with the use of performance related remuneration systems have been carried out by the Income Data Services:

1985: The Merit Factor - Rewarding Individual Performance
(in association with the Institute of Personnel Management)

1988: Paying for Performance

1989: Paying for Performance in the Public Sector
(in association with Coopers and Lybrand)

1990: Putting Pay Philosophies Into Practice

4.4 The Merit Factor - Rewarding Individual Performance

Since the end of the 1970's incomes policies in 1979, the popularity and use of systems of performance related remuneration has increased significantly. As a result of such developments, the Institute of Personnel Management's National Committee on Pay and Employment Conditions and the Income Data Services' Top Pay Unit set up a joint research initiative in 1985 to determine the current trends in PRR, and in particular the developments in merit pay. In the introduction of the research publication, the objective is stated as being to:

"...provide personnel professionals and others interested in this area with a briefing on current practice and developments to help them analyse, devise or refine merit

policies for all categories of employee to whom they are appropriate."

The research was based on interviews carried out by the IDS Top Pay Unit with 125 organisations across a wide range of organisations and industries. One finding of the research was the identification of the six reasons for introducing or amending merit payment systems:

- * the board of directors - to establish greater control over pay
- * line managers - to be able to exercise more control over their employees' pay and to reward on the basis of performance
- * the personnel department - to gain greater flexibility over remuneration budgets
- * employees - to gain appropriate rewards for high levels of performance and effort
- * market pressures - to enable organisations to address the increasing problem of recruitment, retention and motivation
- * the government - being a major employer, the government sought to use merit payments as an aid to greater managerial control

The research also identified the main areas of change in relation to merit pay and performance related remuneration in general:

- * changing to 'all-merit' increases - a trend was identified where organisations had replaced the traditional 'across the board' annual wage/salary review with a system where an increase in wage/salary was dependant on an individual merit review. Whilst such systems were most common in non-negotiated management layers, some companies had achieved such change in collectively bargained staff areas. None of the companies interviews had been successful in introducing 'all-merit' reviews to shop floor staff.
- * changing from increments to merit - it was found that some organisations had replaced incremental pay systems, based on automatic wage/salary increases, with systems where wage/salary progression was dependant on a merit review.
- * increased use of performance appraisal - together with, and as a result of, the move towards merit pay, many employers had introduced formal and systematic methods of appraising employee performance. Such methods normally involved some system of objective setting.
- * increased use of job evaluation - several organisations were found to have introduced or expanded the use of job evaluation to assist with salary structures and merit progression.

Overall, the 1985 survey by the IPM and IDS highlights the increased use of, and reliance on PRR as a management tool to assist with ensuring the most effective use of human resources within organisations.

4.5 Paying For Performance

This research file was undertaken by the IDS in 1988 and was considered to be a follow-up to the 1985 survey rather than a replacement for it. The aim of the research was firstly to identify any developments in the use of performance related remuneration in the private sector since the publication of The Merit Factor in 1985, and secondly to examine any developments in the public sector. With regards to the private sector, the research highlighted two main developments:

- * an increasing trend towards the replacement of incremental pay systems with wage/salary systems based on merit progression
- * the extension of performance related remuneration - in addition to senior/middle management, many other categories of employees were now covered by systems of performance related remuneration

On examining the public sector, the main development which was identified was the marked increase in the use of performance related remuneration systems in public sector organisations such as The National Health Service, The Civil Service, British Rail, The Audit

Commission and the Civil Aviation Authority. The research file proposed that the increased use of PRR in the public sector was a direct response to:

- a) the recruitment and retention problems being experienced due to the competition for staff from the private sector, and
- b) the requirement for increased managerial accountability for human resources.

An additional finding of the research was the changing attitude of trade unions towards payment systems based on, or related to, employee performance. Whilst one of the primary functions of trade unions is to negotiate wage and salary agreements on behalf of their members, the trade union negotiating role within PRR is generally much less significant and often reduced to a consultative role. Inevitably, as PRR gives managers more control over remuneration budgets, the control of trade unions over the pay of their members is reduced, if not taken away.

The research also focused on the use of performance appraisal since some form of performance assessment was considered to be a prerequisite for performance related remuneration. Whilst most of the organisations interviewed used a formal and systematic method of performance appraisal there appeared to be great diversity in the type of systems used.

4.6 Paying For Performance In The Public Sector

As has been highlighted by the four surveys previously mentioned, the period 1979-late 1980's was characterised by an increasing use of performance related remuneration particularly in the private sector. The introduction of such systems was essentially aimed at motivating staff by rewarding performance in the hope that such improved individual performance would be reflected in organisational performance and would help organisations cope with the problems of competition and economic recession. Since the mid-1980's the enthusiasm for performance management and PRR began to spread into the public sector. Up until 1989, there had been no specific research on the use of PRR within the public sector so the research project 'Paying For Performance In The Public Sector' was an attempt by the IDS, with part funding by Coopers and Lybrand, to redress the balance. The objective of the project was to examine the use of PRR within the public sector, and highlight any identifiable trends.

Whilst the underlying reason for introducing PRR into the public sector was the move towards a performance culture, several additional influences were identified:

- * recruitment and retention difficulties
- * devolving decision making to a local level
- * the recruitment of managers with private sector experience

- * the belief of the 1979 Conservative Government that higher rewards should be given to the best performers
- * the move from traditional incremental pay structures to systems which allowed managerial flexibility over pay

Overall, the survey identified 5 main trends in the use of performance related remuneration within the public sector:

1. PRR was introduced to the public sector as part of the process of organisational change with an emphasis on devolved management control and a performance culture.
2. PRR was largely confined to managerial staff but plans were being made in some areas of the public sector to extend the coverage of PRR to other staff levels.
3. Most organisations operated a system of performance appraisal where the emphasis was on target-based appraisals.
4. Two strategies for introducing PRR were identified - 'evolution' and 'revolution'. The 'evolution' approach involved the adaptation of existing salary structures whilst the 'revolution' approach involved replacing existing salary structures with completely new salary arrangements.
5. Three systems of PRR were identified - incremental based schemes,

salary range schemes and schemes based on 'spot salaries' with one-off lump sums.

4.7 Putting Pay Philosophies Into Practice

This research file published by the IDS in July 1990 described PRR as the 1980's 'flavour of the decade'. The research concentrated on nine major organisations and by means of case studies sought to identify the likely trend in pay philosophies and resulting remuneration systems for the 1990's. Throughout the case studies, several recurring themes become apparent:

- * salary policy and PRR was considered to be an effective tool for bringing about cultural change within organisations
- * flexibility in remuneration systems was required to enable employers to recruit and retain key staff
- * for some levels of staff (particularly managers and professionals) a link between performance and remuneration was taken for granted
- * careful monitoring was required when using a system of PRR to ensure fairness and consistency between individuals and/or groups
- * computerisation had enabled performance and remuneration to be co-related in increasingly sophisticated ways

Together, the four IDS studies reveal five major trends in the development of performance related remuneration between 1985 and 1990:

1. The move away from performance assessment based on merit ratings to performance assessment based on work objectives.
2. The increasing use of performance related remuneration systems in the public sector.
3. The increased coverage of performance related remuneration systems to include different categories of staff in addition to senior management.
4. The move towards substituting annual increases for all staff with individual remuneration levels dependent on the performance of each employee/group of employees.
5. The increasing complexity in forming a correlation between the performance of an individual and their subsequent remuneration package.

Merit Ratings V Work Objectives

Central to the PRR systems developed in the early to mid 1980's was the assessment of performance based on merit ratings - the rating of an individuals personal qualities such as commitment, dependability and initiative. Such assessments were not directly related to the ability

to do a particular job or actual work performance but were based on the input to work by scoring the personal qualities of an individual. One of the main criticisms of merit ratings was that it was the personality of an individual which determined their remuneration reward rather than their actual work performance. The recent trend however, has moved away from the assessment of performance based on merit ratings to the assessment of performance based on work performance and the achievement of working objectives. Such an approach centres on the setting of individual objectives (related to the organisational goals) and the assessment of performance against the achievement of such objectives. PRR systems using such an approach are therefore rewarding output rather than input. The trend therefore is towards PRR systems where the assessment of performance is based on work objectives.

PRR in the Public Sector

Traditionally, the managerial approach within the public sector, and in particular the British Civil Service, was one of impersonal uniformity where consistency of service depended on all employees doing the same job being treated equally. The concept of PRR, identifying some employees as being better than others and rewarding them accordingly, is inconsistent with such an approach and it is only since 1985 that PRR systems have been developed to a larger extent within the public sector. There are two main reasons for this increased interest in PRR:

1. PRR systems have been used in an attempt to achieve a more commercial or managerial attitude within the public sector.

2. Some services within the public sector have experienced the beneficial effects of PRR systems within the private sector such as improved organisation performance and efficiency.

Overall, the presence of PRR systems within the public sector has increased dramatically since 1985, particularly in the British Civil Service, the National Audit Office, the Audit Commission and the National Health Service.

The Coverage of PRR Systems

Whilst the early PRR systems were on the whole restricted to senior management, the recent trend has been to extend the coverage of PRR systems to lower level jobs such as professional, technical, clerical and secretarial staff. Some organisations, such as Nissan UK Ltd, even have PRR systems which extend to shop floor workers. Four main reasons for extending the coverage of PRR can be identified:

1. Some organisations see PRR as one method of assisting a change of organisational culture. It is therefore important that the staff are treated as a whole and are encouraged to act as a team. In such circumstances, if PRR is restricted to senior management and does not apply to all, or at least most levels of staff, the change in organisational culture is unlikely to succeed. Organisations using a system of PRR and seeking a change in organisational culture therefore find it necessary to extend the

coverage of their PRR system.

2. Where organisations seek a single status organisation, PRR is a method of rewarding different individuals according to their performance level although all employees enjoy a single status situation.
3. The reduction in real trade union power throughout the 1980's has meant that management control over payment systems has increased whereas the power and influence of trade unions in the areas of pay negotiation and collective bargaining has weakened. Such a situation has made it easier for managements to introduce PRR into staff levels which the previously strong trade unions would have effectively protected. Whilst the trade unions may still be opposed to the principle of PRR in some areas, their ability and power to oppose and reject the implementation of such systems is substantially weaker than the trade unions of the 1970's.
4. In order to attract, recruit and retain suitable staff, some organisations use PRR systems as a method of making salary levels attractive. Such an approach is especially necessary in industries with skill shortages and geographical areas with low unemployment levels.

Replacement of Annual Increases

As mentioned previously, the power of trade unions within the field of

pay negotiation has reduced greatly throughout the 1980's. This situation has allowed employers to replace the traditional annual pay award with some system of PRR or with a minimal annual award alongside some system of PRR. The first situation means that any improvement in an individuals remuneration package is entirely dependent on their work performance. The second situation is less severe and consists of an annual pay award for all staff and the possibility of an additional improvement in the remuneration package dependent on the performance of the individual. Overall, there is a trend away from the traditional annual pay awards towards a system where all improvements in the remuneration package are dependent on the performance of the individuals.

Increasing Complexity

Whilst the notion of paying individuals according to their performance is relatively simple, the administrative procedures involved in any PRR system are becoming increasingly complicated. Firstly, there has to be some formal method of assessing performance - and there are a whole range of possible alternatives, all of which cannot be described as being simple. The second requirement is a method of translating an assessment of performance into a suitable remuneration system. Again the possibilities are many and tend to be at least administratively complicated. Overall, whilst the idea may be simple, the administrative requirements behind any system of PRR are becoming increasingly complicated. The different systems of performance related remuneration systems will be discussed in Chapter 5.

4.8 New Earnings Survey

A further source of data regarding the use of performance related remuneration can be obtained from the New Earnings Surveys (NES) published by the Department of Employment. These surveys date from 1968 and attempt to identify trends in the remuneration of employees within the United Kingdom. One part of the annual survey relates to the percentage of employees who as part of their total remuneration have an element which is performance related. The data from the surveys carried out between 1982 and 1993 is illustrated below in Table 4.4.

TABLE 4.4:
PERCENTAGE OF FULL TIME EMPLOYEES
RECEIVING A PBR ETC. PAYMENT

YEAR	ALL INDUSTRIES
1982	54.7
1983	58.6
1984	59.1
1985	54.4
1986	53.5
1987	51.9
1988	50.0
1989	51.7
1990	49.2
1991	46.3
1992	44.5
1993	43.1

The data in the above table suggests that during the period 1982 - 1993, the percentage of full time employees receiving an element of performance related remuneration has varied between 59.1 per cent and 43.1 per cent. In addition, the data suggests that since 1989, there has been a steady decline in the use of PRR amongst full time employees, from 51.7 per cent in 1989 to 43.1 per cent in 1993.

On examining the findings of the New Earnings Surveys, two points require to be clarified. Firstly, on comparing the data with the findings of 1988 ACAS Survey: Developments in Payment Systems, which suggested that the use of systems of PRR is likely to cover around 75 per cent of all employees, there appears to be a substantial difference. It should be noted however that the New Earnings Surveys only provide data on full time employees whilst the ACAS survey, and most other surveys, provide data on ALL employees. It is suggested therefore that if the New Earnings Surveys included data on both full and part time employees, the coverage of PRR would be similar.

Secondly, from the NES data, it appears that the popularity of PRR as a performance management techniques has steadily declined since 1989, this would also appear to conflict the findings of other studies performed by ACAS and the IDS. On examining the number of employees full and part time employment between 1989 and 1992 however, an explanation can be provided. Since 1988, the number of employees in full time employment has steadily declined whilst the number of employees in part time employment has continued to rise. the decline in the popularity of PRR, as suggested by the finding of the New Earnings Surveys may not be a consequence of a declining use of systems

of PRR but the results of a steadily decreasing number of employees in full time employment.

Overall, the annual publication of the New Earnings Surveys demonstrates that although the total number of full time employees within the workforce in employment is declining, the use of systems of PRR remains high.

To recap, the main developments in performance related remuneration have taken place since around 1900, although significant advancement in the development and utilisation of PRR systems was hindered during the early part of the century firstly by World War I, and secondly by the economic depressions in the 1920's and 1930's. Since the late 1930's however, the popularity of PRR systems has continually increased to a point where most organisations, in both the private and public sectors, operate some system of PRR.

The 1980's saw PRR systems being adopted as a fundamental management technique in the struggle to improve organisation performance and efficiency. Whilst the traditional systems of PRR were based on incentive payments, the most popular systems in the 1980's were merit pay (on an individual basis) and profit related pay (on a collective basis).

4.9 Summary

At the beginning of this century, the payment of employees primarily

took place on a time based system where each worker would be paid according to the amount of time worked. Such a system however took no account of different levels of employee performance and could have resulted in two employees being paid identical amounts even although their levels of work performance were significantly different. In an attempt to try and resolve this problem, some employers introduced an incentive element into their remuneration policies whereby part, or the whole, of an employees pay would be determined by their level of performance. The use of incentive schemes increased around the time of World War I although such developments were cut short by the depression in the 1920's. The popularity of incentive schemes with employers tended to fluctuate during the late 1920's and 1930's depending on the economic climate of the time with large scale use of incentive based systems of remuneration not taking place until the end of World War II. Since the early 1940's, the use of incentive schemes steadily increased until in 1974, 41 per cent of all male employees in Britain were receiving an incentive payment as part of their total remuneration package.

In 1974, the Labour Party became the governing party in the House of Commons and had to deal with the increasing problem of soaring inflation. In an attempt to combat the problem, the Government introduced a series on Incomes Policies. This move resulted in a decline in the popularity of incentive schemes between 1975 and 1977. It was only with the introduction of the Stage 3 Incomes Policy in 1977 that the use of incentive schemes once again increased - this time in an attempt to get around the restrictions of the Incomes Policy.

Several studies have been undertaken since the early 1980's in an attempt to identify the reasons for using various systems of performance related remuneration and also to determine their level of use. These studies have shown that in the United Kingdom, around three quarters of all employees have some aspect of their wage/salary determined by a system of performance related remuneration. The systems of PRR in operation have varied over the past 10 years although the main trend has been away from the traditional systems of payment by results to systems of merit pay, profit sharing and employee share ownership. From the studies, it would appear that non-manual/white collar staff are more likely to be covered by a system of individual merit pay whereas manual employees/blue collar staff are more likely to be covered by a bonus system based collective group performance.

The various studies have also identified the main reasons for introducing systems of PRR into the remuneration policies of organisations. Among the main reasons cited were:

- * to establish greater management control over pay;
- * to reward employees on the basis of performance;
- * to enable organisations to address the increasing problems of recruitment, retention and motivation;
- * to assist in the achievement of organisational objectives such as efficiency, profitability and quality.

In addition to identifying the main reasons for introducing systems of PRR into organisations, the studies also identified a number of trends regarding the use of PRR within organisations. These trends included:

- * the replacement of annual salary/wage reviews with a system where an increase in wage/salary was dependant on the level of employee performance;
- * the replacement of automatic wage/salary incremental increases with systems where wage/salary progression was dependant on the level of employee performance;
- * the increased use of formal and systematic methods of assessing employee performance, such as performance appraisal based on work objectives;
- * the increased use of job evaluation to assist with salary structures and merit progression;
- * the extension of PRR to most categories of employee within organisations;
- * the increased use of PRR to assist with cultural change within organisations;
- * the increased use of PRR within the public sector as well as the private sector.

Overall therefore, the current trends towards increased application of PRR systems in all sectors of employment suggests that the high level of interest in PRR will continue at least throughout the 1990's. Whilst the birth of PRR has been slow and significant developments have been hindered in many ways, the popularity of PRR as a management technique to assist with the achievement of various organisational objectives has increased substantially during the twentieth century, and in particular since the early 1980's.

CHAPTER 5:

SYSTEMS OF PRR

5.0 SYSTEMS OF PRR

5.1 Introduction

Before examining the various systems of PRR in existence, it is important to explain how PRR fits in to the whole remuneration package. Primarily, most remuneration packages are based on a reward structure consisting of salary levels or scales for single jobs, groups or grades.

Armstrong and Murlis (1991) identify seven main types of reward structures:

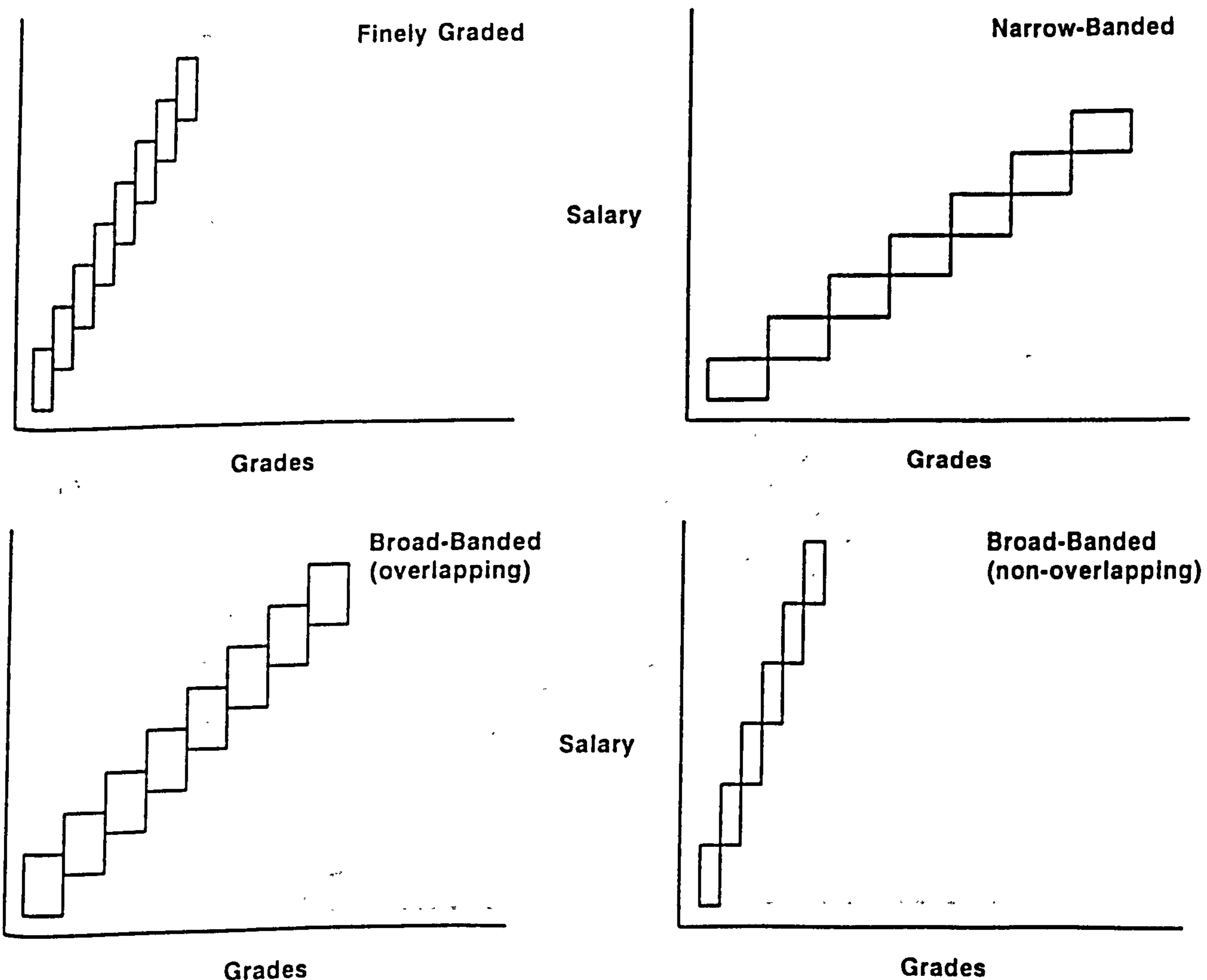
1. Graded salary structure.
2. Individual job range.
3. Progression or pay curves related to competency levels.
4. Job family system.
5. Spot rates.
6. Pay spine.
7. Rate for age.

5.1.1 Graded Salary Structures

Within this type of structure, the different jobs within an organisation are allocated into a series of salary ranges or grades, each of which has a maximum and minimum salary level. Whilst all the jobs allocated into a specific salary range should be of similar value, the position of each individual within the range will depend on their performance and length of service. The various salary ranges within an

organisation can be structured in several ways, these include narrow-banded structures, broad-banded structures, finely graded structures and broad-banded structures, these could be illustrated as in Figure 5.1. The type of structure which an organisation will adopt will depend on factors such as the differentials required between grades and the degree of salary overlap between grades.

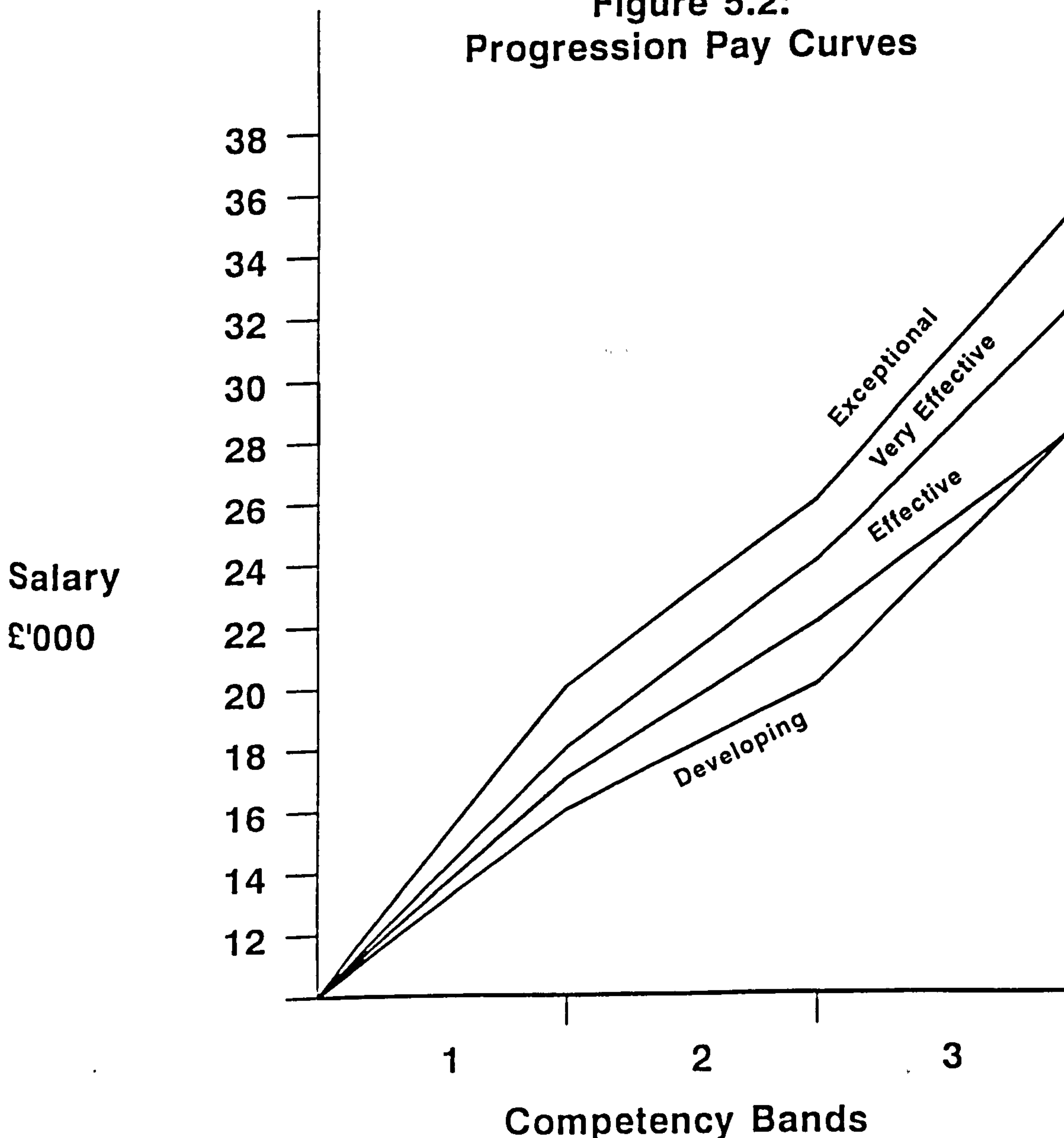
**Figure 5.1:
Graded Salary Structures**



5.1.2 Individual Job Ranges

Individual job ranges form a simple reward structure where a salary bracket is defined for each individual job. The mid-point of each range should be related to external comparisons and the upper and lower limits of each range defined as a plus or minus a percentage of the midpoint. This system of salary structure is useful where the context of various jobs within an organisation is significantly different or where market pressures demand high levels of flexibility from the remuneration system.

**Figure 5.2:
Progression Pay Curves**



5.1.3 Progression Pay Curves

For any particular job, or group of jobs, progression pay curves seek to reward individuals according to the competence level which they have attained. The assumption is that an individual will not progress along a pay curve unless they have attained the correct level of competency. Refinements can also be made to the pay curve to allow for different levels of performance. In addition to the competence level of the individual, progression pay curves relate to the market rates for each type of job. Progression pay curves therefore take into account: a) the extent to which individuals contribute to meeting objectives and performance standards, and b) market rates. A progression pay curve might be is illustrated as in Figure 5.2.

5.1.4 Job Family Systems

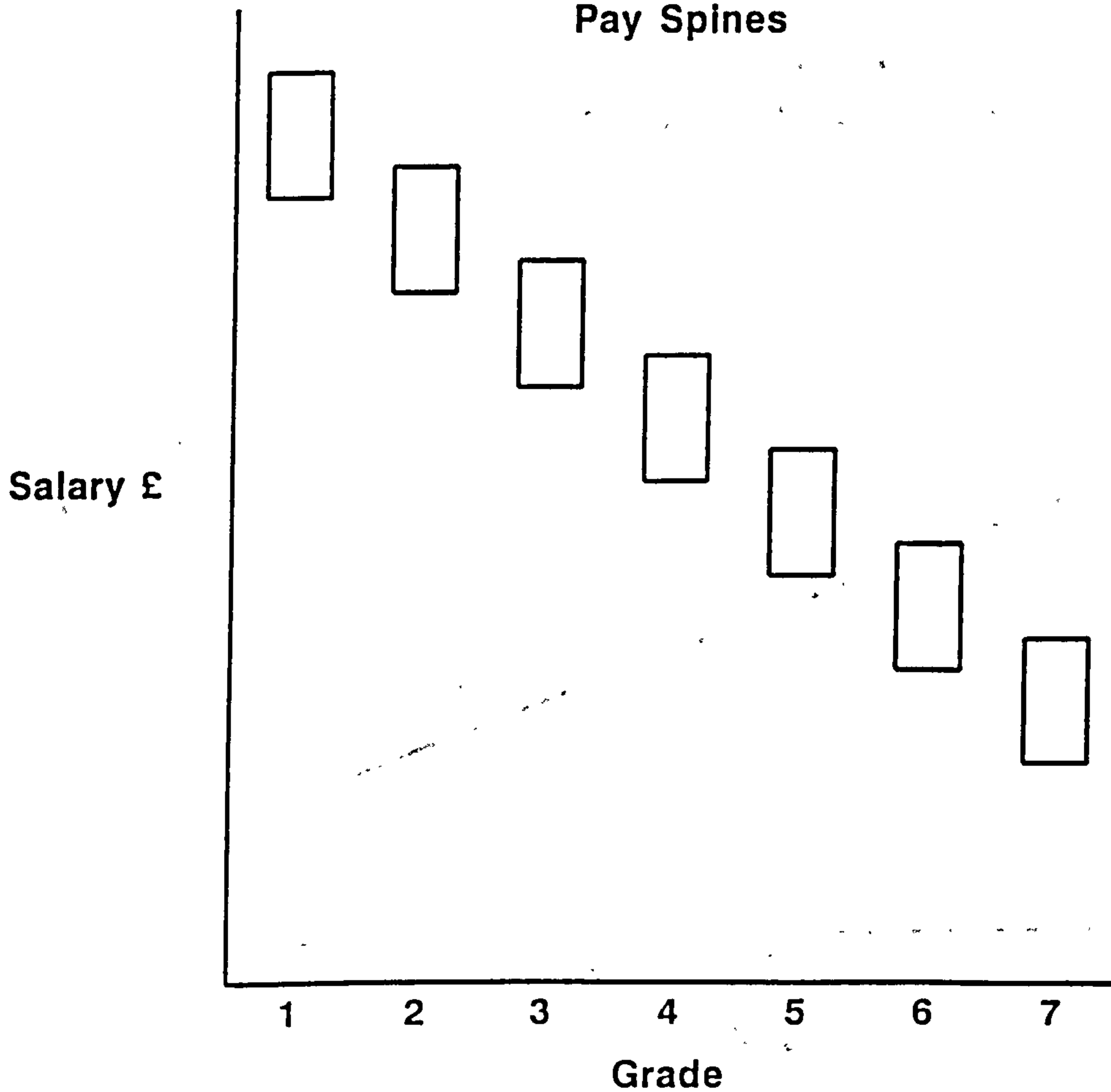
This approach is based on the assumption that within each organisation, there are various identifiable groups of employees. Each group, or family, is subject to different market pressures and occasionally it is necessary for some groups to be treated differently from the other groups of employees within the organisation. Ultimately, the job family systems can result in a separate salary structure for each group of employees with different salary limits and rates of progression.

5.1.5 Spot Rate Structures

Spot rate structures are very widely used amongst manual workers and are based on specific rates of pay for particular jobs - there are no upper or lower limits. The rates of pay are normally fixed by

reference to market rates and often by negotiation with employee representatives such as trade unions. Occasionally, spot rate structures are modified by the addition of performance related bonuses or payments for additional skills or responsibilities.

**Figure 5.3:
Pay Spines**



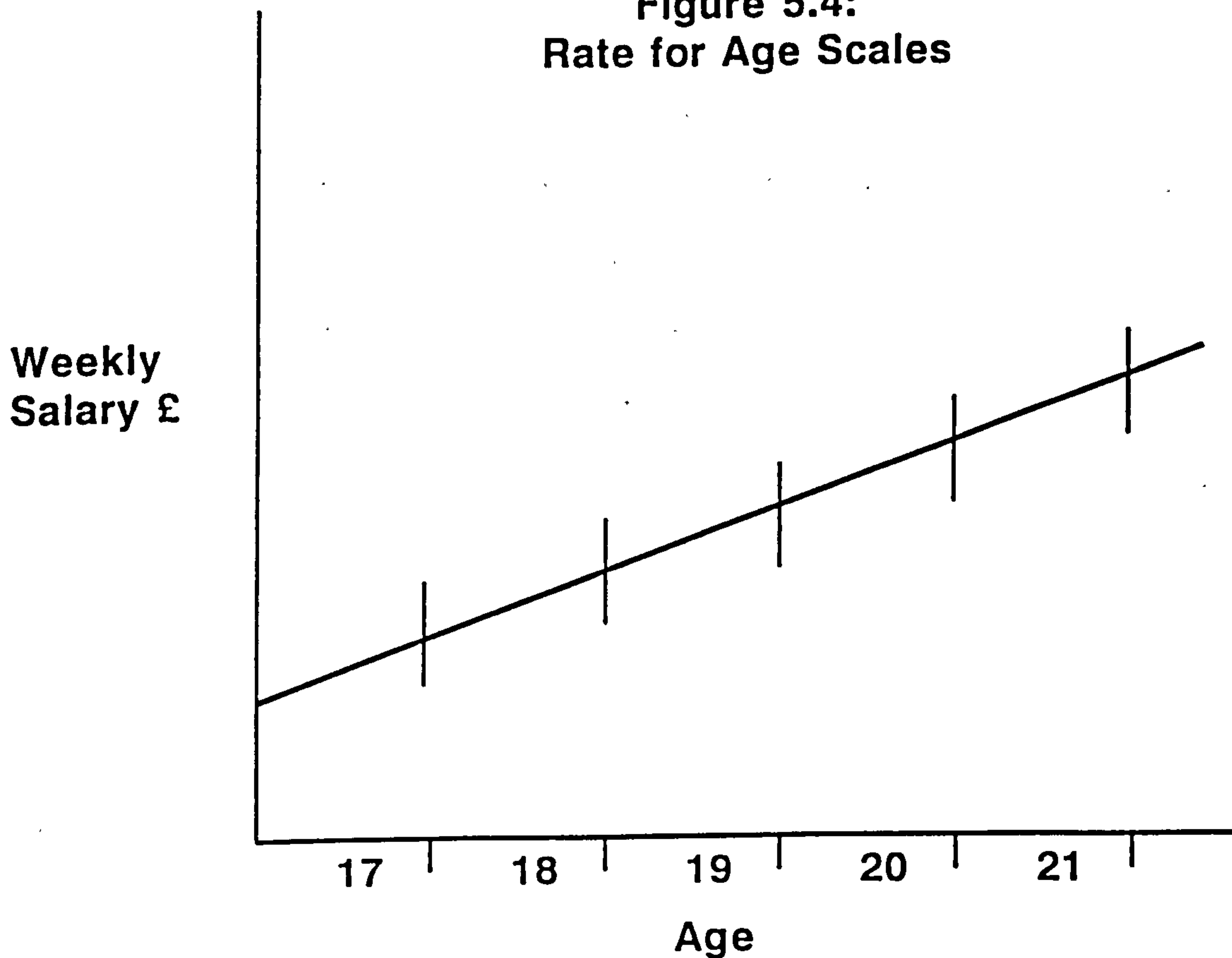
5.1.6 Pay Spines

Common in the public sector, pay spines consist of a series of incremental salary points which extend from the lowest paid job to the highest paid job covered by the system. Once the pay spine is constructed, pay scales or ranges are super-imposed on the pay spine. A pay spine can be illustrated as in Figure 5.3.

5.1.7 Rate for Age Scales

Rate for age scales are normally associated with young employees and comprise of an incremental pay scale in which an association is drawn between the age of the employee and a pay range for particular jobs. This may be illustrated as in Figure 5.4.

**Figure 5.4:
Rate for Age Scales**



Whatever reward structure is adopted by an organisation, it should be appropriate to the needs of the organisation and be flexible enough to respond to internal and external pressures. In addition, the structure should facilitate rewards for performance and achievement ensuring that there is consistency in the treatment of varying levels of responsibility and performance - this is where systems of PRR come into use.

5.2 Remunerative Benefits

In addition to the salary aspect of remuneration, most organisations provide a range of benefits for employees. As Bowey (1975) states, "they (benefits) normally come as a package which works alongside, and very closely with, the salary structure that a company operates". Armstrong & Murlis (1991) define employee benefits as "elements of remuneration given in addition to the various forms of cash pay. They provide a quantifiable value for individual employees, which may be deferred or contingent like a pension scheme, insurance cover or sick pay, or may provide an immediate benefit like a company car." Among the reasons behind the provision of benefits, recent writers have identified the following:

Bowey (1975) - to assist with creating;

- * higher motivation
- * more efficient working
- * increased cooperation
- * better working atmosphere

Smith (1989) -

- * because of legal requirements
- * for moral reasons
- * to make up for taxation
- * to provide goodwill and wellbeing to employees
- * to reflect the value or status of employees

Armstrong & Murlis (1991) -

- * to increase the commitment of the employees to the organisation
- * to provide for the actual or perceived personal needs of employees
- * to demonstrate that the company cares for the needs of its employees
- * to ensure that an attractive and competitive total remuneration package is provided which both attracts and retains high quality staff
- * to provide a tax efficient method of remuneration

Greenhill (1990) -

- * to motivate and retain employees
- * tax effective way of providing employees with benefits without attracting such a high tax charge as would be the case if they were given an equivalent cash sum
- * provide employees with a feeling of security
- * natural social development as a response to the demands of employees and their families
- * a method of looking after the employees upon whom the success of the company rests

Before highlighting the various kinds of benefits which can be made available to employees, it is important to explain the concept of "cafeteria benefits". The Institute of Personnel Management (1990) describes cafeteria benefits as "flexible remuneration systems which allow employees to decide which elements they want in their compensation package and in what amounts". The basic principle behind cafeteria benefits is that organisations can offer employees a range, or menu, of benefits each with an "option price". The employee is then given a "credit amount" to spend on benefits and they can tailor their own benefits package to their own individual needs or desires.

It is important to emphasise that whilst the term focuses attention on the provision of a choice of benefits, in practice the concept usually involves the total compensation package allowing individuals to alter the balance of benefits and cash pay as they wish. Although the use of cafeteria benefits in the United States has been a great success, according to the IPM (1990) the uptake in the United Kingdom appears to be limited.

The type and level of benefits offered to employees usually depends on a number of factors including employee status, length of service, external comparisons and the requirement to recruit and retain key personnel. Nevertheless, the range of available benefits is extensive and can be divided into several categories.

5.2.1 Pension Schemes

Perhaps the most important employee benefit is the provision of a pension scheme, financed by contributions from the organisation and in most, but not all, cases the employee. As Armstrong (1988) suggests, "pension schemes are designed to provide employees with security by building up rights which will give a guaranteed income to the employee or his/her dependants on retirement or death". As such, pension schemes are often considered to be deferred income.

5.2.2 Personal Security

These are benefits aimed at enhancing an individual's personal security by providing assistance when faced with ill-health, accidents or

redundancy. Benefits under this heading include permanent health insurance, medical insurance, health screening, medical facilities, extra statutory sick pay, extra statutory redundancy pay and outplacement advice.

5.2.3 Financial Assistance

Organisations can offer various types of financial assistance to employees to help in various situations. Examples of financial assistance include: loans, mortgage assistance, relocation assistance and staff discount.

5.2.4 Personal Needs

This is a wide ranging group of employee benefits aimed at relieving some of the pressures associated with work and domestic life. Benefits under this heading include, holidays and various forms of compassionate leave, career breaks, sabbatical leave, general training provision, child care/crèche, counselling (financial, retirement, redundancy, personal) and social, fitness and recreational facilities.

5.2.5 Company Cars/Petrol Allowance

One of the most popular benefits in the UK is the provision of a company car. As Armstrong and Murlis (1991) state, "Virtually no other country in the world provides company cars to the same extent as the UK". The provision of a company car in the UK has become a necessary benefit to compete in the salary market where the cash value to an employee of a company car can be in excess of £5000 per year, depending

on the model of car. Where a company car is not offered, some organisations provide a mileage or petrol allowance to employees who use their own vehicles for company business. Such allowances are not only aimed at reimbursing the employee for the cost of petrol but also for the "wear and tear" on the vehicle.

5.2.6 Additional Benefits

Some employers provide additional benefits which can help to improve the employees standard of living. Such benefits include:

- * subsidised meals in staff catering facilities
- * luncheon vouchers
- * clothing allowance/cleaning allowance
- * full or part payment of telephone bills
- * suggestion schemes with cash or gift prizes
- * pocket diaries, pens, pencils, etc.
- * company travel facilities - transportation to and from work
- * birthday and Christmas gifts
- * long service awards
- * education/training allowances

In addition to the tangible benefits which have been outlined above, organisations may also provide, intentionally or unintentionally, intangible benefits to the employee. Such benefits essentially relate to characteristics of the organisation which make it an attractive and worthwhile place in which to work.

Whilst it is clear that the range of benefits which can be made available to employees is wide and varied, each organisation must

select their "own" range of benefits based on the underlying needs and objectives of the organisation and the employees. In order to be effective, the benefits package should be designed, communicated and administered carefully to ensure that it does reflect these needs and objectives.

In addition to selecting the correct salary structure and benefits package for employees, organisations may decide that the introduction of a system of performance related remuneration to the total remuneration package will assist with the achievement of organisational objectives. In the same way that the salary structure and benefits package should be tailored to meet the needs and objectives of the organisation and employees, the selection of a system of PRR should be carefully considered. The choice, implementation and administration of a system of PRR are all important factors which will influence how effective the use of PRR is to be.

The main types of systems of performance related remuneration are:

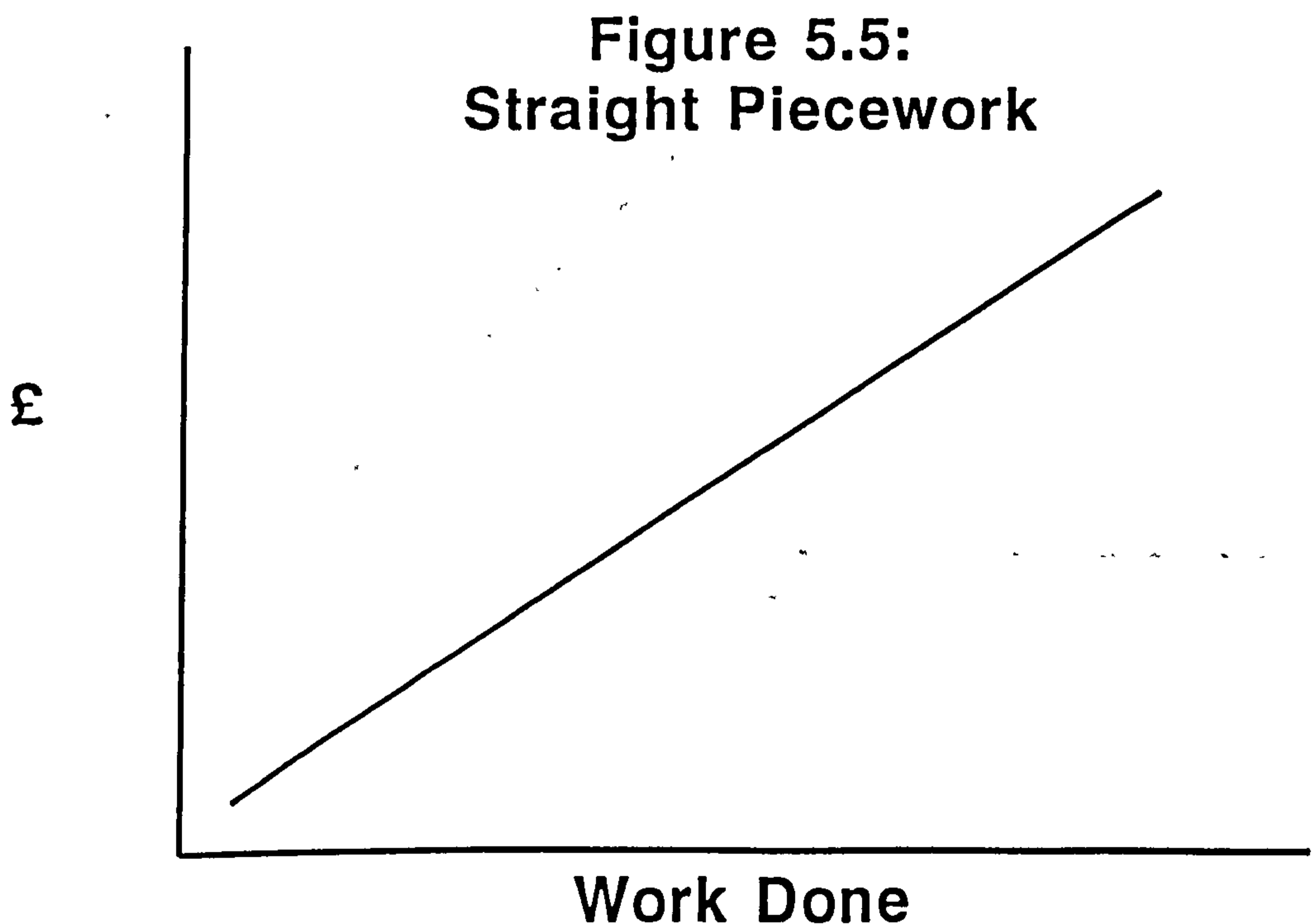
- * Payment By Results (PBR)
- * Bonus Schemes
- * Profit Sharing
- * Profit Related Pay
- * Sales Incentives
- * Employee Share Ownership Plans (ESOP)
- * Merit Pay

5.3 Payment By Results

Payment by results systems are based on the belief that a relationship can be established between effort and reward. It assumes that the attraction of a reward (money) will motivate individuals to behave in a certain manner (work productively). The underlying assumption therefore is that more effort will result in more money. There are various different systems of PBR which can be adopted by organisations.

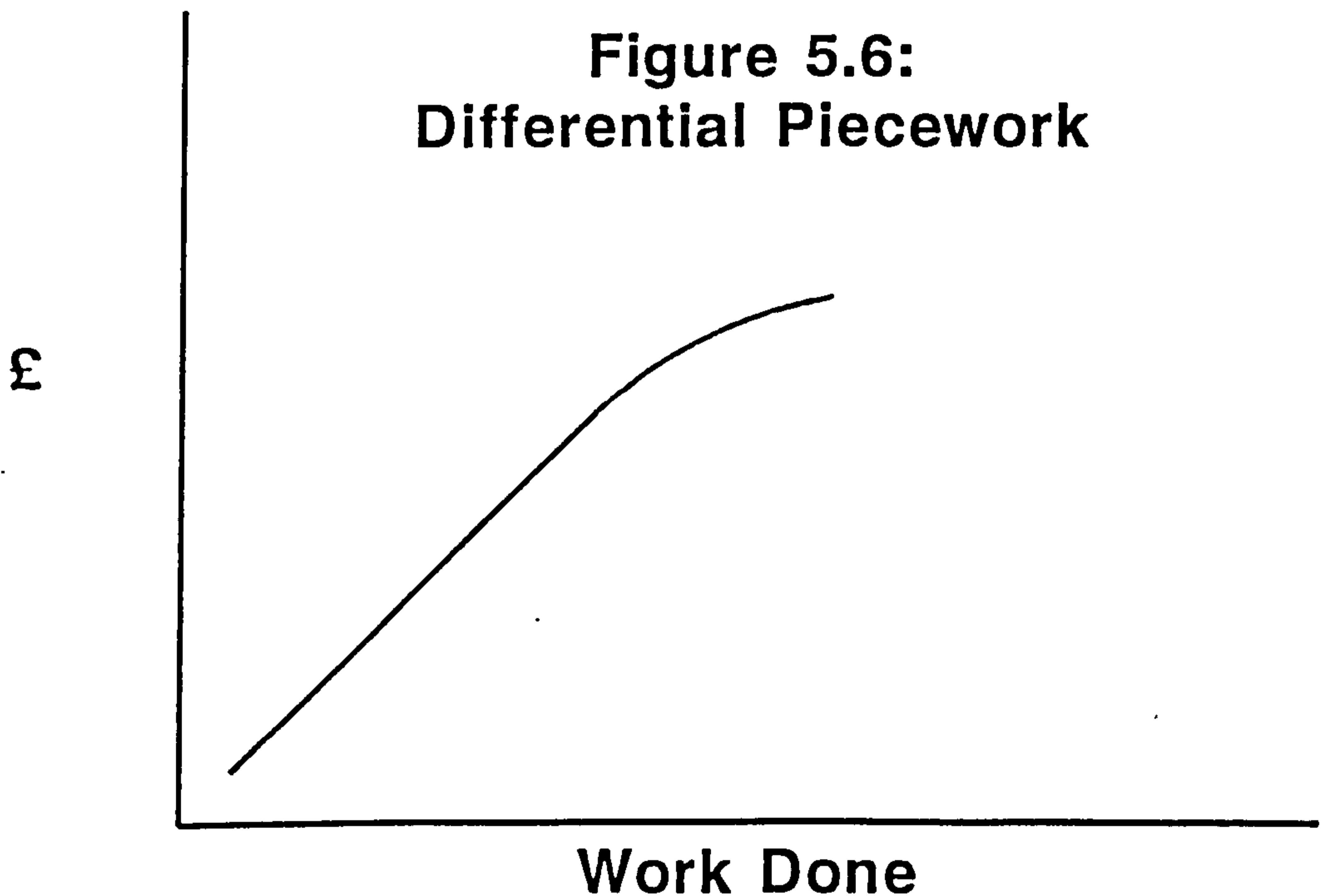
a) Straight Piecework:

With this system, employees are paid a flat rate (piece rate) for each item/operation completed. The piece rates may be determined by method study and work measurement to determine standard times and corresponding rates for jobs. A straight piecework system can be illustrated as in Figure 5.5.



b) Differential Piecework:

Differential piecework is a variation of straight piecework and involves the adjustment of the piece rate as production rate increases. Once production reaches a pre-determined level, the cash rate for every additional piece produced/task completed starts to decline. With differential piecework therefore, whilst the employee's earnings continue to increase as production increases the rate at which earnings increases declines after a specified production level. A differential piecework system might be illustrated as in Figure 5.6.



c) Measured Daywork:

The objective behind measured daywork is to guarantee, for the organisation, a specified level of performance from each employee each day by providing a reward (cash) to those employees who achieve a pre-arranged and accepted level of performance. Measured daywork relies on work measurement to ascertain the correct level of "daily performance".

d) Group Incentive Schemes:

The base for group incentive schemes is the work performance of a workgroup or organisational area. If the output of the workgroup or area reaches a pre-determined and agreed level, then the employees within that workgroup or area receive a cash payment which can either be paid equally or proportionately to the individuals.

e) Plant-Wide Schemes:

These schemes are an extension of the group incentives schemes which instead of applying to a specific workgroup or organisational area, apply to a whole plant, or even the entire organisation. Variations of the plant-wide schemes are value added schemes and gainsharing. In a plant-wide scheme, all employees in a plant or organisation share in a pool bonus which is linked to the level of output or added value of the organisation which Armstrong (1988) defines as:

- (i) *income* from sales of the product or service (output); LESS
- (ii) *expenditure* on materials and other purchased services (input); LEAVES

(iii) *added value* which is either distributed as wages, salaries, pensions, interest on loans, taxes and dividends, or retained in reserves for investment and depreciation.

One of the best known added value schemes was developed by Rucker and which was used mainly in America. This system establishes, over a period of time, the proportion of added value which is represented by payroll costs (typically 40 - 50 per cent). Once the added value has been calculated, the amount to be distributed can be calculated as follows:

Added Value =	£800,000
Typical Payroll Costs = (40% of added value)	£320,000
Actual Payroll =	£280,000
Amount Distributed =	£ 40,000

5.4 Bonus Schemes

Bonus schemes are systems of PRR which give individuals or groups of employees a cash bonus in return for the achievement of pre-determined targets. The principal aim of a bonus scheme is to provide an incentive for high levels of effort and performance and since bonus payments can be clearly related to the quantity and quality of group or individual performance, they are often an effective approach to remuneration. In their Factsheet on performance related pay in 1990; the IPM concluded that bonus schemes are most common for senior executives, sales staff and shopfloor employees involved in direct

production. It is suggested that bonus schemes are common for these types of jobs because there are measurable outputs which are used to calculate bonus payments.

Murlis (1991) describes individual bonuses as payments made in addition to base salary which are related to the achievement of specified targets, the completion of a project or a stage of a project to a specified standard, the receipt of an appropriate performance rating, or any combination of these. Where the bonus payment is related to a specific number of units/tasks, it is essentially a payment by results system. The advantages and disadvantages of individual bonus schemes can be summarised as follows:

Advantages:

- * reward employees for effort and high levels of performance
- * schemes can be simple enough to allow easy administration
- * usually simple enough for employees to understand
- * lump sum cash payments appeal to some people
- * time gap between performance and payment is usually minimal
- * bonuses can be linked to achievements and targets hence creating a reward and an incentive

Disadvantages:

- * sometimes difficult to create a consistent relationship between the performance and the reward
- * may engender an individualistic approach rather than a team or group effort
- * difficult to apply to employees who do not have an easily quantifiable output

Turning to group bonus schemes, they essentially provide cash bonuses for groups of employees based on the achievement of group targets. These schemes tend to encourage teamwork and are useful for jobs or tasks which rely on joint effort. It is also suggested by Murlis (1991) that group bonuses cause less ill-feeling and divisions than individual bonus schemes. On the negative side, group bonus schemes can only be used where it is possible to identify employees who are working together as a group on identifiable tasks. In addition, group bonus schemes can often cause ill-directed peer group pressure and cause the diffusion of individual motivation.

5.5 Profit Sharing

Profit sharing is a system of PRR where the employer gives to employees, in addition to their normal remuneration, a proportion of the profits of the organisation. The profits can be distributed in several ways be it cash or shares, and the various methods of distribution are examined below. The proportion of profits set aside, and the actual method of distribution are at the discretion of management but may be determined by an established and published formula. Many reasons are given for the introduction of profit sharing but as Smith (1989) states, profit sharing is normally introduced to improve employee attitudes to the organisation and provide a means of encouraging them to become more involved with, and identify more closely with, company objectives. He does however state that profit sharing in its own right will not help to improve company performance.

There are four main methods of distributing profits through a profit sharing scheme, there are:

- a) as cash
- b) as shares
- c) as shares via an Approved Deferred Share Trust (ADST)
- d) as a mixture of cash, shares and ADST

a) Cash:

Under this system, a proportion of profit is set aside and distributed to employees as a cash bonus. The payment made to each employee is subject to PAYE income tax and National Insurance deductions.

b) Shares:

Instead of employees receiving a cash bonus, the total amount put aside from profits is used to buy shares in the company and these shares are then distributed to employees. Again each employee is liable for PAYE income tax and National Insurance on the value of the shares.

c) Approved Deferred Share Trusts (ADST):

Approved Share Deferred Trusts were set up by the 1978 Finance Act and subsequent amendments. Before a company can operate an ADST, it must gain the approval of the Inland Revenue. Under an ADST, the company allocates a proportion of profit to a trust fund which acquires shares on behalf of the employees. It should be noted that the total market value of ADST shares allocated to

any employee in any tax year is limited to £3000 or, 10% of income, whichever is greater, subject to a ceiling of £8000, anything over this limit must be paid as cash or shares to individual employees. The employee cannot normally sell the shares during the first two years they are held by the trustees. Tax on the value of the shares is only payable when they are sold, the employee paying tax on either the "locked-in" price or the final selling price, whichever is the lower. The rate of taxation reduces the longer the shares are held, as follows:

Year in which shares are sold	Percentage of selling price subject to tax
3rd & 4th Years	100
5th Year	75
6th Year & on	0

d) Mixed Schemes:

In a mixed scheme, the proportion of profit allocated to an employee may be taken as cash, as shares, as cash and ADST, or even part cash and part shares.

5.6 Profit-Related Pay

The Finance (No.2) Act 1987 introduced income tax relief for employees who receive part of their pay in the form of profit-related pay. As a method of performance related remuneration, PRP is unique in that it offers tax relief on cash payments which would be fully taxed under any

other cash PRR system. Profit-related pay (PRP) can generally be defined as being part of an employee's pay formally linked to the profits of the organisation, or part of the organisation, in which they work. When the profits of the organisation increase, the PRP part of pay also increases. When the profits fall, so does the PRP part of pay. Once again if an employer wishes to operate a system of PRP, they must be registered with the Inland Revenue.

One half of any PRP payments which an employee gets under a registered PRP scheme can be free of tax up to the point where PRP is 20 per cent of pay or £4000 per year, whichever is the lower. Thus up to 10 per cent of an employee's total pay, or £2000, whichever is the lower could be exempt from tax in any one year. The tax relief on PRP payments is given by employers through the PAYE system. It should be noted that whilst tax benefits are available, income from PRP, like other earnings is subject to National Insurance Contributions.

The tax concessions relating to PRP are available to all private sector employees and whilst employers are free to design their own schemes, they must:

- a) identify the employment unit - the organisation or part of the organisation which the scheme covers. The employer may have different schemes for different parts of the organisation but in such circumstances they must make clear, the rules of each scheme and the parts of the organisation covered;
- b) define the employees within the employment unit to whom the scheme relates. This must represent at least 80 per cent of those employees within the employment unit, not counting excluded

groups. Employees or directors with a 25 per cent or more interest in the organisation throughout the whole of the profit period should be excluded and the regulations permit the exclusion of part-time workers (less than 20 hours per week) and those employees with less than a specified minimum period of service (must not be more than three years):

- c) identify the profit period - the twelve month accounting period for the calculation of PRP;
- d) determine how the profits of the employment unit are to be calculated. Profits must be those on the ordinary activities of the unit after taxation (as defined in the Companies Act 1985);
- e) state the length of the scheme (at least twelve months);
- f) specify the method by which the "distributable pool" ie. the total amount of PRP to be paid in respect of a profit period, is to be determined.

There are two ways in which the distributable pool can be calculated: *Method A*, where the pool is equal to a fixed percentage of the profits of the unit in the profit period, or *Method B*, where the pool is a sum which varies in line with year-on-year changes in profit. In either case, the scheme may contain certain rules which modify the effect of large changes in profits, in order to avoid large fluctuation in the amount of PRP or to safeguard a minimum level of profit.

5.7 Sales Incentives

In contrast to the systems of PRR mentioned above, which can apply to

most categories of staff, sales incentives are unique in the sense that they apply to only one category of staff - sales staff. The basis for all sales incentives schemes is a relationship between the level of sales (performance) and the employees remuneration, or part of remuneration - as sales levels increase, so should the level of remuneration. The assumption is that sales staff will be motivated to achieve their sales targets by the attraction of increased remuneration. In order to be successful, sales incentive schemes should satisfy a few conditions:

- a) the scheme should provide an adequate salary to provide security;
- b) the level of total compensation should be competitive in the marketplace;
- c) the scheme should be easily understood;
- d) the effect of the scheme should support organisational objectives;
- e) the scheme should be flexible enough to cope with changes in the marketplace, economy etc.;
- f) it should not be possible for management or employees to manipulate the scheme;
- g) the sales targets should be challenging but achievable and should support consistent levels of performance;
- h) sales targets/territories/areas/regions should be equalised;
- i) feedback on performance (rewards) should be given in regular intervals.

Sales incentive schemes takes many forms but two main groups can be identified: cash based schemes and non-cash based schemes. The principal types of cash based schemes are commission only, salary plus bonus; salary plus commission, and salary plus commission and bonus:

Commission only: in this type of incentive scheme, the entire salary is dependant on earnings related to sales performance - there is no basic salary to fall back on. These schemes put considerable pressure upon the sales staff but in turn generally provides high rewards.

Salary plus bonus: such schemes are based on a basic salary which can be enhanced with a cash bonus providing certain sales targets are met. The sales targets could be linked to the performance of either an individual or group or team.

Salary plus commission: these schemes, like the salary plus bonus schemes, are based on a basic salary which can be enhanced, in this case by a commission payment which is normally based on a percentage of the sales value.

Salary plus bonus and commission: this type of scheme is really a mixture of those schemes mentioned above where the sales person receives a basic salary which can be enhanced by a performance related bonus and a commission payment.

In sales jobs which are not suitable for incentive schemes either because of the type of product being sold, or for any other reasons, the sales people are normally paid high basic salaries which are competitive with sales jobs involving some form of incentive payment. Occasionally non-cash based incentives are given to sales staff in addition to, or instead of, cash based incentives. Such non-cash based incentives can take many forms from specially produced badges to holidays in the Bahamas. Whatever non-cash based incentives are used,

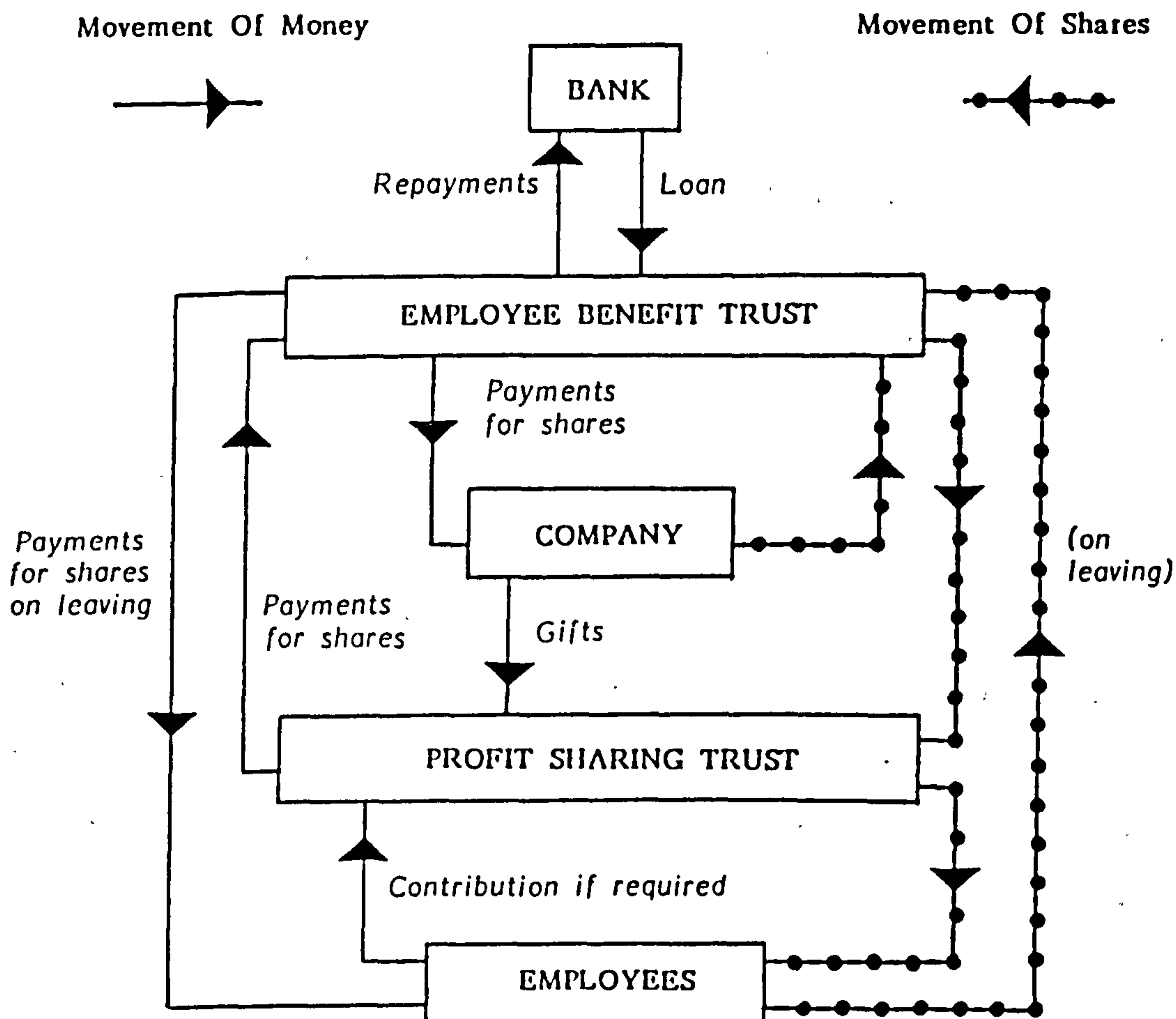
it is essential that their use is carefully considered to achieve the best motivational effect.

5.8 Employee Share Ownership Plans (ESOP)

An Employee Share Ownership Plan is a method by which a private sector organisation can distribute shares in the organisation to employees. An ESOP starts with a bank loan, guaranteed by the organisation, to an Employee Benefit Trust. The loan is then used, sometimes with a contribution from the organisation, to buy existing shares from the organisation or its shareholders. If employees wish to buy shares at full market value, they may do so from this trust. In order to enable free or subsidised shares to be distributed, a second trust is formed, the Profit Sharing Trust, run with money from the organisation's pre-tax profits. The money in this trust is used to buy packages of shares from the Employee Benefit Trust for appropriation to employees.

The Employee Benefit Trust pays off its bank loan from the dividends of the shares it holds, and from the money received from the Profit Sharing Trust which is essentially an Approved Deferred Share Trust as described above. The Profit Sharing Trust holds the shares appropriated to employees until they can be distributed free of tax. The framework of ESOP's is illustrated in Figure 5.7 which is taken from Income Data Services Study No. 438: Employee Share Ownership Plans.

FIGURE 5.7:
Framework of Employee Share Ownership Plans



At this point, it is important to mention two other types of share option schemes: Executive Share Option Schemes and Save As You Earn (SAYE) share option schemes.

5.8.1 Executive Share Option Schemes

In 1984, the Conservative government introduced an approved share option scheme which allows employers to choose who participates. Such

schemes are now commonly referred to as executive share option schemes and have generally been introduced by companies as an incentive for senior and top management. The schemes must again be approved by the Inland Revenue. Executive Share Option Schemes give the "executives" the option of buying company shares at a fixed price. The shares must be held for at least three years and must be exercised within ten years. Providing these conditions are met, any gains made from the shares will be subject only to capital gains tax and not income tax. Within Executive Share Option Schemes, a high level of financial participation is possible - the market value of the option can be up to four times the participants annual taxable emoluments or £100,000, whichever is the greater. In an approved scheme, options cannot be granted at a discount on the market value of the shares unless the employer also operates an approved all-employee profit sharing scheme or savings related share option scheme. In such circumstances, a discount of up to 15 per cent on the market value of the shares can be granted.

5.8.2 Save As You Earn (SAYE)

A SAYE share option scheme is designed to give employees the option of buying ordinary shares in their company at a future date (between five and seven years) at a price fixed at the start. The fixed price may incorporate a discount of up to 20 per cent of the market value of the shares at that time but such a discount is at the discretion of the company. At the end of the pre-determined period, the employee can buy the shares at the agreed price using savings deducted from their salary under an Inland Revenue "save as you earn" (SAYE) contract which the

employee opens with either a building society, bank or the Department for National Savings. The maximum amount which an employee can contribute to their SAYE contract is £250 per month. If the employee elects for a five year contract, at the end of the period, they will not only receive their savings with which they can buy shares but will also receive a single bonus equivalent to 12 months' savings. If however, the employee elects for a seven year contract, at the end of the period they will receive their savings and a double bonus equivalent to 24 months' savings.

5.9 Merit Pay

Merit payment systems were defined by the IPM/IDS (1985) as methods of performance related remuneration which provide for periodic increases in pay which are incorporated into basic salary or wages and which result from assessments of individual performance and personal value to the organisation. Such increases may determine the rate of progression through pay scales or ranges. They are expressed either as percentages of basic pay, as predetermined cash increments or as unconsolidated one off lump sums. This definition includes all those incremental systems where increases are discretionary and not automatic and are based on individual assessment; it excludes productivity or other cash bonuses, incentive payments, piecework payments, fixed service increments, sales commissions and share option schemes.

The central feature of any merit payment systems is the reward of remuneration in return for the achievement of a predetermined level of

performance, or merit level. Crucial to the success of any merit payment system therefore is an effective method of assessing the performance of individuals. This assessment can then be used to determine whether or not the employee has satisfied the necessary "merit criteria" and is eligible for a remunerative reward. Whilst performance appraisal is a common method of assessing the performance of employees, only 40 per cent of those organisations participating in the IPM/IDS 1985 Survey - The Merit Factor, reported the use of performance appraisal when allocating merit pay. There are several methods by which merit pay can be allocated and some of these are examined below:

- a) *Fixed Incremental Scales*: within this type of merit pay system, employees who satisfy the appropriate merit criteria are allowed to progress up a fixed incremental scale at an accelerated rate, perhaps receiving a merit-related incremental rise in addition to their service-related incremental rise. In some cases, those employee who have poor levels of performance may have their service-related increments withheld.
- b) *Percentage Increases*: in this type of system, employees are given a percentage increase on their salary depending on their level of performance. A simple percentage rise system may look as follows:

Performance Level	Percentage Increase
unsatisfactory	0
satisfactory	2
above average	4
excellent	6

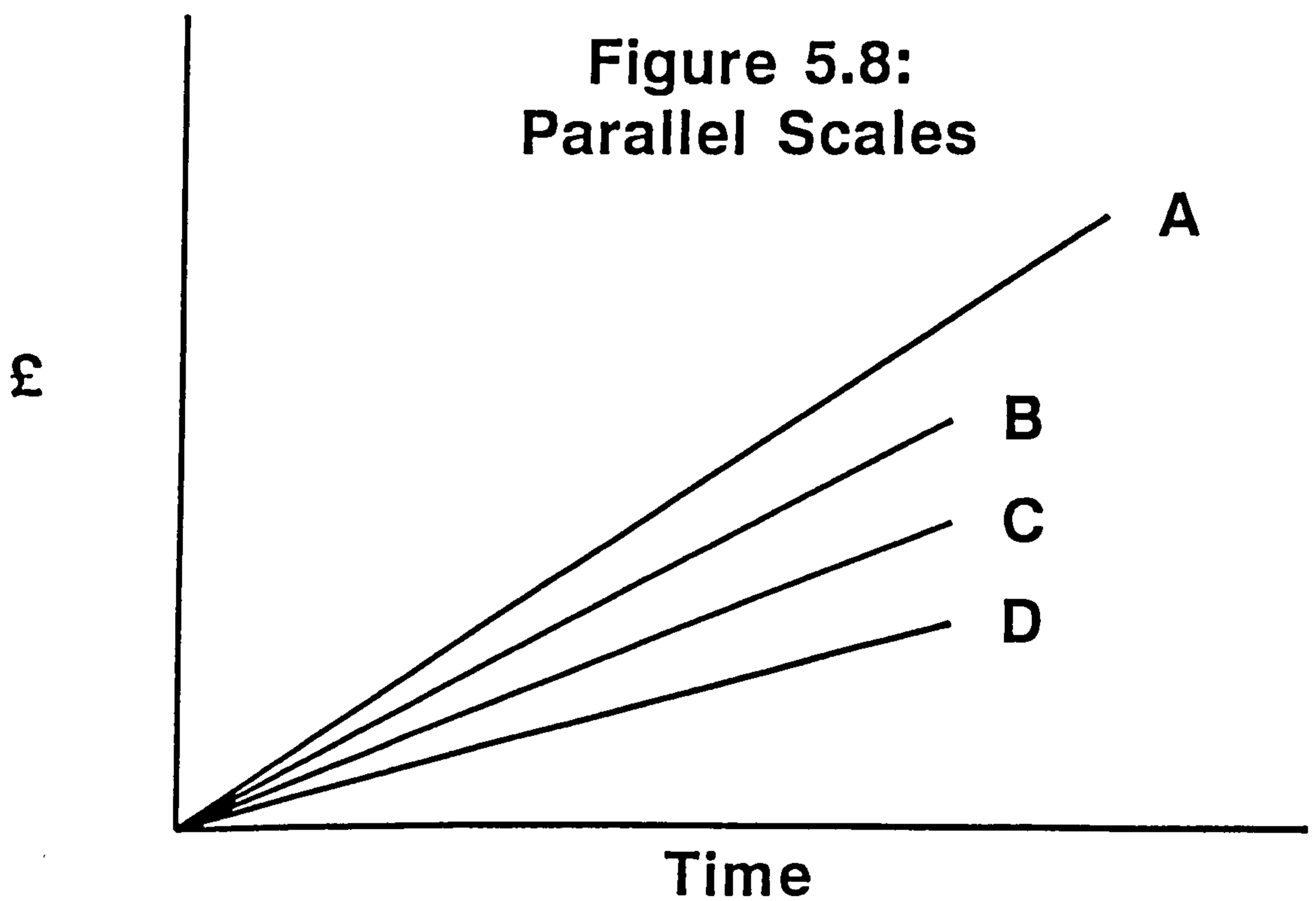
Occasionally, organisations base their percentage increases on a "merit matrix". Such a matrix gives different percentage increases to employees depending on their performance level AND their position in the salary band. An example of a merit matrix may be illustrated as follows:

Percentage Increases by Merit Matrix

Performance Ranking	Position In Salary Band										
	95	96	97	98	99	100	101	102	103	104	105
Outstanding	9	8	8	7	7	6	6	6	5	3	2
Very Effective	7	6	6	5	4	3	2	2	1	0	0
Satisfactory	5	4	3	2	1	1	0	0	0	0	0
Unsatisfactory	0	0	0	0	0	0	0	0	0	0	0

- c) *Parallel Scales*: this system of merit pay allows for individuals in the same job to progress up the salary range at different rates of progression depending on their performance assessment. To enable these different rates of progression, the system has a few salary scales for each particular job to which the individual

is assigned depending on their performance level. Over a period of time therefore, different employees will progress up the salary range, and have different salary limits, according to their performance rating. An example of a parallel scales system of merit pay might be illustrated as in figure 5.8 which is based on four performance ratings, A-D.



- d) *Variable Progression*: this system of merit pay normally has few or no guidelines and permits variable rates of progression to individuals within a given salary range. Normally, the only constraint on the rates of progression are the budget limits for the department/division/company.

- e) *Merit Bars/Control Points*: in a salary system which incorporates a merit bar/control point, an individual can progress up their salary range by fixed or variable increments up to a defined limit. Progression beyond this limit (merit bar/control point) is subject purely to performance.
- d) *Merit Bonuses*: this system provides individuals with a cash bonus, in addition to their salary, provided they meet a pre-defined performance or merit level.

5.10 Summary

Within this chapter, we have examined various systems of PRR which attempt to establish a correlation between the performance level of employees and their subsequent remuneration. Before examining the various systems, it was established that an organisation must "prepare the ground" before they consider introducing a system of PRR. Such preparations involve the examination of the basic pay levels and salary structures, and the provision of any additional remunerative benefits.

It was suggested that organisations could opt for one, or a combination of several main salary structures. These were:

- * graded salary structures
- * individual job ranges
- * progression or pay curves related to competency levels
- * job family systems
- * spot rates
- * pay spines
- * rate for age

When designing or selecting a reward structure, the organisation must ensure that it is appropriate to the needs of the organisation and be flexible enough to respond to internal and external pressures. An effective remuneration system should also be fair and consistent in rewarding employees appropriate to their level of performance - this is where systems of PRR become effective.

In addition to giving adequate consideration to the salary structure and the use of systems of PRR, organisations must evaluate the total remuneration package which may involve the provision of various remunerative benefits. Such benefits may include the provision of company cars, pension schemes, mortgage assistance, relocation assistance, child care/crèche, subsidised catering, social and recreational facilities and so on. In order to be effective, each organisation should design, administer and communicate their package of benefits carefully to ensure that it reflects the needs and objectives of the organisation.

When selecting a system of PRR, organisations have a variety of systems to choose from, each system establishing a different correlation between performance and remuneration. The various systems of PRR available include:

- * Payment By Results - establishing a direct correlation between the level of production and remuneration;
- * Bonus Schemes - providing a cash bonus for the achievement of pre-determined targets;

- * Profit Sharing - allocating to employees a proportion of the profits of the organisation either as cash or shares;
- * Profit Related Pay - establishing a correlation between part of an employee's remuneration and the profits of the organisation, or a part of the organisation in which they work;
- * Sales Incentives - a system of PRR which applies only to sales staff whereby a correlation is established between volume or value of sales and the salesperson's remuneration;
- * Employee Share Ownership Plans - a system of PRR whereby employees are given the opportunity to purchase shares in the company at a discounted price;
- * Merit Pay - establishing a correlation between the remuneration of an individual and their achievement of a pre-determined "merit" level of performance.

Overall, in this chapter, we have examined various aspects of the whole remuneration package - the basic salary, additional benefits and systems of performance related remuneration. It is clear from the above evidence that the possibilities when designing a remuneration package are wide and varied and as a result needs careful consideration. Ultimately, the organisation must consider a) the objectives of the organisation; b) the characteristics of the workforce; c) external pressures; and d) the objectives of the remuneration package.

CHAPTER 6:

METHODOLOGY

6.0 METHODOLOGY

6.1 Introduction

Before deciding upon the methodology to be used in any field of research, it is essential that the researcher establishes at the outset, the aims and the overall approach to the research, the type of data required and the most effective method(s) of gathering such data. Within the field of management research, there are two main approaches to research: the positivist approach and the phenomenological approach.

As Easterby-Smith et al (1991) state:

"The key idea of positivism is that the social world exists externally, and that its properties should be measured through objective methods, rather than being inferred subjectively through sensation, reflection or intuition."

In contrast to this positivist approach, the phenomenological approach suggests that research is subjective and that the researcher should attempt to understand and explain happenings by focusing on meanings and observing the totality of each situation. It is therefore the case that whilst a positivist approach to research methodology may involve the collection of quantitative data in an attempt to describe the characteristics of the research topic and establish various correlations, the phenomenological approach would involve attributing meanings to the observations in an attempt to explain the research topic and any corresponding correlations.

In order to overcome the conflict between the positivist and phenomenological approaches to management research, and to make it possible to draw meaningful conclusions regarding the use of systems of performance related remuneration in the UK food industry, this research has utilised both a cross-sectional and a longitudinal design in the research methodology. As Easterby-Smith et al (1991) suggest:

"Cross-sectional designs, particularly where they use questionnaires and survey techniques, have the ability to describe economically features of large numbers of people or organisations. But two limitations are frequently evident. Firstly, they do not explain why correlations exist; and secondly, they have difficulty in eliminating the external factors which could possibly have caused the observed correlation.... longitudinal research, which focuses on a small number of organisations can remedy these disadvantages."

Whilst the cross-sectional design involved the collection and analysis of quantitative data, the longitudinal design involved the collection and examination of qualitative data. The techniques available for the gathering of quantitative and qualitative data are many and varied and require careful evaluation before finalising the research methodology.

6.2 Quantitative Data

Whilst there are several methods of gathering quantitative data available to the researcher, including interviews, questionnaires, tests/measures and observation, each method has advantages and disadvantages which will influence the choice made by the researcher.

6.2.1 Interviews

Interviews are often used by researchers to gather quantitative data and they are particularly effective where the interviewee can give a factual answer or where they can select a response from four or five alternative answers. The gathering of quantitative data through interview can take place either face to face or by telephone. Whilst this may be an effective method of gathering data, the use of interviews is normally time consuming and it is difficult to remove the influence of the interviewer on the responses.

6.2.2 Tests/Measures

Where the purpose of gathering quantitative data is to analyse what, or how, an individual thinks, the use of tests and measures can be very effective. In the area of employee selection, for example, there are a range of personality, intelligence and psychometric tests which are used to analyse particular characteristics of the candidates, the results of these tests being used as part of the criteria for selection. Whilst the use of tests and measures can assist in the gathering of quantitative data, the difficulty lies in the validity of the analysis of the responses.

6.2.3 Observation

Whilst observation is normally associated with the gathering of qualitative data, a highly structured and systemised observation procedure can be used to gather quantitative data. Such a process

reflects the activity sampling approach of work study and operations management. On the positive side, observation is a relatively simple method of gathering data although care is needed to ensure that the results are not biased by the allocation of observation times.

6.2.4 Questionnaires

Perhaps the most widely used method of gathering quantitative data is the survey questionnaire. A well designed questionnaire with an appropriate structure and layout together with carefully chosen questions can be very effective in gathering quantitative data on a large scale basis. As with all research methods, a vital point to be addressed when using questionnaires to gather quantitative data is the reliability and validity of the analysis.

6.2.5 Methodology: Quantitative Data

The quantitative technique selected for the collection of data in this thesis was a postal questionnaire survey. A postal questionnaire survey was used in preference to other data collection techniques since this method would allow a potentially large sample population from throughout the United Kingdom. In addition, a postal survey seemed to be the most economic and efficient option in terms of cost and time. It was intended that the questionnaire survey should gather information from the various sectors of the food industry, from organisations of different size and from widespread geographical locations.

The design of the questionnaire, and survey technique, were given very careful consideration in the hope that they would help to achieve an acceptable response rate. In addition to consulting colleagues with considerable experience in marketing research, and friends and associates who have already gone through the "PhD hoop", the questionnaire was pretested on five personnel managers from food companies located within the Strathclyde Region of Scotland.

Questionnaires (Appendix 1) were sent to the personnel manager of 415 UK food companies selected at random from the UK Food Trades Directory (1989-1990) using a sample command in MINITAB. The only condition on the sample was the omission of companies from the alcoholic beverage sector of the industry.

The questionnaires were sent out, by first class post, to the companies in September 1990. The questionnaires were accompanied by a covering letter explaining the background to the survey, offering a summary of the results of the survey to respondents and thanking them for their response. A first class stamped return envelope completed the mailing package, which was addressed with a typed self adhesive label and stamped with the SAC postal frank. Responses to the survey were received during the months of October and November of the same year. No follow-up letters were sent out to those organisations not responding to the initial request since such a procedure was considered to be relatively ineffective. Of the original 415 questionnaires sent out, 130 usable responses were received, this representing a response rate of 31.4 per cent. Hodgkinson (1990) suggests that the average response rate for postal questionnaires sent to senior managers is

between 25 and 30 per cent. The response rate achieved in this survey would therefore seem to be quite acceptable.

For reasons of convenience, the questionnaire was split into two sections; section 1 being completed by all respondents and section 2 being completed only by those organisations operating a system of PRR. Section 1 was aimed at gathering information about the organisation, the objectives of PRR and the type of system(s) of PRR in operation. Section 2 was designed to gather operational details of PRR including the categories of employee covered, the methods of measuring performance and any constraints on the operation of PRR. Each question within the questionnaire was designed to provide information to enable the hypothesis to be tested. The main statistical method used to test the hypothesis is the chi-square test. The data from the questionnaires was analysed using the statistical package SPSS PC+.

6.3 Qualitative Data

As with the gathering of quantitative data, there are several methods of gathering qualitative data, including interviews, repertory grid technique, observation and diary methods.

6.3.1 Interviews

Whilst a well structured and appropriately managed interview can be a very effective method of gathering qualitative data, it can be a very complicated procedure and requires careful planning before being put

into operation. The use of interviews within research methodology should hopefully provide the interviewer with an insight into the world of the interviewee. As a result, the interviewer should be able to make assumptions about the area of research and attribute meaning to particular events. In addition, the use of interviews allows the researcher to probe deeper into particular responses and also record any non-verbal communication. Before selecting interviews as apart of a research methodology, the researcher should carefully consider the following points

- * are interviews the best choice in terms of cost -both time and finance?
- * how structured should the interview be?
- * how should the questions be worded to ensure no bias or ambiguity?
- * the interviewer must be perceptive throughout the interview
- * how do you gain entry into an organisation and obtain the trust of the interviewee?

If careful attention is paid to the whole interview process, valuable qualitative data can be the result.

6.3.2 Repertory Grid Technique

The repertory grid technique is a method of gathering qualitative data in areas where information is difficult to articulate. Essentially, the technique involves the allocation of scores (and hence opinion) to particular situations or events. As Easterby-Smith et al (1991) state:

"A repertory grid is a mathematical representation of an individual's perceptions that helps to focus analysis and makes it easier to communicate these perceptions to others [they] can also be used with people who have low verbal ability, making them particularly useful for children and people with language difficulty."

6.3.3 Observation

In addition to being a potentially valuable method of gathering quantitative data, observation can be a very effective method of gathering qualitative data. By observing particular events or behaviour, the researcher is often able to provide an explanation or attribute meaning to such events or behaviour. In order to make the data qualitative, the researcher often becomes a participant observer. There are however different roles which the researcher can assume: researcher as employee (and therefore not being explicit), researcher in an explicit role (being present clearly as a researcher), interrupted involvement, (being present sporadically over a period of time), and observation alone (avoiding interaction). Whichever the role assumed, observation provides the means to assist the understanding of values, motives and practices.

6.3.4 Diary Methods

The use of diary methods is a useful way by which the researcher can obtain a rich qualitative picture behind the motives and perspectives behind behaviour. By asking a sample population to record particular events and behaviours, the researcher may be able to identify particular behaviour patterns and by doing so gain an insight into the meaning behind particular forms of behaviour.

6.3.5 Methodology: Qualitative Data

In order to overcome the conflict between a quantitative, cross-sectional approach to research, it was decided, in addition to take a longitudinal approach and examine in detail how performance related remuneration operated in several of the companies who responded to the questionnaire. The objective of gathering qualitative data was to gather information on: a) why the companies used PRR; b) which systems of PRR they operated; c) how they implemented PRR; and, d) what successes/failures they have had.

The technique used to gather the qualitative data was interviews with the personnel manager from four companies who responded to the questionnaire. This method of data collection was used since it was considered to be appropriate for the purposes of the thesis. As Easterby-Smith et al (1991) comment:

"The gathering of qualitative data via interviews is appropriate "when questions require a good deal of thought and when responses need to be explored and clarified. This process often gives an added degree of confidence to the replies which are not available in questionnaires. In addition, the interviewer does have the opportunity to identify non-verbal clues which are present, for example, in the inflection of the voice [or] facial expressions, and these can be used to develop secondary questions".

The companies selected for interview were chosen carefully to ensure that different sectors of the food industry, companies from different geographical locations and companies of different size were represented. One of the companies was from the starch/miscellaneous foods sector, one from the milk/milk products sector, one from the

bread/biscuits/flour confectionery sector and one from the ice cream/cocoa/chocolate/sugar confectionery sector. These sectors were among those most represented in the questionnaire survey. The size of the companies, in terms of number of employees, ranged from 200 employees to over 26,000. One of the companies was based in Scotland, two in the Midlands of England and one in London. In order to gain access to the companies and to obtain sufficient amount of information, each company was assured that the information which they provided would be treated as strictly confidential and the identity of the four companies would not be disclosed.

Prior to visiting the companies, careful consideration was given to the number and type of questions to be asked at each interview. The specific questions used in each interview and the general areas covered are detailed in Appendix 2. Each interview was recorded on audio tape and further transcribed into text. In addition, most of the companies provided literature on various aspects of their system(s) although it was understood that such literature would not be copied and form part of the final thesis. The interviews with the 4 companies were carried out during September and October 1991 and involved a day visit to each of the organisations.

CHAPTER 7:

**HYPOTHESES ON THE USE OF PRR
WITHIN THE UK FOOD INDUSTRY**

7.0 HYPOTHESES ON THE USE OF PRR WITHIN THE UK FOOD INDUSTRY

7.1 Introduction

Whilst the overall aim of this thesis is to examine the relationship (or correlation) between the performance of employees and their remuneration, in the United Kingdom (UK) food industry, this general aim can be divided into a series of hypotheses. The formulation and use of research hypotheses will essentially have two stages. Firstly, it will be necessary to establish a series of individual hypotheses which, when tested, will make it possible to identify current trends in the use of performance related remuneration (PRR) within the UK food industry. Once the individual hypotheses have been tested, it will be appropriate to bring the hypotheses together and by doing so, establish overall trends and make it possible to predict likely future developments.

7.2 Organisation Size

The first area to be examined is the relationship between the size of an organisation and the likelihood that it will use a system of performance related remuneration. From previous research, the suggestion is that a system of PRR is more likely to be found in organisations with large workforces.

In the 1988 ACAS Survey, Development in Payment Systems, the correlation between organisation size and the use of PRR was examined in three ways:

- i) the use of individual incentive schemes;
- ii) the correlation between merit pay and organisation size (number of employees);
- iii) the correlation between profit related pay and organisation size (number of employees).

Firstly, all the organisations in the sample were asked if they used some kind of individual incentive scheme for at least a part of their workforce, the results are detailed in table 7.1.

TABLE 7.1:
INDIVIDUAL INCENTIVE SCHEMES
BY SIZE OF ORGANISATION
(number of employees)

No. of Employees	% Respondents in each size band
1 - 49	25
50 - 99	37
100 - 199	58
200 - 299	51
300 - 499	61
500 - 1499	72
1500 +	84

N = 664

1988 ACAS Survey: Developments in Payment Systems

The table clearly shows us that with the exception of the 100-199 size band, the frequency of the use of individual incentive schemes steadily

increases in line with an increase in organisation size. For example, from those organisations with a workforce of between 1 and 49 employees, only 25 % of respondents used some form of incentive scheme. In contrast, however, for organisations of between 500 and 1499 employees, 72% of respondents used an incentive scheme of some form.

The 1988 ACAS Survey also examined the correlation between the use of merit pay and organisation size. The organisations in the sample were asked if they used some form of merit pay for at least part of their workforce, the results are detailed in Table 7.2.

TABLE 7.2:
THE USE OF MERIT PAY BY
SIZE OF ORGANISATION
(number of employees)

No. of Employees	% Respondents in each size band
1 - 49	8
50 - 99	13
100 - 199	31
200 - 299	27
300 - 499	36
500 - 1499	54
1500 +	52
N = 618	

1988 ACAS Survey: Development in Payment Systems

Once again, there appears to be a direct correlation between the size of organisation and the use of PRR, with merit pay more likely to be used in organisations with large workforces than in organisations with small workforces. For example, only 8% of the organisations with

between 1 and 49 employees reported using merit pay whilst 54% of those organisations with between 500 and 1499 employees reported such use.

Finally, the 1988 ACAS survey examined the correlation between the use of Profit Related Pay and organisation size. The organisations in the sample were asked whether they had a profit sharing or a share option scheme, the results are detailed in Table 7.3.

TABLE 7.3:
THE INCLUSION OF A PROFIT RELATED COMPONENT
IN PAY ACCORDING TO ORGANISATION SIZE
(number of employees)

No. of Employees	% Respondents in each size band
1 - 49	16
50 - 99	27
100 - 199	31
200 - 299	41
300 - 499	46
500 - 1499	48
1500 +	48

N = 231

1988 ACAS Survey: Developments in Payment Systems

Yet again the correlation between organisation size and the use of PRR, this time in the form of profit related pay, appears quite clear. As the size of the workforce increases, so does the frequency of use of a system of profit related pay.

Overall, the ACAS 1988 survey suggests that it in the United Kingdom, a system of performance related remuneration is more likely to be found

in organisations with a large number of employees. In this thesis therefore, the first hypothesis is as follows:

HYPOTHESIS 1:

WITHIN THE UK FOOD INDUSTRY, THE FREQUENCY OF USE OF A SYSTEM OF PERFORMANCE RELATED REMUNERATION WILL INCREASE IN LINE WITH ORGANISATION SIZE.

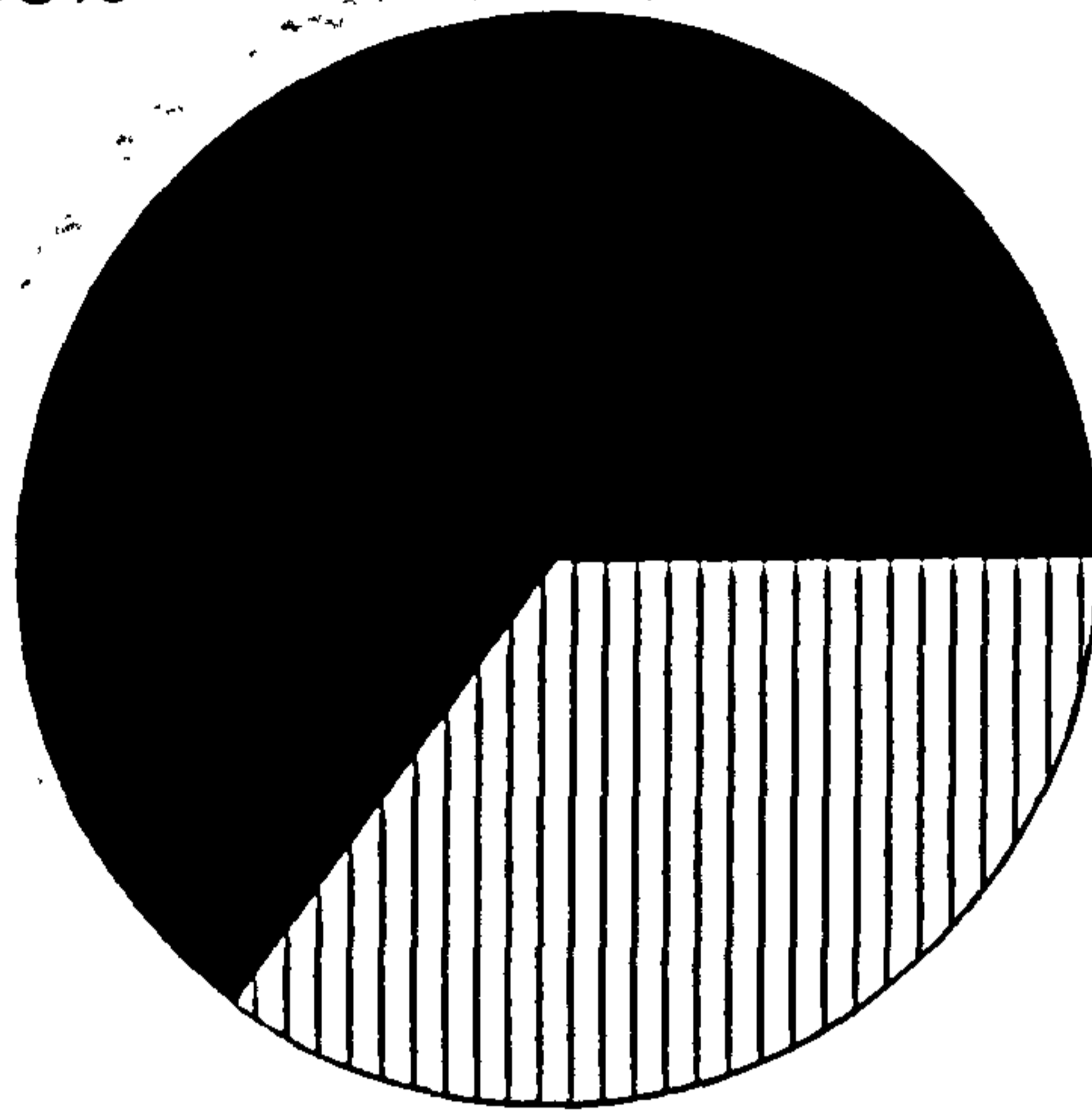
7.3 Trade Union Recognition

Another area to be examined is the relationship between the use of PRR and the recognition/non-recognition of trade unions. Earlier research seems to suggest that a system of PRR is more likely to be found in an organisation where trade unions are recognised than in organisations with no trade union recognition agreement. The 1987 ACAS Survey, Labour Flexibility in Britain examined that correlation between trade union recognition and PRR in three ways.

Firstly, the survey examined trade union recognition and the use of systems of merit pay. From the 584 organisations which were part of the survey, 138 reported the use of a system of merit pay. Of these 138 organisations, 90 (65%) recognised trade unions whilst 48 (35%) did not recognise trade unions. These findings are illustrated in Figure 7.1 and suggest that PRR in the form of merit pay is more likely to be found in organisations which recognise trade unions than in organisations which do not.

Figure 7.1: Merit Pay and Trade Union Recognition

Recognised
65%

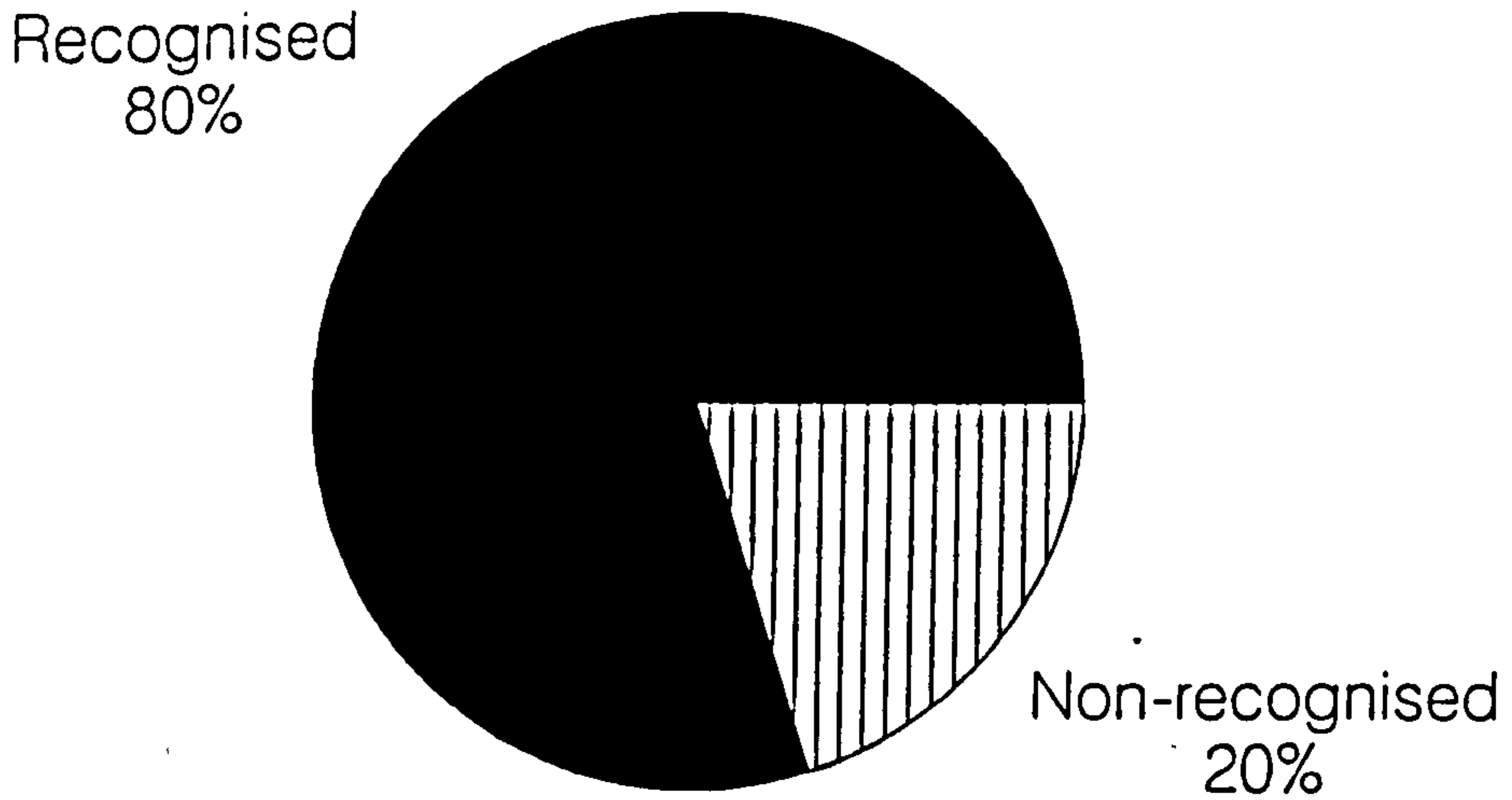


Non-recognised
35%

1987 ACAS Survey: Labour Flexibility in Britain

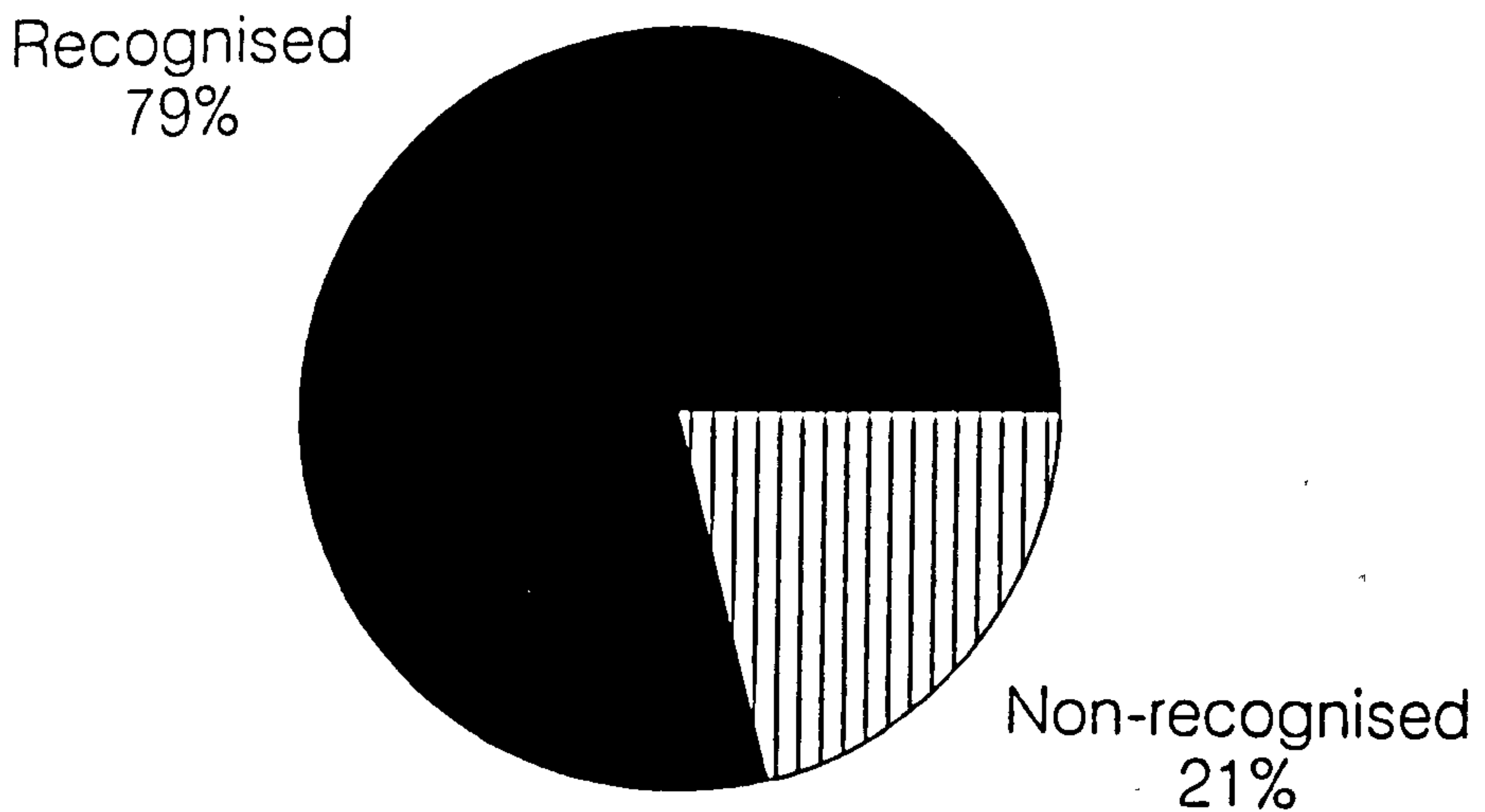
The second area which was examined in relation to PRR and trade union recognition was payment systems which rewarded employees for the acquisition of new skills. From the 584 respondents in the sample, 124 reported that they rewarded employees in some form for the acquisition of new skills. Out of these 124 organisations, 99 (80%) recognised trade unions whilst 25 (20%) did not. These findings are illustrated in Figure 7.2 and again suggest that a system of PRR is more likely to be found in an organisation which recognises trade unions than in an organisation which does not.

Figure 7.2: Reward for Skills and Trade Union Recognition



1987 ACAS Survey: Labour Flexibility in Britain

Figure 7.3: Profit Related Pay and Trade Union Recognition



1987 ACAS Survey: Labour Flexibility in Britain

The final area which was examined in relation to trade union recognition was the use of profit related pay systems. From the 584 respondents to the 1987 ACAS Survey, 151 organisations reported that they used some form of profit related pay and of these 151 organisations, 119 (79%) recognised trade unions whilst 32 (21%) did not. These findings are illustrated in Figure 7.3 above.

Overall, it is clear that from above three areas of study, it can be assumed that a system of PRR is more likely to be found in an organisation which recognises trade unions than in an organisation which does not. In this thesis therefore, the second hypothesis is as follows:

HYPOTHESIS 2:

WITHIN THE UK FOOD INDUSTRY, SYSTEMS OF PERFORMANCE RELATED REMUNERATION WILL BE FOUND MORE OFTEN IN ORGANISATIONS WHICH RECOGNISE TRADE UNIONS THAN ORGANISATIONS WHICH DO NOT.

7.4 Objectives

A third hypothesis which should be examined relates to the objectives behind the use of a system of PRR. Several surveys and articles published in recent years have examined the objectives behind the use of PRR, and when compared, a number of common objectives appear.

In the 1988 ACAS Survey, *Developments in Payment Systems*, organisations

were asked to identify the particular reasons for introducing a system of merit pay. From the 218 responses, three main objectives were highlighted:

i) Rewarding individuals -

the most frequently cited reason for introducing merit pay was to reward individuals according to performance. This reason was cited by 80% of the respondents.

ii) Improving motivation -

46% of the respondents reported the improvement of motivation as being a major reason for introducing merit pay.

iii) Improving performance -

of the 218 respondents, 29% reported the improvement of performance as being a reason behind the introduction of merit pay.

Each of the above objectives of PRR systems are recurring themes in most of the recent surveys/articles on performance related remuneration. This trend is reflected in a publication by the Income Data Services (IDS), Public Sector Unit in 1989 called A Guide to Performance Related Pay.

Within the guide, the objectives of performance related pay within the public sector are examined. These objectives can be highlighted as follows:

- i) the desire to reward individuals according to performance hence taking into account equity considerations which demand that those who perform better should receive higher rewards.
- ii) the need to motivate employees to perform better by concentrating on performance and individual output.
- iii) to promote a "performance culture" which should assist in improving organisation performance.
- iv) the desire to increase management control over salary administration and the overall pay bill, this again would lead to improved organisation efficiency and performance.
- v) to improve recruitment and retention within public sector organisations.

Whilst this Guide primarily deals with the use of performance related pay in the public sector, there is no doubt that the objectives highlighted are not unique to the public sector alone but can also be found in private sector organisations.

A third publication which examines the objectives of performance related pay, this time in the private and public sector is the Performance Related Pay Factsheet published by the Institute of Personnel Management (IPM) in June 1990. This factsheet suggests that the "single most important objective of performance related pay is to

improve performance". Central to this approach is the promotion of a performance-orientated culture. In addition to improved performance, the factsheet reports the following objectives as being central to the effective use of any system of performance related pay:

- * the improvement of employee motivation;
- * rewarding high performing employees with corresponding high rewards; and
- * improving recruitment and retention.

The final publication to be referenced in relation to the objectives of performance related pay is an article by Kinnie and Lowe published in November (1990) in the IPM journal, Personnel Management, entitled "Performance Related Pay On The Shopfloor". Within this article which examines the use of performance related pay in eight private sector companies, two main objectives of performance related pay are reported. Firstly, each one of the companies believed that performance related pay would improve employee motivation, commitment and capability. In addition, it was felt that performance related pay would allocate rewards to those employees who deserved higher rewards, namely the high performers.

Overall, each of the four sources which have been referred to cite a number of common objectives related to performance related pay. These objectives are summarised in Table 7.4.

Figure 7.4:
Objectives of
Performance Related Pay

OBJECTIVE	REFERENCE			
	ACAS	IDS	IPM Factsheet	IPM Article
Rewarding Employees	✓	✓	✓	
Improving Motivation	✓	✓	✓	✓
Improving Performance	✓	✓	✓	✓
Management Control Over Salary Admin.		✓		
Improving Recruitment & Retention		✓	✓	

Kinnie & Lowe (1990)

As can be seen, rewarding employees and improving motivation and performance appear to be the major objectives in relation to performance related pay. In addition, improvements in recruitment and retention and increased management control over salary administration would also appear to be important objectives even although such objectives are only cited in a few of the surveys/articles referenced. From the evidence produced above, the third hypothesis in this thesis is as follows:

HYPOTHESIS 3:

WITHIN THE UK FOOD INDUSTRY, THE OBJECTIVES OF USING A SYSTEM OF PERFORMANCE RELATED REMUNERATION WILL BE -

- * TO REWARD EMPLOYEES ACCORDING TO PERFORMANCE;
- * TO IMPROVE EMPLOYEE MOTIVATION;
- * TO IMPROVE INDIVIDUAL AND ORGANISATION PERFORMANCE;
- * TO IMPROVE EMPLOYEE RECRUITMENT AND RETENTION.

7.5 PRR and Performance Appraisal

The central issue of the fourth hypothesis is the link between PRR and the use of a system of performance appraisal. In order to establish a correlation between employee performance and their remuneration, a systematic assessment of individual, or group performance is required. Perhaps the best known method of assessing performance is through the use of a system of performance appraisal.

The use of performance appraisal as a central feature of systems of PRR has been examined in several studies during the 1980's. The IPM/IDS 1985 study, The Merit Factor - Rewarding Individual Performance makes reference to the use of performance appraisal throughout the report.

Overall, the study found that virtually all of the 125 companies contacted within the study thought that it was impossible to operate a credible merit pay system without some form of performance appraisal. In summary, the report concludes that one of the essential elements of a successful PRR system is "a system based on a fair and equitable

method of measuring performance using a formal performance appraisal scheme".

In 1988, the IDS Top Pay Unit performed a follow-up study to the Merit Factor called Paying for Performance. Once again the relationship between performance appraisal and PRR was examined. Within the study, it is reported that "most of the organisations we spoke to during our research use a formal performance appraisal system and regard it as a prerequisite for performance related pay".

This finding is again found in a Guide to Performance Related Pay published by the IDS Public Sector Unit in August 1989. The guide suggests a series of elements which are necessary for the successful introduction of a PRR scheme. One of these elements is an appraisal system which is simple to understand and operate. In their 1988 Survey, Developments in Payment Systems, ACAS found that 61% of those respondents in their survey using some form of PRR reported the use of performance appraisal.

Overall, it appears that performance appraisal and PRR go 'hand in hand' and that in many organisations, a formal system of performance appraisal is considered to be a prerequisite for a successful system of PRR. As a result, the fourth hypothesis in this thesis is as follows:

HYPOTHESIS 4:

WITHIN THE UK FOOD INDUSTRY MOST SYSTEMS OF PERFORMANCE RELATED REMUNERATION WILL HAVE A DIRECT LINK WITH A FORMAL SYSTEM OF PERFORMANCE APPRAISAL.

7.6 Types of PRR Systems Used

From the many surveys and articles which have been published over the last decade, several trends in the use of various systems of PRR can be identified. These trends give rise to a series of hypotheses regarding the use of PRR in the UK food industry.

In the 1988 ACAS Survey, Developments in Payment Systems, 75% of the 664 organisations surveyed reported the use of some form of PRR. The main systems of PRR which were reported were merit pay (43 per cent) and profit related pay (46 per cent). Interestingly, only a minority of organisations, 15% reported the use of piecework as a system of PRR.

Table 7.4:
THE INTRODUCTION OF INCENTIVE PAYMENT SCHEMES 1983-1990

Type of Scheme	Blue Collar/ Manual Schemes		White Collar/ Non-Manual Schemes	
Payment By Results	5	(5.2%)	-	
Measured Day Work	10	(10.3%)	-	
Multi-Factor	16	(16.5%)	-	
Added Value	5	(5.2%)	-	
Profit Sharing	17	(17.5%)	23	(25.8%)
Merit Pay	13	(13.4%)	54	(60.7%)
Commission	-		1	(1.1%)
Productivity Deals	16	(16.5%)	-	
Others	15	(15.5)	11	(12.4)

Institute of Personnel Management (1990)

Perhaps the most interesting set of statistics produced over the past decade was a review of the introduction of incentive schemes published by the Institute of Personnel Management in 1990 entitled, Incentive Payment Schemes (IPS): A Review of Settlements 1983-1990. The main findings of the review are summarised above in Table 7.4.

From the above table, it is clear that of all the incentive payment schemes introduced between 1983 and 1990, it would appear that merit pay and profit sharing are the favourite systems of PRR for white collar/non-manual employees. The table clearly shows that for this category of employee, merit pay and profit sharing accounted for 77% of the incentive schemes introduced in this country between 1983 and 1990. These findings reflect the findings of the 1988 ACAS survey which reported that in organisations which used some form of merit pay, 74% used it for non-manual employees and in addition, another 21% used it for both manual and non-manual employees. Together, these two surveys provide us with a fifth hypothesis:

HYPOTHESIS 5:

IN THE UK FOOD INDUSTRY THE SYSTEMS OF PERFORMANCE RELATED REMUNERATION COVERING MANAGERIAL/WHITE COLLAR EMPLOYEES WILL MOST LIKELY BE MERIT PAY AND PROFIT RELATED PAY.

From Table 7.4 above, it would appear that there are four main systems of PRR which cover blue collar/manual workers, namely multi-factor, profit sharing, merit pay and productivity deals. Since 1983, these

four systems of PRR have accounted for 63% of the incentive payment schemes introduced in this country for this category of employee. In this thesis therefore, the sixth hypothesis is as follows:

HYPOTHESIS 6:

IN THE UK FOOD INDUSTRY, BLUE COLLAR/MANUAL EMPLOYEES WILL MOST LIKELY BE COVERED BY ONE OF PAYMENT BY RESULTS SYSTEM OF PERFORMANCE RELATED REMUNERATION.

Another trend identified in the 1988 ACAS Survey is that workgroup incentive schemes are more likely to cover manual employees than non-manual employees. In the survey, of those organisations which used workgroup based incentive schemes 63% used them for manual employees, 24% used them for non-manual employees and 13% used them for both manual and non-manual employees. In this thesis therefore, the seventh hypothesis is as follows:

HYPOTHESIS 7:

IN THE UK FOOD INDUSTRY, IF WORKGROUP INCENTIVE SCHEMES ARE USED, THEY WILL MOST LIKELY COVER BLUE COLLAR/MANUAL EMPLOYEES AS OPPOSED TO MANAGERIAL/WHITE COLLAR EMPLOYEES.

A further hypothesis which can be developed from the data produced by the 1988 ACAS Survey relates to the number of systems of PRR operating

within individual organisations. Within the survey, the respondents who reported the use of incentive schemes were asked to state whether they used just one system, or a combination of systems. The results are summarised in Table 7.5:

TABLE 7.5
COMBINATIONS OF INCENTIVES

One Incentive Scheme in Operation	51
Two Incentive Schemes in Operation	32
Three Incentive Schemes in Operation	14
Four or More Incentive Schemes in Operation	3

1988 ACAS Survey: Developments in Payment Systems

From the above table, it appears whilst a slight majority of respondents used only one system, a significant number used more than one, with the used of two systems being particularly popular. In this thesis therefore, the eighth hypothesis is as follows:

HYPOTHESIS 8:

IN THE UK FOOD INDUSTRY, IT WILL BE MORE LIKELY FOR ORGANISATIONS TO USE A COMBINATION OF SYSTEMS OF PERFORMANCE RELATED REMUNERATION THAN RELY ON THE USE OF ONE PARTICULAR SYSTEM.

Finally, in relation to the use of systems of PRR, the Performance Rewards Survey 1987/88 published by the Reward Group report on the

coverage of systems of PRR according to category of employee. The main findings of the survey are summarised in Table 7.6:

TABLE 7.6:
PRR AND CATEGORIES OF EMPLOYEE

Category of Employee	% covered
Manual	23
Sales	58
Clerical	59
Supervisors	63
Managers	66

Reward Group (1988)

Table 7.6 suggests that if a system of PRR is present, it is more likely to effect non-manual employees (sales, clerical, supervisors and managers) than manual employees. In this thesis therefore, the ninth hypothesis is as follows:

HYPOTHESIS 9:

IN THE UK FOOD INDUSTRY, A HIGHER PROPORTION OF WHITE COLLAR/NON-MANUAL EMPLOYEES WILL BE COVERED BY A SYSTEM OF PERFORMANCE RELATED REMUNERATION THAN BLUE COLLAR/MANUAL EMPLOYEES.

In summary, a number of hypotheses have been identified and shall be tested using appropriate research methodology. Once tested and validated, the hypotheses can be used to identify trends in the use of systems of performance related remuneration within the UK food industry.

CHAPTER 8:

**ANALYSIS OF DATA ON THE USE
OF PRR WITHIN THE UK FOOD
INDUSTRY**

8.0 ANALYSIS OF DATA ON THE USE OF PRR WITHIN THE UK FOOD INDUSTRY

8.1 Introduction

In order to gather quantitative data on the use of Performance Related Remuneration (PRR) within the UK Food Industry, a questionnaire survey was undertaken in October/November 1990. In total, 415 questionnaires were sent out to UK Food Companies selected at random from the UK Food Trades Directory (1989-1990) using a sample command in MINITAB. Of the 415 questionnaires sent out, 130 usable responses were received, this representing a response rate of 31.3 per cent.

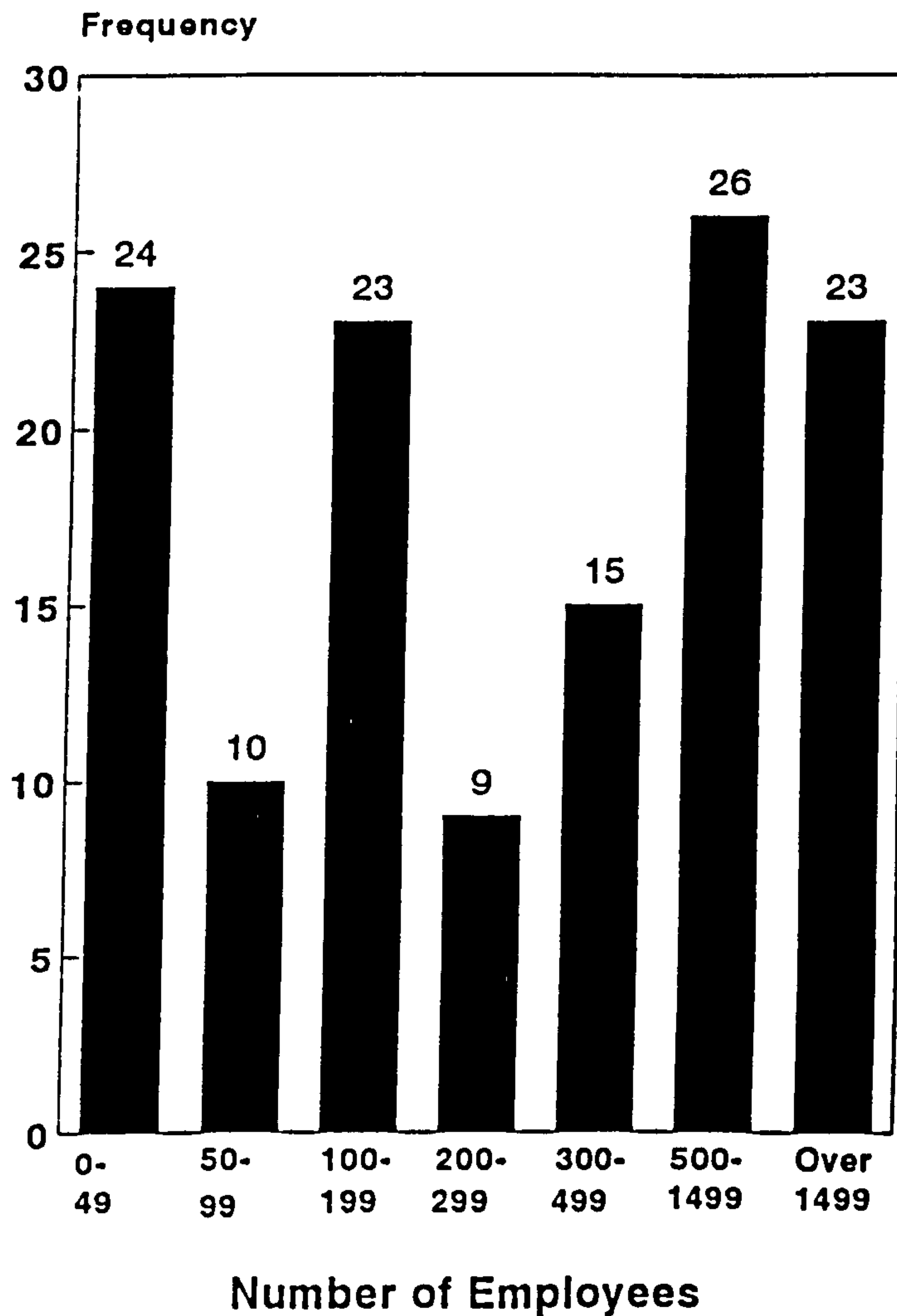
The questionnaire (Appendix 1) was split into two sections to make it simple for the respondents to complete, the majority of the questions being of a multiple response format. The first section was concerned with gathering information about the organisation, the main objectives of PRR, and the types of systems of PRR used within each organisation. The second section of the questionnaire was completed only by those organisations who had systems of PRR in operation and was aimed at gathering information about the systems in use and operational details. A summary of the findings of the questionnaire survey is set out below.

8.2 Representativeness

In relation to company size, the respondents to the questionnaire were asked to indicate how many people were employed by their company by selecting one of seven "size categories" based on the number of

employees within their organisation: 0-49, 50-99, 100-199, 200-299, 300-499, 500-1499, over 1500. The responses are illustrated in Figure 8.1 below and show that overall, the distribution between size categories is good although the categories 50-99 and 200-299 are perhaps under represented.

**Figure 8.1:
Company Size (Number Of Employees)**

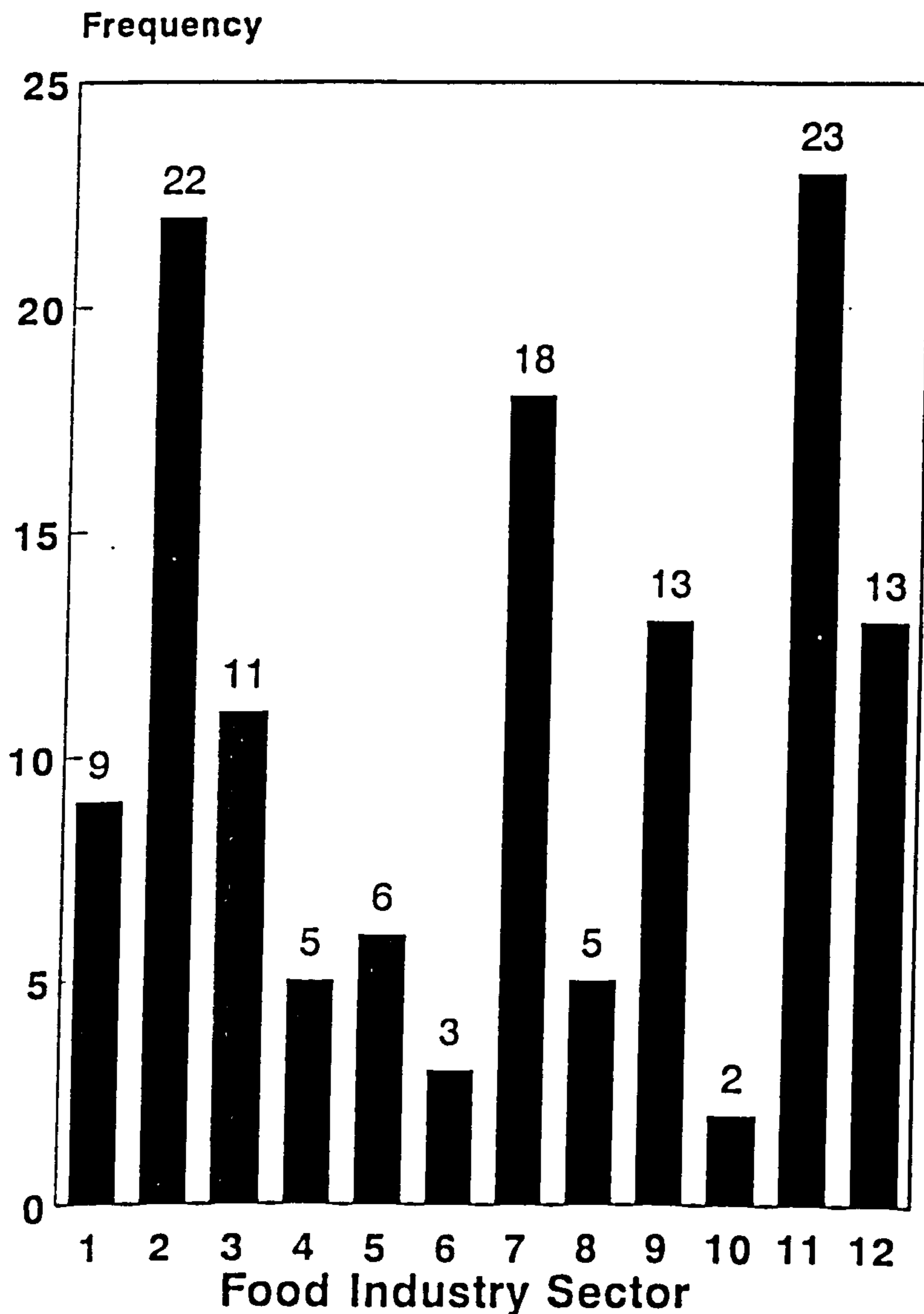


In relation to food sector representation within the survey, the respondents were asked to indicate which of the following Standard Industrial Classifications (1980) best described the main business area of their company:

1. Organic oils and fats
2. Meat/meat by-products
3. Milk/milk products
4. Fruit and vegetables
5. Fish processing
6. Grain milling
7. Bread/biscuits/flour confectionery
8. Sugar/sugar by-products
9. Ice cream/cocoa/chocolate/sugar confectionery
10. Animal feeding stuffs
11. Starch/miscellaneous foods
12. Soft drinks

The responses to this question are illustrated in Figure 8.2 below.

Figure 8.2:
Food Industry Sector Representation



The figure shows that whilst all sectors of the food industry are represented in the survey, some sectors appear to have a very high representation:

1. organic oils and fats
2. meat/meat by-products
3. milk/milk products
7. bread/biscuits/flour confectionery
9. ice cream/cocoa/chocolate/sugar confectionery
11. starch/miscellaneous foods
12. soft drinks

On the other hand, some sectors of the industry appear to have a low representation:

4. fruit and vegetables
5. fish processing
6. grain milling
8. sugar/sugar by-products
10. animal feeding stuffs

One explanation for the differences in low/high representation levels may be that in the UK Food Industry as a whole, some sectors have a high "membership" whilst other sectors have very few "members". In addition, different representation levels may attributed to the fact that some sectors of the Standard Industrial Classifications (1980) are rather general/vague (starch/miscellaneous foods for example) and as a result are more likely to have a higher "membership" than other more specific sectors such as fish processing and animal feeding stuffs.

Overall, it would appear that from the 415 questionnaires sent out, a representative sample was returned in terms of number of responses, size of companies represented and sectors of the food industry represented.

8.3 Use of Systems of PRR

A primary aim of the survey was to determine the level of use of PRR within the UK Food Industry. Much has been written in recent years regarding the use of Performance Related Remuneration in the United Kingdom in general (see chapter 4) but no research has concentrated on the use of PRR within the UK Food Industry.

From the 130 responses to the questionnaire survey, 102 organisations reported the use of some system of PRR, this representing 78.5 per cent of all respondents. Of these 102 companies, 71 (69.6%) reported that PRR had only recently been introduced - at some point between 1980 and 1990. In addition to the 102 companies currently using some form of PRR, a further six companies planned to introduce a system of PRR in the near future. Each of the companies planning to introduce a system of PRR considered Merit Pay to be the most likely option. It is clear therefore that within the UK Food Industry, the use of PRR is widespread.

In hypothesis 1 of this thesis, it was suggested that within the UK Food Industry, the frequency of use of a system of performance related remuneration would increase in line with organisation size, as defined by the number of employees. On examining the number of organisation within each "size category" which operate a system of PRR (Table 8.1 below) the use of PRR appears to be high within each category. On using a chi-square test to test the hypothesis however, the χ^2 value of 0.01417 is smaller than the value of 3.84146 required for the $p < 0.025$ level of significance. This indicates that the correlation between the

use of PRR and organisation size, as defined by number of employees is not significant and therefore does not support the prediction stated in the research hypothesis. It is therefore the case that within the UK food industry, there is no correlation between the use of Performance Related Remuneration and organisation size, as defined by number of employees.

Table 8.1:
THE USE OF PRR BY COMPANY SIZE
(number of employees)

Number of Employees	Percentage of Companies in each "size category" reporting the use of PRR
0 - 49	75
50 - 99	90
100 - 199	78.3
200 - 299	66.7
300 - 499	66.7
500 - 1499	84.6
Over 1499	82.6

On examining the relationship between the different sectors of the UK Food Industry and the use of PRR, a few interesting trends can be identified. Table 8.2 provides details of the percentage of respondents from each industrial classification who operate a system of PRR. One interesting finding is the fact that all the industrial sectors have a very high proportion of companies operating systems of PRR. The lowest incidence of PRR appears to be in the "sugar/sugar by-products" sector but even here, 60.0 per cent of respondents from this sector reported the use of PRR.

Table 8.2:
THE USE OF PRR BY FOOD INDUSTRY SECTOR

Industrial Classification	Percentage of Companies in each sector reporting the use of PRR
Organic oils and fats	77.8
Meat/meat by-products	77.3
Milk/milk products	72.7
Fruit and vegetables	100.0
Fish processing	66.7
Grain milling	100.0
Bread/biscuits/flour confectionery	61.1
Sugar/sugar by-products	60.0
Ice cream/cocoa/chocolate/ sugar confectionery	84.6
Animal feeding stuffs	100.0
Starch/miscellaneous foods	87.0
Soft drinks	84.6

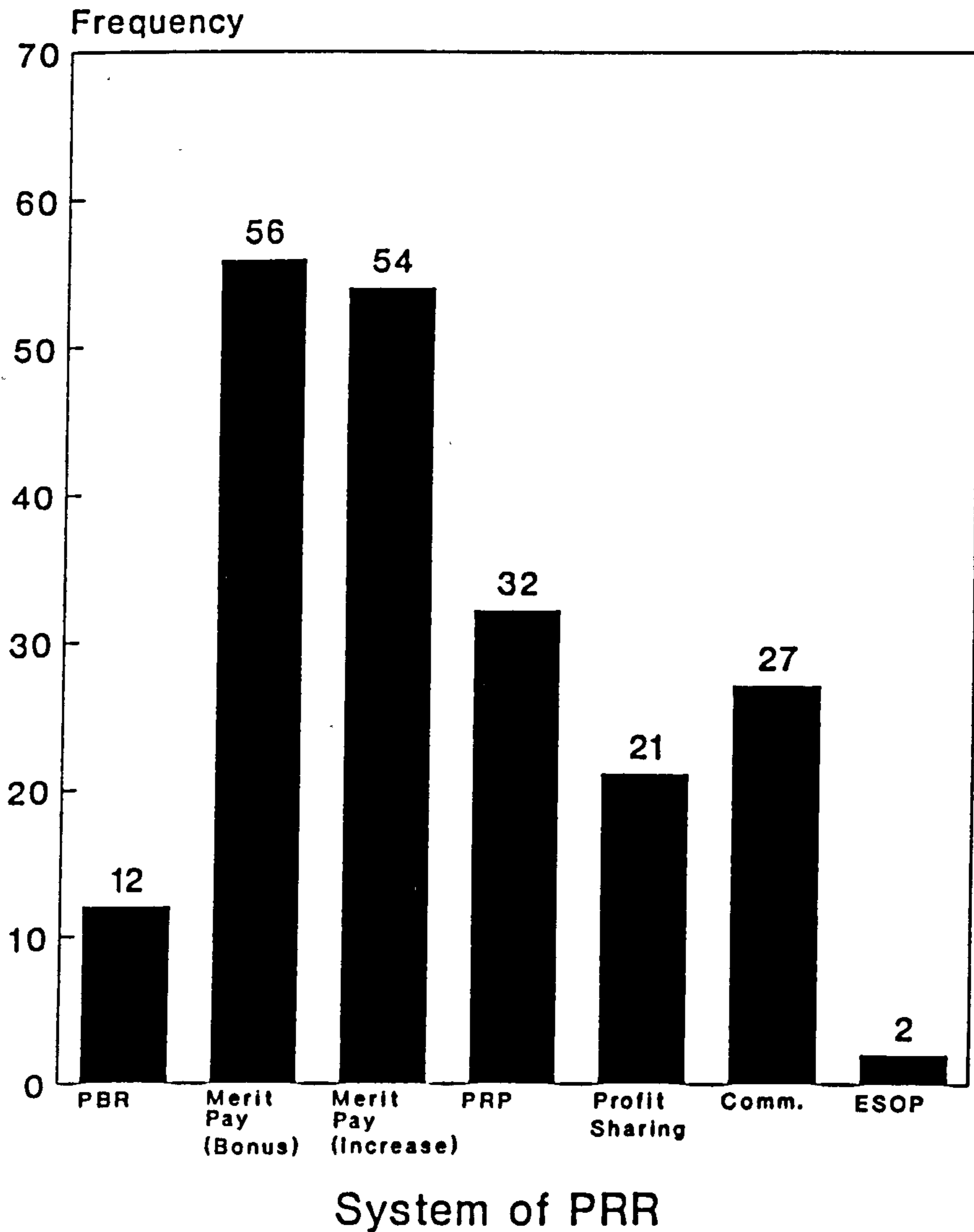
Most sectors had more than 75 per cent of respondents reporting the use of PRR and in three sectors (fruit and vegetables, grain milling, and animal feeding stuffs) 100 per cent of respondents reported the use of some form of PRR - the number of respondents from these sectors was however limited.

Whilst it is known that 102 respondents to the questionnaire use some form of PRR, it is important to identify which systems are actually used. The questionnaire asked the respondents to identify, from a series of alternatives which system(s) of PRR operated within their company. The alternatives were:

1. Payment by results
2. Merit Pay (bonus)
3. Merit Pay (increase on salary/wage)
4. Profit Related Pay
5. Profit Sharing
6. Commission
7. Employee Share Ownership Plans

The responses to the question are detailed in Figure 8.3 below:

**Figure 8.3:
Use of PRR, by System**



The figure clearly illustrates that the most widely used systems of PRR within the UK Food Industry are Merit Pay in the form of a bonus (56 companies), and Merit Pay in the form of an increase on salary or wage (54 companies). Other systems of PRR which are widely used are Profit Related Pay (32 companies), Commission (27 companies) and Profit Sharing (21 companies), although these three systems appear to be less

common than the two forms of Merit Pay. One interesting finding of the survey was the incidence of use of Payment By Results systems of PRR. Only 12 companies reported the use of PBR, this representing just 11.8 per cent of those companies operating PRR. The other system of PRR, Employee Share Ownership Plans appears to have a very low usage rate with only two companies reporting it's use.

On examining the potential correlation between the system of PRR in use and the size of the organisation, as defined by number of employees, it was decided to test the hypothesis that for each system, the frequency of use of such a system would increase with organisation size. On using a chi-square test to test this hypothesis for merit pay in the form of a salary increase, the χ^2 value of 13.74 is found to be larger than the value of 7.87944 required for the $p < 0.0025$ level of significance. This indicates that the correlation between the use of Merit Pay (salary) and organisation size is significant and supports the prediction stated in the above hypothesis. For each of the other systems of PRR the χ^2 values are smaller than the value of 3.84146 required for the $p < 0.025$ level of significance. This indicates that for the other systems of PRR, there is no correlation between the frequency of use and organisation size.

Overall therefore, there are five main systems of PRR in use within the UK Food Industry with the two forms of Merit Pay being utilised significantly more than the other systems. Generally, there appears to be no direct correlation between the use of PRR and organisation size.

On examining how many systems of PRR were in operation within each company, it was found that of the 102 companies operating PRR, whilst 38 companies relied entirely on one system of PRR, 64 companies used more than one system. These findings are detailed in Table 8.3 below.

Table 8.3:
NUMBER OF SYSTEMS OF PRR IN USE WITHIN EACH COMPANY

Number of Systems	Number of Companies
None	28
1	38
2	36
3	19
4	8
5	1

The above information was used to test hypothesis 8 of this thesis which suggested that within the UK Food Industry it would be more likely to find organisations using a combination of systems of PRR than relying on use of one particular system. On using a chi-square test to test the hypothesis, the χ^2 value of 13.25490 is found to be larger than the value of 7.87944 required for the $p < 0.0025$ level of significance. This therefore supports the prediction made in the research hypothesis. These findings suggest that when organisations opt to use Performance Related Remuneration as a method of performance management, their use tends to extend to the operation of more than one system of PRR.

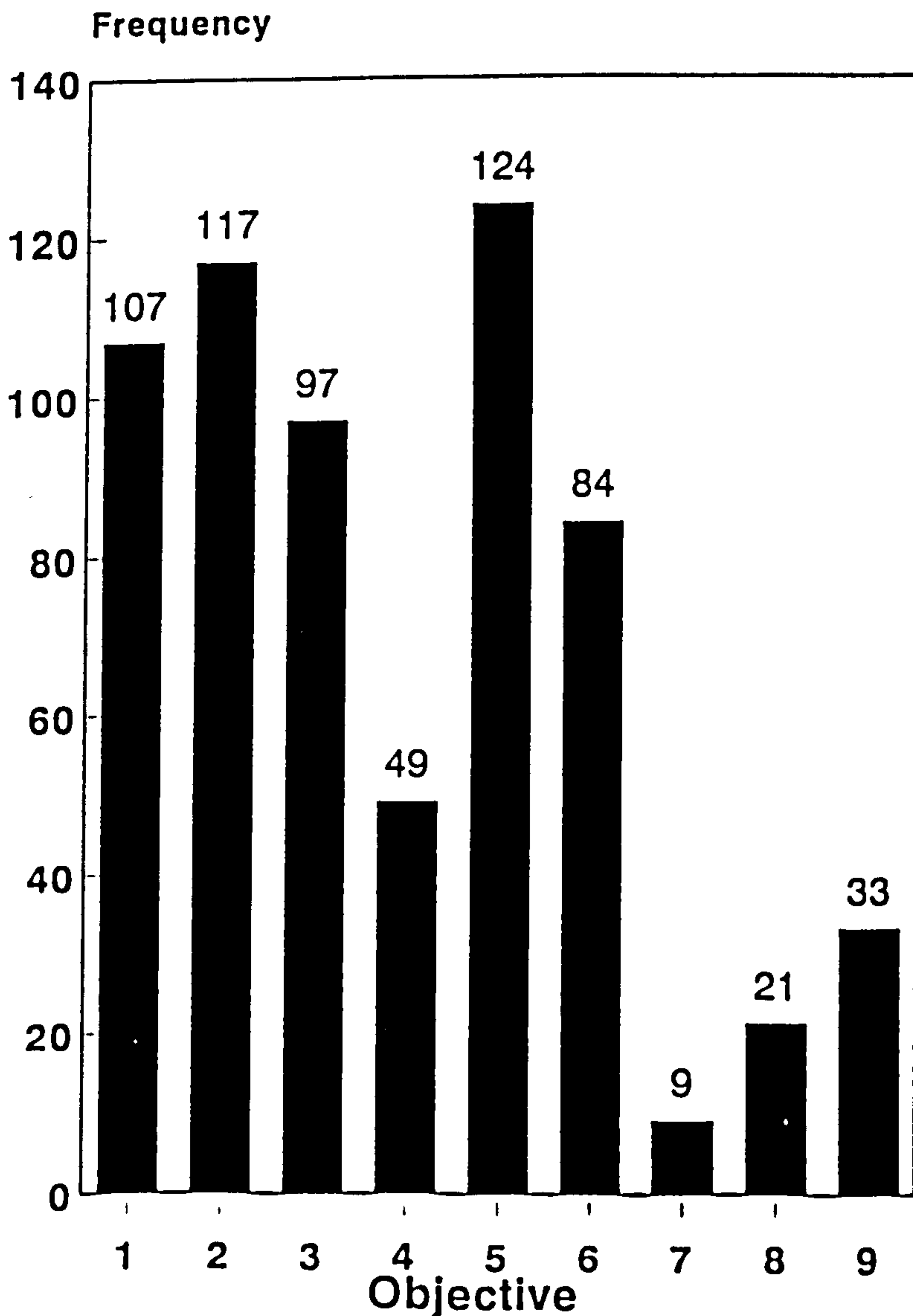
8.4 Objectives of PRR

In addition to finding out which systems of PRR are in use within the

UK Food Industry, the questionnaire sought to discover the main objectives behind the use of PRR, in the opinion of the companies surveyed. Each of the 130 respondents were asked to select and rank, from a series of nine possible objectives, what they considered to be the five main objectives of PRR. The nine possible objectives were:

1. To increase output
2. To increase profit
3. To improve quality
4. To improve recruitment
5. To motivate staff
6. To improve employee work satisfaction
7. To satisfy employee/trade union demands
8. To assist with organisational change
9. To improve managerial control over remuneration

Figure 8.4:
Stated Objectives of PRR



Before considering how the objectives were ranked it is useful to highlight the total number of times each objective was chosen by the respondents. This information is illustrated in Figure 8.4 above.

Once again, some clear trends are apparent. It would appear that within the UK Food Industry, the main objectives of PRR are related to motivating staff (124), increasing profit (117), increasing output (107), improving quality (97) and improving employee work satisfaction (84).

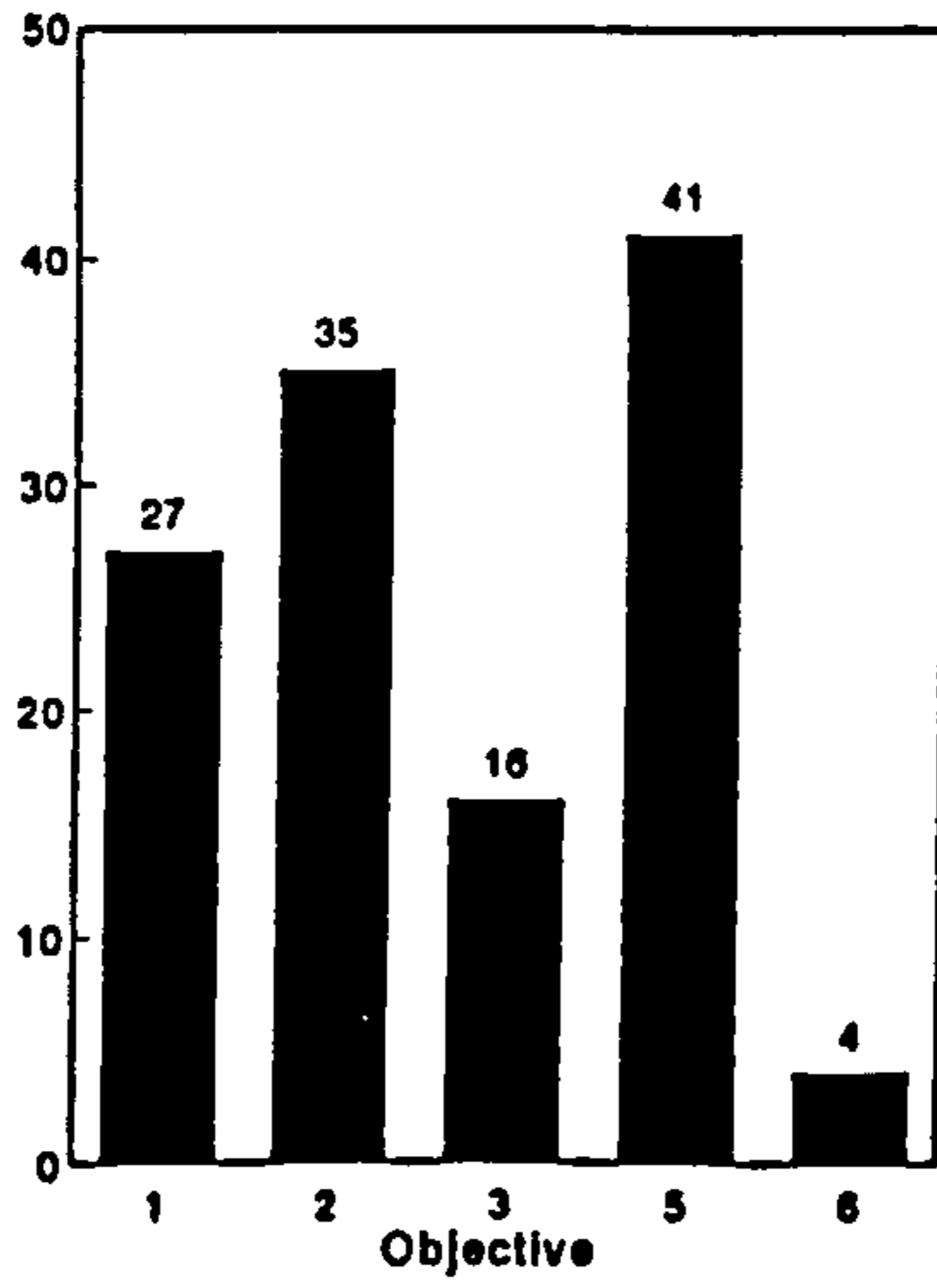
Motivating staff was considered to be an objective of PRR by 95.4 per cent of respondents, indicating that organisations clearly believe that remuneration is an effective method of motivating employees. In addition, 64.6 per cent of respondents indicated that in their opinion, as well as motivating the employees, PRR would assist in improving employee work satisfaction.

The other three most commonly cited objectives of PRR relate to improving the performance of the organisation, albeit as a result of improved employee performance.

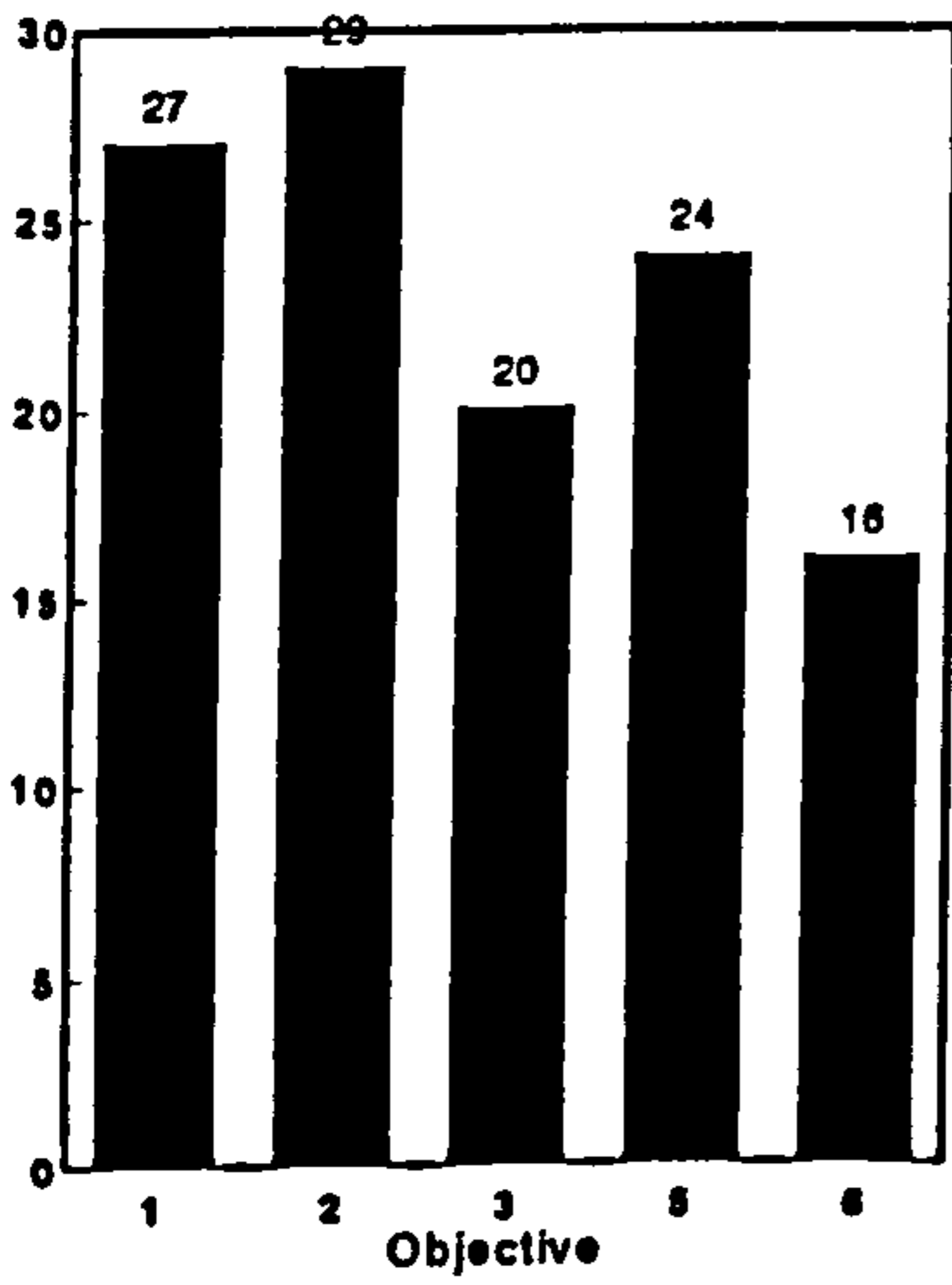
These trends are again apparent if we examine how the respondents ranked each objective. This information is illustrated in Figure 8.5 below and shows the top five objectives in each ranking category. If we consider which objectives were ranked 1, 2, 3 and 4, it is the five objectives mentioned above which are predominant.

Figure 8.5: Ranking of Objectives

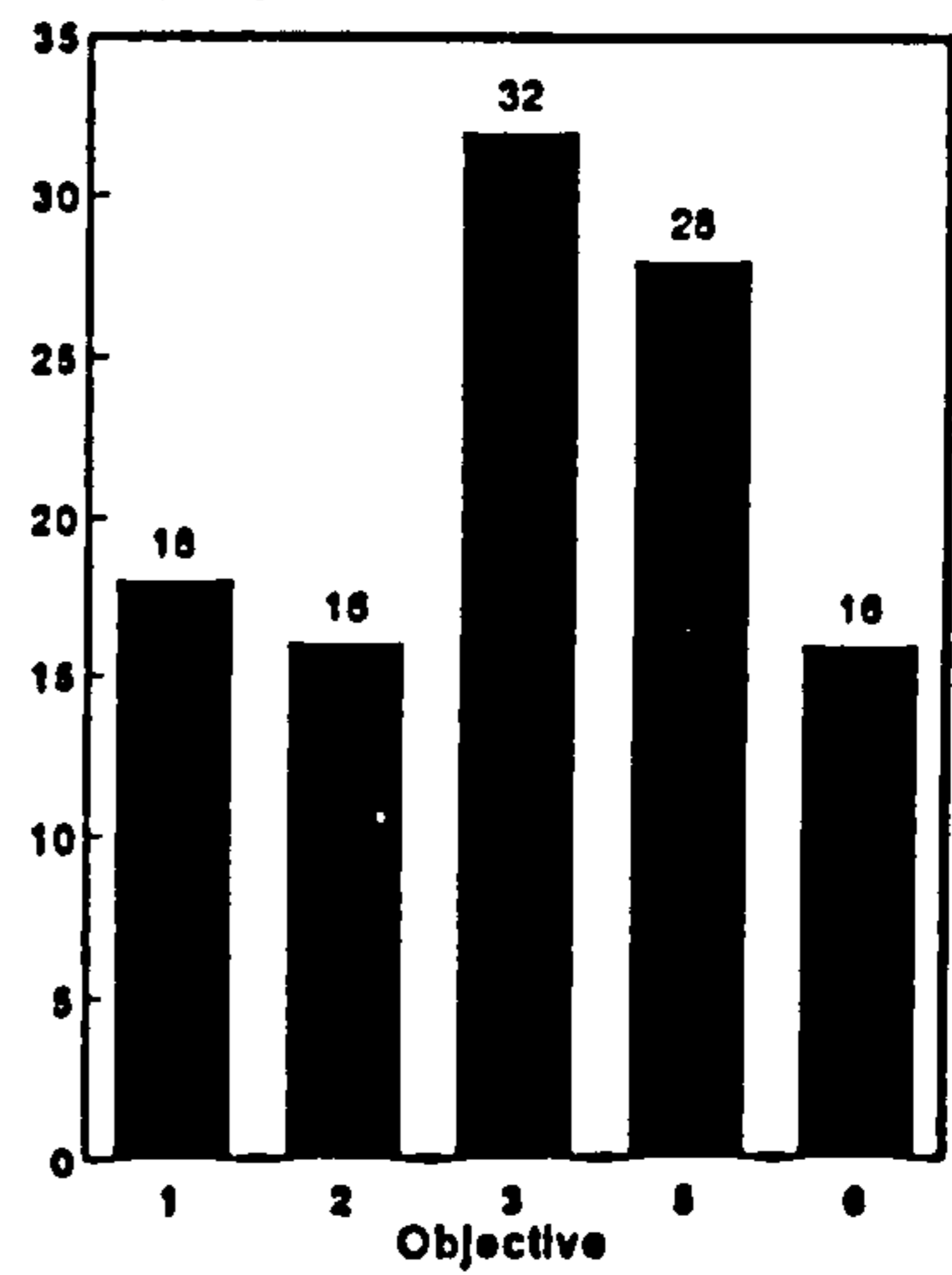
Objectives Ranked 1
Frequency



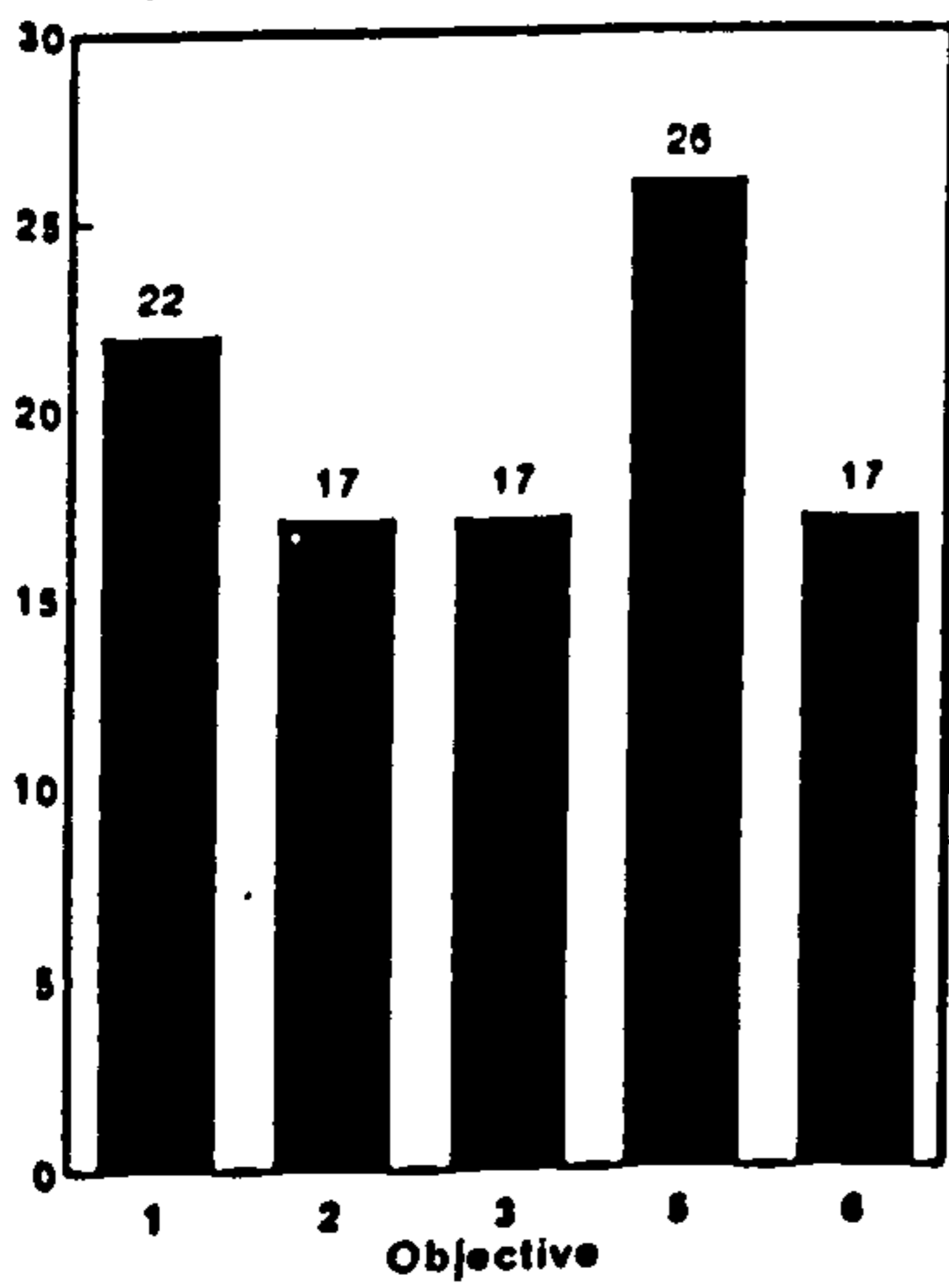
Objectives Ranked 2
Frequency



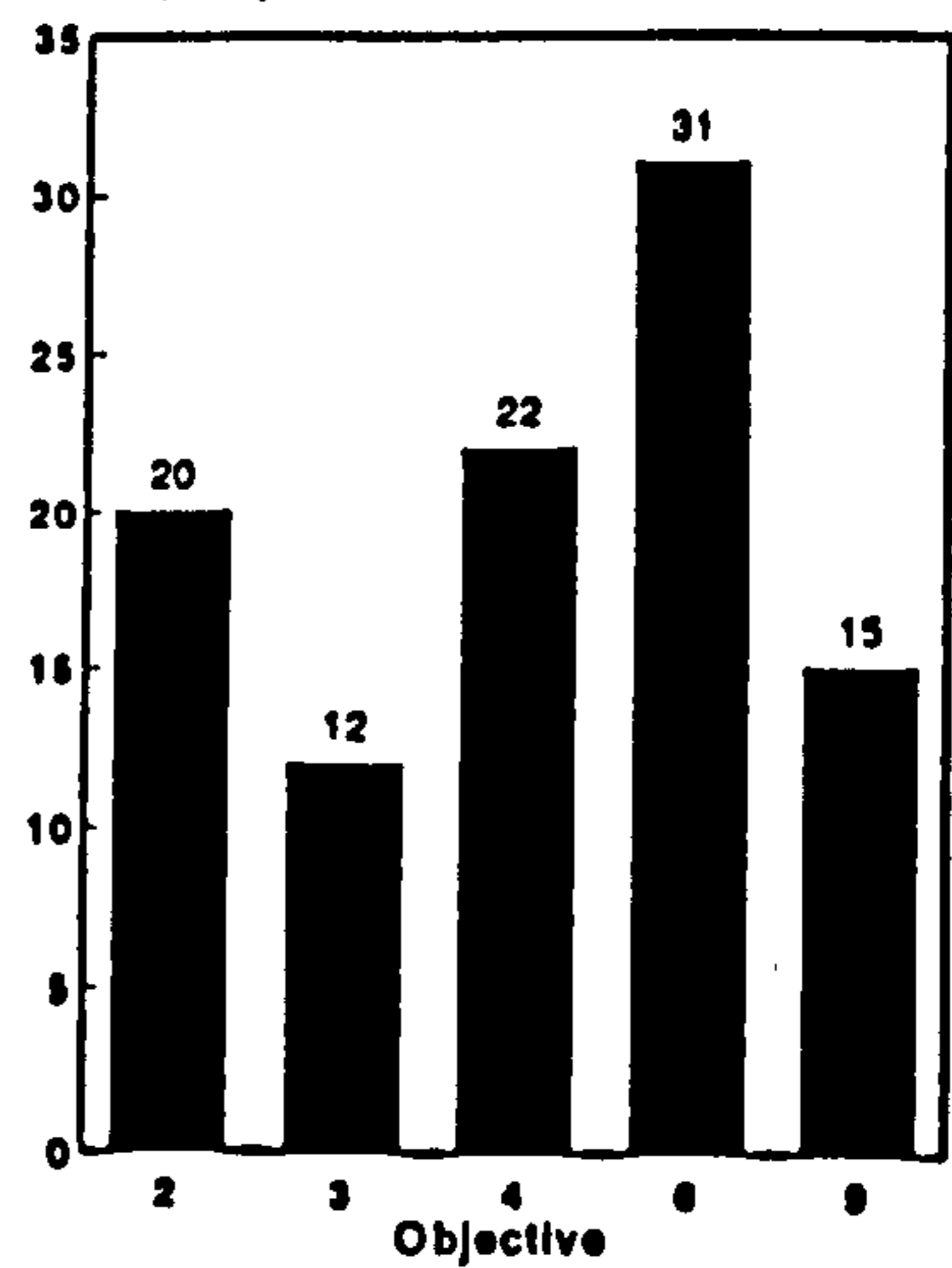
Objectives Ranked 3
Frequency



Objectives Ranked 4
Frequency



Objectives Ranked 5
Frequency



In particular, increasing output, increasing profit and motivating staff have consistently high rankings. It is only when we examine which objectives were ranked 5 that other objectives begin to appear - improving recruitment and improving managerial control over remuneration.

Overall, the total number of times which each objective was chosen by the respondents and the way in which they were ranked indicates that within the UK Food Industry, the main objectives of PRR are considered to be:

- * to increase output
- * to increase profit
- * to improve quality
- * to motivate staff
- * to improve employee work satisfaction

The above findings support in hypothesis 3 of this thesis which suggested that within the UK Food Industry, the objectives of using a system of performance related remuneration would be:

- * To reward employees according to performance;
- * To improve employee motivation;
- * To improve individual and organisational performance;
- * to improve employee recruitment and retention.

8.5 Trade Union Presence

A further aim of the questionnaire was to identify the relationship, if any, between the use of PRR and the presence or absence of trade unions within companies. Of the 130 respondents to the questionnaire, 53.8 per cent of companies reported the presence of trade unions whilst 46.2 per cent reported that their companies were non-unionised. The above information was used to test hypothesis 2 of this thesis which suggested that within the UK Food Industry, systems of performance related remuneration would be found more often in organisations which recognise trade unions than organisations which do not. On using a chi-square test to test the hypothesis, the χ^2 value of 0.1569 is smaller than the value of 3.84146 required for the $p < 0.025$ level of significance. This indicates that the correlation between the use of PRR and the presence and recognition of trade unions is not significant and therefore does not support the prediction stated in the research hypothesis. It is therefore the case that there is no correlation between the use of performance related remuneration and the presence and recognition of trade unions.

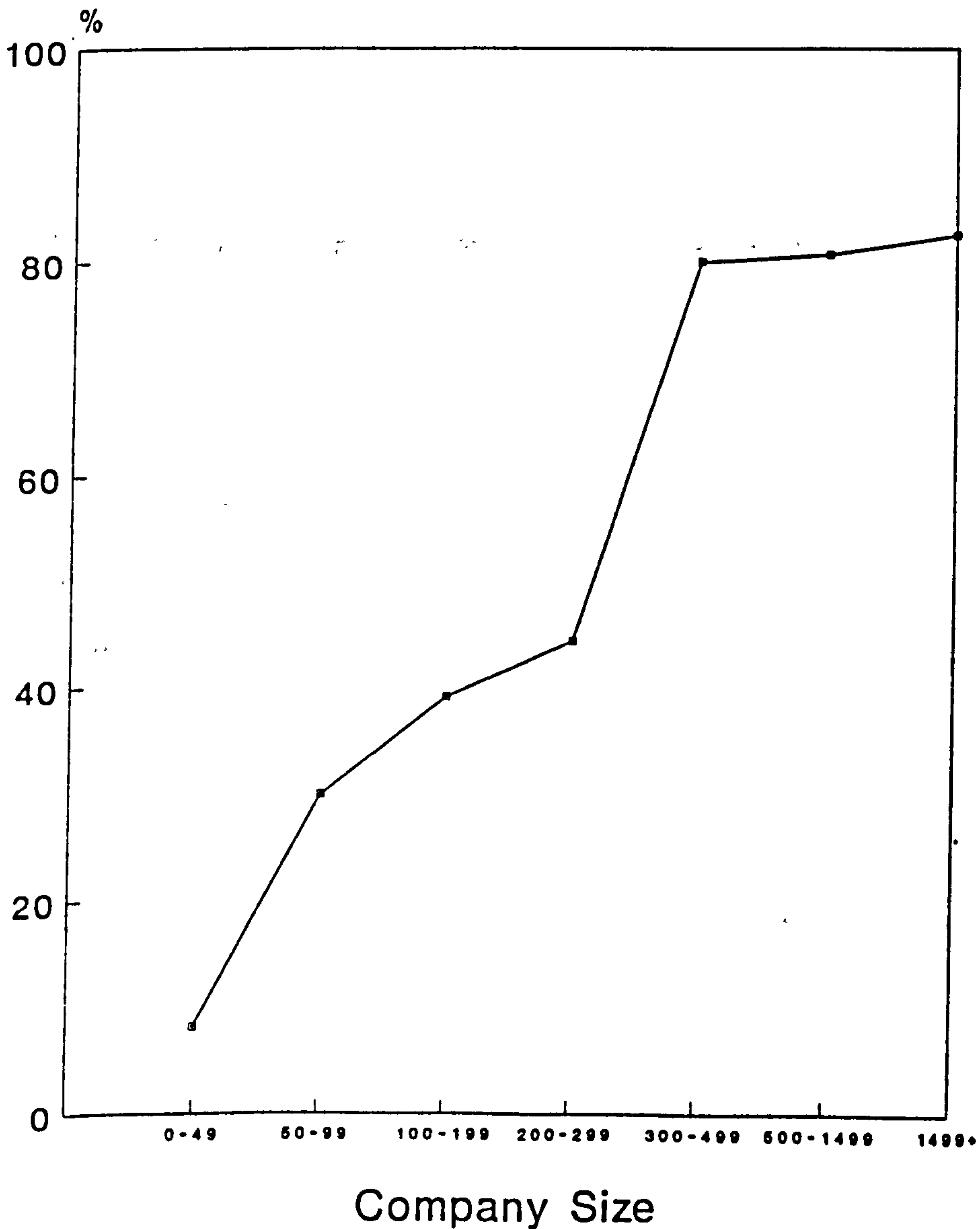
Table 8.4:
TRADE UNION PRESENCE

Trade Union (1990)	Number of Organisations
Transport & General Workers Union	43
Amalgamated Engineering Union	30
Union of Shop, Distributive and Allied Workers	22
Electrical, Electronic, Telecommunication & Plumbing Union	22
General Municipal Boilermakers and Allied Trades Union	15
Manufacturing, Science and Finance	14

Table 8.4 above, provides details of which Trade Unions were present within the organisations responding to the questionnaire survey.

A further finding of the questionnaire was the relationship between company size, as defined by number of employees, and the presence of trade unions. These findings are illustrated in Figure 8.6 below.

**Figure 8.6:
Trade Union Presence By Company Size**



The figure clearly shows that there is a direct correlation between the presence of trade unions and company size - as company size increases, so does the likelihood of the presence of trade unions. This can be further proven through the use of a chi-square test. On testing the correlation of trade union presence and organisation size, the χ^2 value of 36.99 is significantly larger than the value of 7.87944 required for the $p < 0.0025$ level of significance. This indicates that there is a direct correlation between the presence of trade unions and organisation size - as company size increases, the probability of trade union presence also increases.

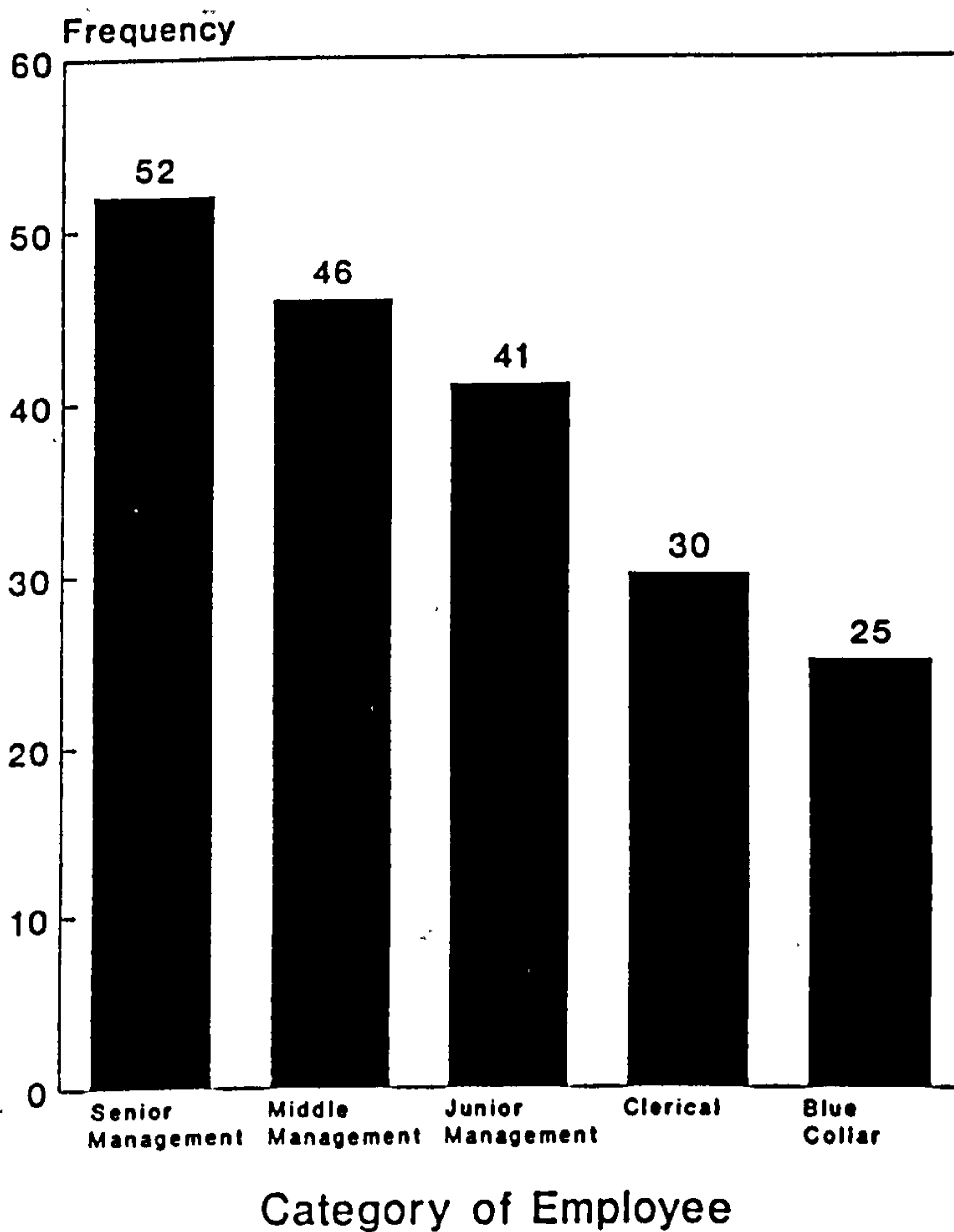
8.6 Alternative Systems of Performance Management

The 130 respondents to the questionnaire were asked to state which system(s) of performance management their company used instead of, or in addition to PRR. Thirty one companies reported the use of what they considered to be alternative systems of performance management. These systems included incremental pay scales, quality circles, high levels of base pay, open learning schemes, suggestion schemes and team working. The most commonly cited alternative system of performance management however, was objective setting/performance appraisal. In addition to the use of performance appraisal in it's own right, many organisations reported that their performance appraisal system was directly linked to the operation of their system(s) of PRR - this aspect is examined later.

8.7 Coverage of PRR

The 102 respondents who had a system of PRR in operation were asked to detail which categories of employee were covered by their system(s). The main findings are illustrated in Figure 8.7 below.

Figure 8.7:
Category of Employee Covered by PRR



From the figure, it is clear that PRR is more likely to be found amongst managerial grades than amongst clerical and blue collar workers. In addition, it also appears that as management grades become more senior, they are increasingly likely to be covered by some system of PRR.

In hypothesis 9 of this thesis, the above outcome was predicted - that within the UK Food Industry, a higher proportion of managerial/white collar employees will be covered by a system of performance related remuneration than blue collar/manual employees. By performing a chi-square test, this hypothesis can be tested. Such a test gives a χ^2 value of 25.45 which is larger than the value of 7.87944 required for the $p < 0.0025$ level of significance. This indicates that the correlation between management/white collar grades and the coverage of PRR is significant and therefore supports the above research hypotheses.

In hypotheses 5 and 6 of this thesis, predictions were made regarding the systems of PRR likely to cover different categories of employee. In hypothesis 5, it was predicted that within the UK food industry, the systems of performance related remuneration covering managerial/white collar employees would be merit pay and profit related pay. In hypothesis 6, however, it was predicted that within the UK food industry, blue collar/manual employees would most likely be covered by the payment by results system of performance related remuneration. To determine the correlation, if any, between the various systems of PRR and different categories of employees, chi-square tests were performed. The results of these tests are given in Table 8.5 below.

From the table, it can be observed that for managerial/white collar employees, the χ^2 value is larger than the value of 3.84146 required for the $p < 0.025$ level of significance for the following systems of PRR:

- * merit pay (bonus)
- * merit pay (salary)
- * profit related pay

Table 8.5:
RESULTS OF CHI-SQUARE TESTS ON THE
CORRELATION BETWEEN SYSTEM OF PRR
AND CATEGORY OF EMPLOYEE

	Management/ White Collar	Blue Collar/ Manual	Value Required for $p < 0.025$
Payment By Results	0.2678695	13.01399	3.84146
Merit Pay (Bonus)	6.231497	3.615095	3.84146
Merit Pay (Salary)	13.56001	1.159658	3.84146
Profit Related Pay	4.384868	1.238095	3.84146
Profit Sharing	0.2031597	0.3943082	3.84146

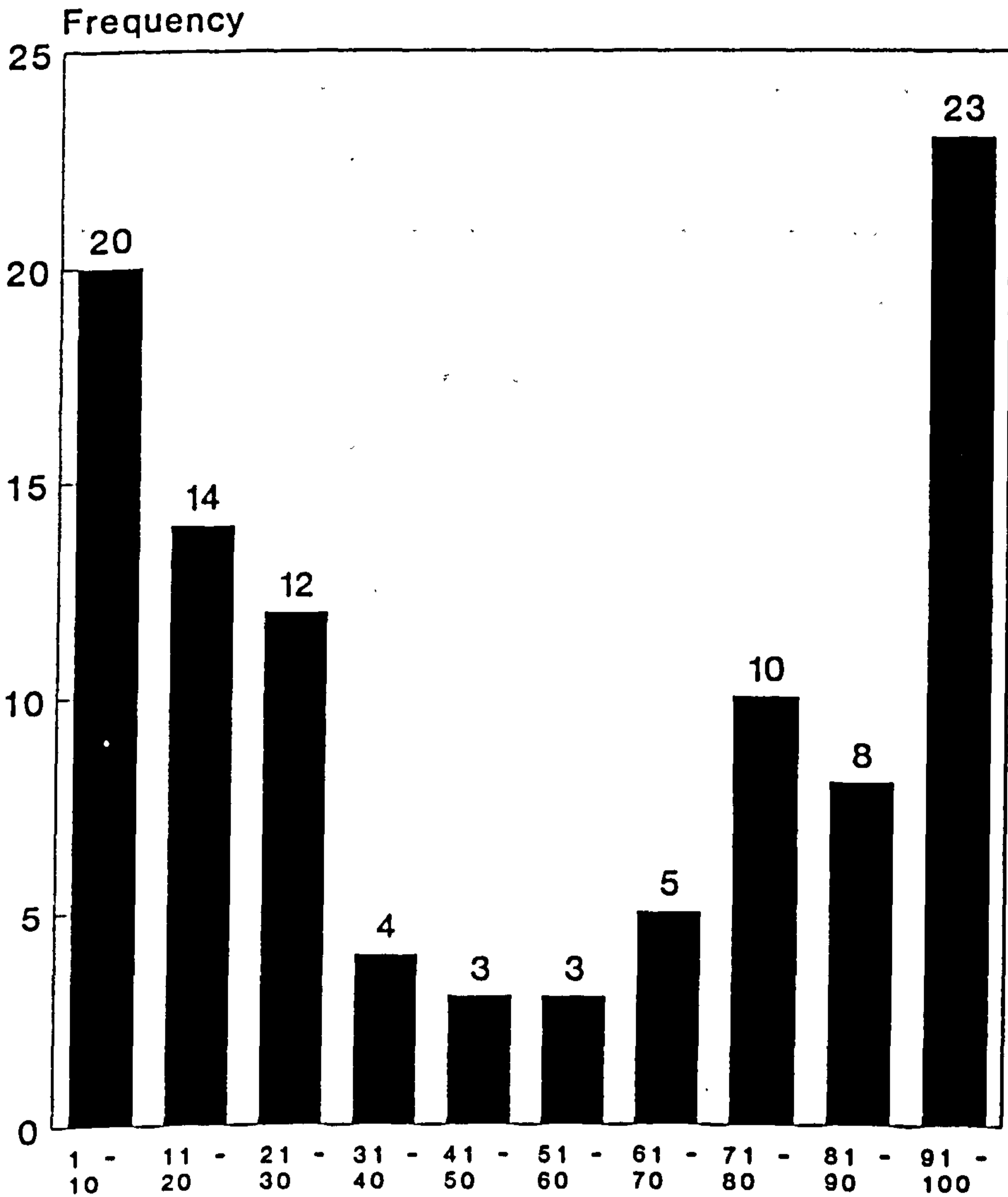
These findings indicate that the correlations between managerial/white collar employees and these systems of PRR are significant and therefore support the predictions made in hypothesis 5.

It can also be observed from the table that for blue collar/manual employees, the χ^2 value is larger than the value of 3.84146 required for the $p < 0.025$ level of significance for the payment by results system of PRR. This indicates that the correlation between blue collar/manual employees and the payment by results system of PRR is significant and therefore supports the prediction made in hypothesis 6.

Another important factor regarding the coverage of PRR relates to the number of employees within each company actually covered by a system of

PRR. Figure 8.8 below illustrates the percentage number of employees covered by PRR.

**Figure 8.8:
Percentage of Employees Covered by PRR**



The above figure clearly shows that there are widespread differences between companies regarding the percentage number of employees covered by a system of PRR, from 1 - 10 per cent at the lower level through to 91 - 100 percent at the other extreme. Whilst 23 of the 102 companies operating PRR reported that between 91 and 100 per cent of their employees were covered, 20 of the 102 reported that only between 1 and

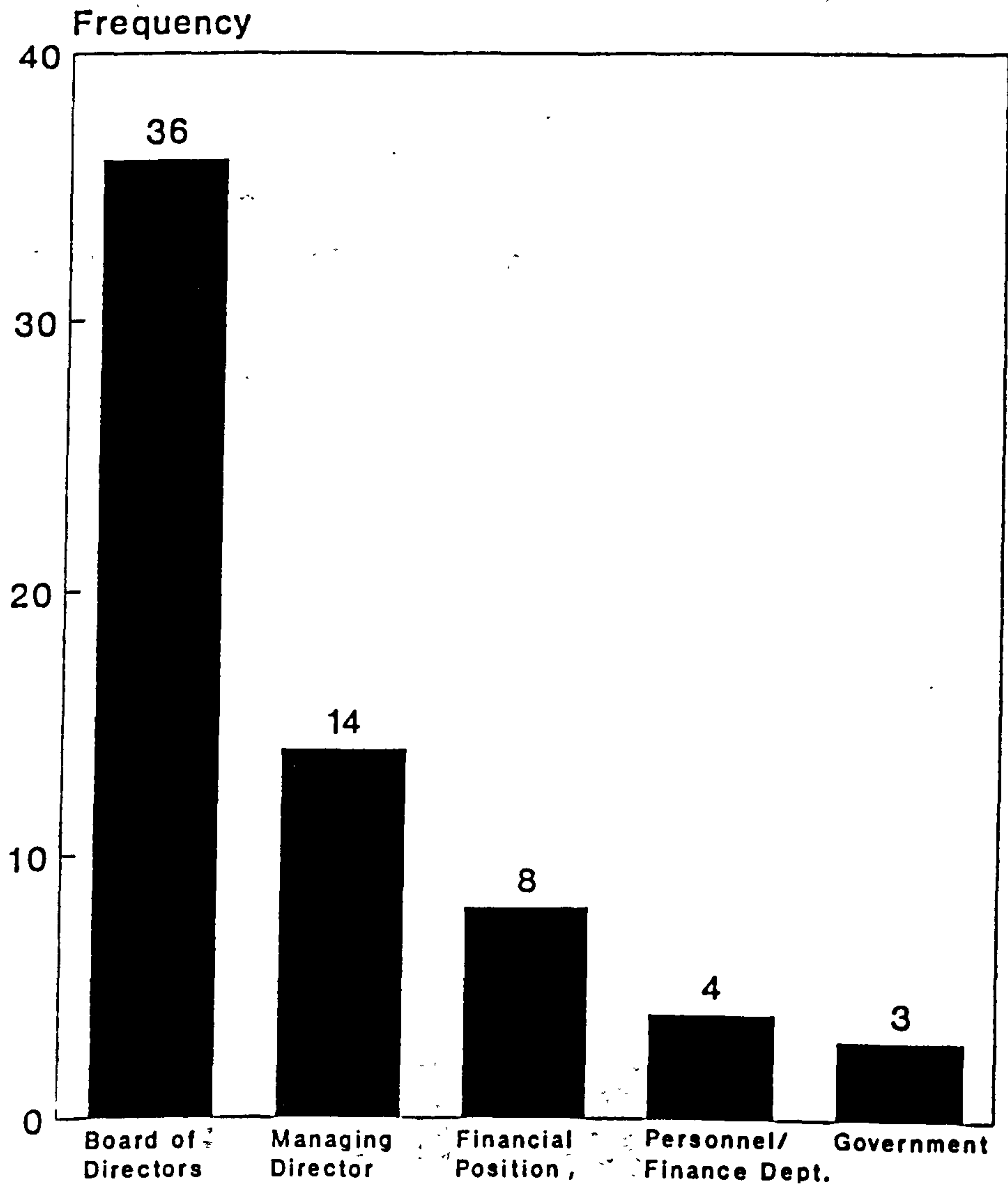
10 per cent of their employees were covered. From the survey sample, it would appear that on average, 48,9 per cent of employees are covered by a system of PRR although the level of coverage varies enormously from company to company.

Examining the issue further, it is interesting to note how many employees actually receive some form of reward as a result of PRR. Whilst 78 of the companies operating PRR rewarded everyone covered by their system(s) of PRR in some manner, the other 24 companies reported differences between the percentage number of employees covered by PRR and the percentage number of employees actually receiving some kind of reward. In some cases 90 per cent of those employees covered by PRR actually received a reward, whilst in other cases a reward was only received by 20 per cent of those employees covered by PRR. On average across the 102 companies operating PRR, 48.9 per cent of employees were covered by a system of PRR whilst 44.3 per cent actually received some kind of reward.

8.8 Restrictions on Finance Available for PRR

The 102 respondents operating PRR were asked whether any restrictions were placed on the amount of finance available for the operation of their system(s) of PRR. Of the 102, 37 companies reported that no restrictions were placed whilst the other 65 stated that some form of financial restriction was placed upon their system(s) of PRR. The 65 companies with restrictions were asked who set the financial restrictions, the responses are illustrated in Figure 8.9 below.

Figure 8.9:
Source of Financial Restrictions

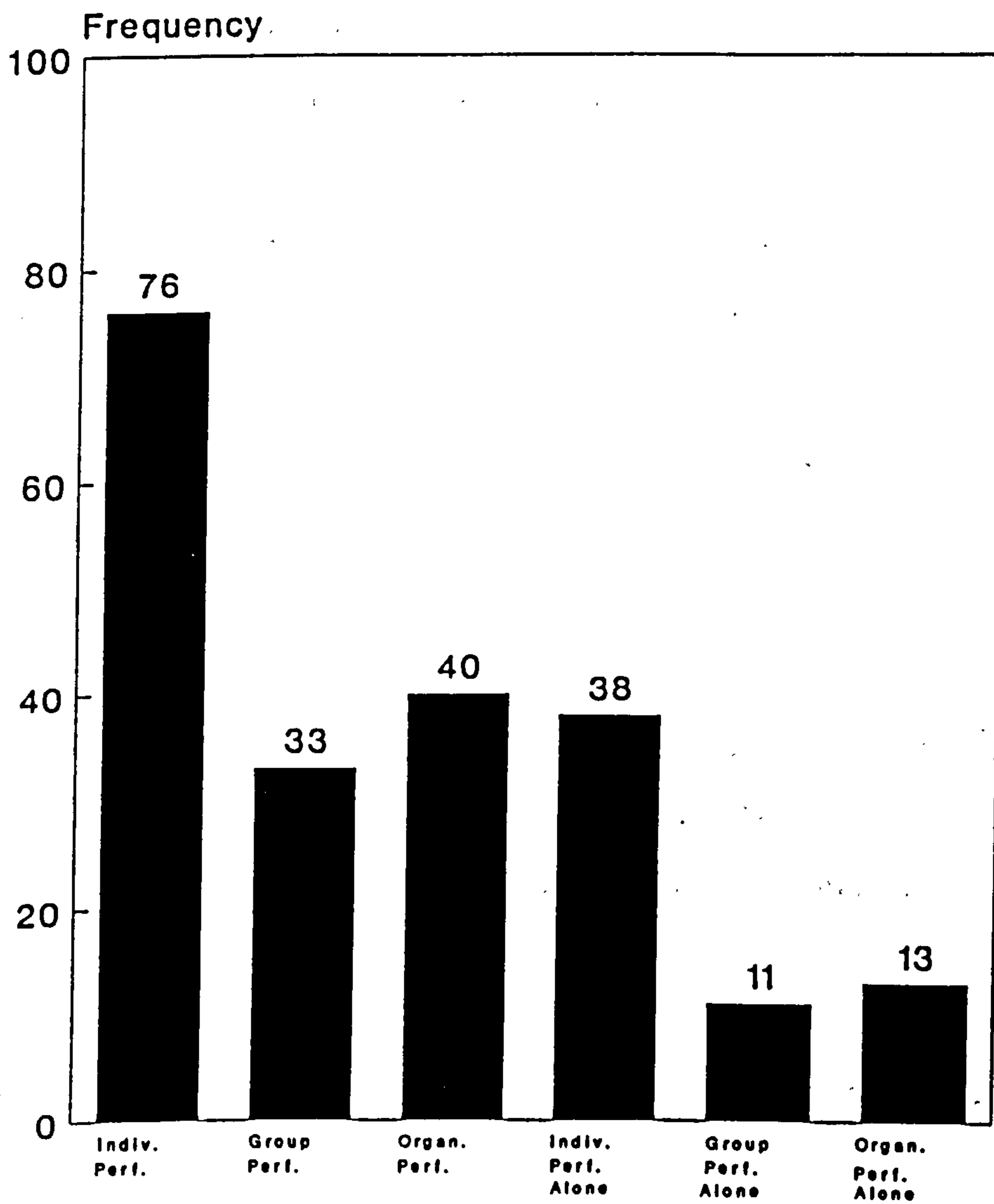


The Board of Directors is the most commonly cited source of financial restrictions (36 companies) whilst 14 companies reported that it was the Managing Director who made the decision on such restrictions. Alternative sources of restrictions were stated as: the financial position of the company (8); the personnel/finance departments (4); and, Government regulations (3).

8.9 Assessment of Performance

An important aim of the questionnaire survey was to determine what criteria companies used to measure performance for the purpose of PRR. The responses from the survey are illustrated in Figure 8.10 below.

Figure 8.10:
Criterion for Measuring Performance



Of the 102 companies operating a system of PRR, 76 (74.5 per cent) reported that the individual performance of employees was a criteria used when allocating PRR. Of these 76, 38 reported that individual performance was the only criteria used whilst the other 38 had more than one criteria. Whilst 76 of the companies used individual performance as a criteria for allocating PRR, only 56 of these companies reported that there was a direct correlation between their system of performance appraisal and their system(s) of PRR. The remaining 20 companies had alternative methods of measuring individual performance for the purpose of allocating PRR.

Hypothesis 4 of this thesis made a prediction regarding the correlation between the operation of PRR and the use of a formal system of performance appraisal. The hypothesis predicted that in the UK food industry, most systems of performance related remuneration would have a direct link with a formal system of performance appraisal, a chi-square test can be used to test this hypothesis. The result of the test is a χ^2 value of 59.06 which is larger than the value of 7.87944 required for the $p < 0.0025$ level of significance. This indicates that the correlation between the operation of PRR and the link with a formal system of performance appraisal is significant and supports the prediction stated in the research hypothesis.

Of the 102 companies operating a system of PRR; 33 (32.4 per cent) reported that the group performance of employees was a criteria used when allocating PRR. Of these 33, 11 reported that individual performance was the only criteria used whilst the other 22 had more than one criteria.

Organisational performance was a criteria reported by 40 companies as a criteria used when allocating PRR. Of these 40, 13 reported that organisational performance was the only criteria used whilst the other 27 had more than one criteria.

In hypothesis 7 of this thesis, it was suggested that if workgroup incentive schemes are used, they will most likely cover blue collar/manual employees as opposed to managerial/white collar employees. This hypothesis can be tested by performing some chi-square tests for the correlation between the use of workgroup or individual systems of PRR and the category of employee.

On testing the prediction that managerial/white collar employees are more likely to be covered by a system of PRR based on individual performance as opposed to collective performance, the χ^2 value was found to be 5.909953. Since this value is larger than the value of 5.02389 required for a $p < 0.0125$, the correlation between managerial/white collar employees and a system of PRR based on individual performance is significant and this supports the research hypothesis.

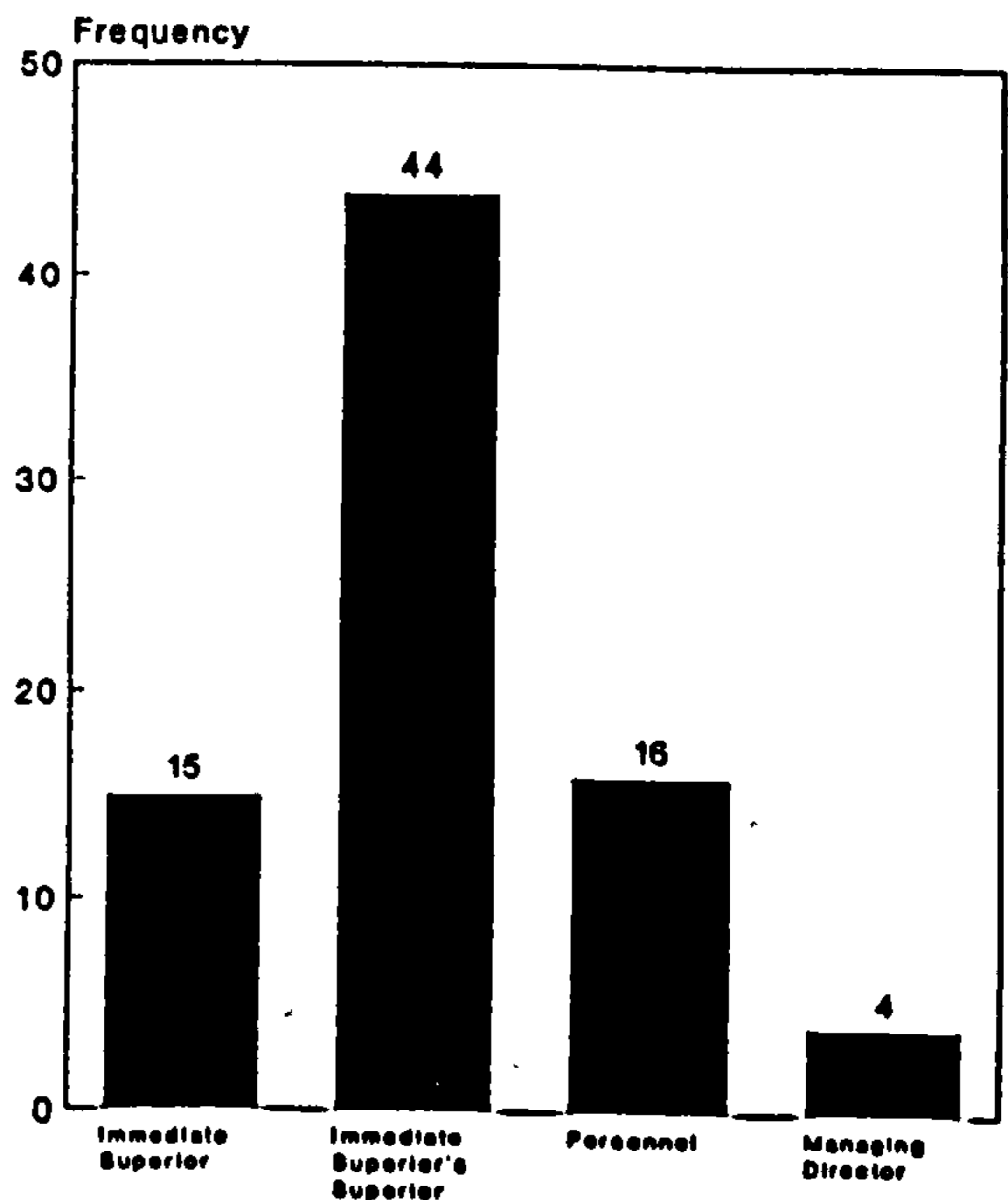
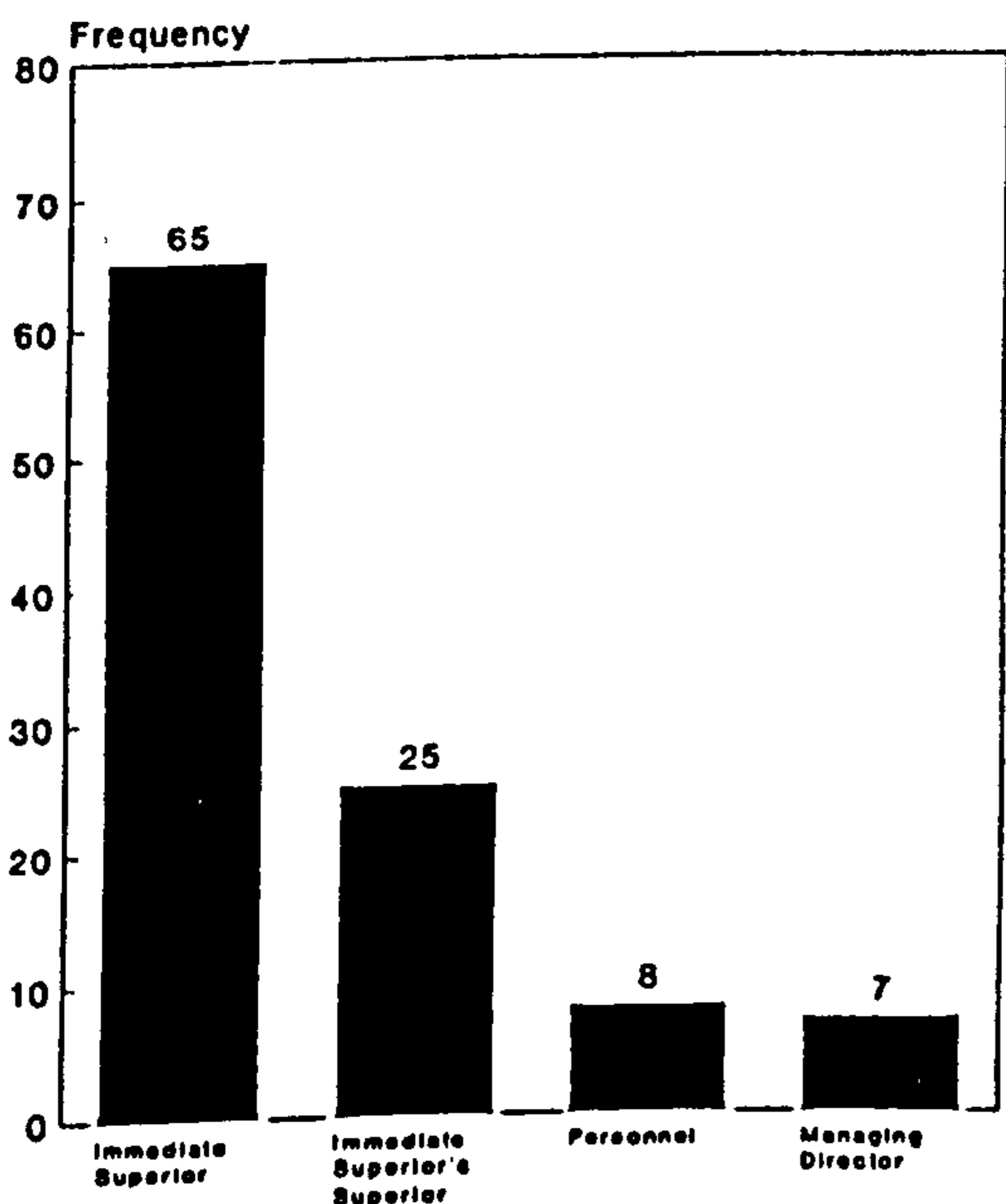
On testing the prediction that blue collar/manual employees are more likely to be covered by a system of PRR based on collective performance as opposed to individual performance, the χ^2 value was found to be 7.282653. Since this value is larger than the value of 6.63490 required for a $p < 0.005$, the correlation between blue collar/manual employees and a system of PRR based on collective performance is significant and this supports the research hypothesis.

In summary, of the 102 respondents operating PRR, 76 companies reported that they used individual performance as a criteria for PRR, 33 companies used workgroup performance and 40 used company performance.

The questionnaire also examined another aspect of performance appraisal - who actually carries out the assessment?. Most of the companies (72.9 per cent) operating performance appraisal had a two-stage appraisal system - an initial appraisal followed by a second opinion, or counter signature. It should be noted that at the initial appraisal stage, 19 companies reported more than one person being involved whilst at the counter signature stage 24 companies reported that more than one person was involved. Figures 8.11 and 8.12 illustrate who is involved in each stage of the appraisal.

Figure 8.11:
Staff Involved With Initial Appraisal

Figure 8.12:
Staff Involved With Counter Signature



From the above figures, it is clear that at the initial stage of performance appraisal, the main person involved is the employee's immediate superior whilst at the counter signature stage it is the immediate superior's superior.

8.10 Grievances Regarding PRR

It was considered important to determine what, if any, mechanisms companies had available to handle grievances regarding the operation of PRR. Of the 102 companies operating PRR, 61 (59.8 per cent) reported the presence of a grievance or appeals procedure. Only two of the 61 companies had specially designed an in-built grievance procedure to their system(s) of PRR, 1 company had developed regular meetings of a bonus committee and the remaining 58 gave employees access to the existing grievance procedure if they had any problems regarding the operation of PRR.

8.11 Summary

In summary, the data gathered from the questionnaire survey has made it possible to identify a number of trends relating to the use of PRR within the UK food industry. The main findings can be summarised as follows:

- * Of the 415 questionnaires sent out, a representative sample was returned in terms of numbers of responses, size of companies represented and sectors of the UK food industry represented.

- * Of those organisations which responded to the questionnaire, 78.5 per cent operated a system of PRR, and of these organisations, 69.6 per cent had introduced PRR between 1980 and 1990.
- * There appears to be no correlation between the use of PRR and the size of organisation, as defined by number of employees.
- * The most commonly used systems of PRR in operation within the UK food industry are merit pay in the form of a bonus (54.3 per cent of respondents), merit pay in the form of a salary increase (52.9 per cent) and profit related pay (31.3 per cent).
- * Surprisingly, only 11.8 of those organisations responding to the questionnaire operated a system of payment by results.
- * Of those organisations which operated a performance based remuneration system, 62.7 per cent had more than one system of PRR in operation.
- * The main objectives behind the use of PRR are:
 - to increase output
 - to increase profit
 - to improve quality
 - to motivate staff
 - to improve employee work satisfaction
- * There appears to be no correlation between the use of PRR and the presence of trade unions within organisations.

- * In addition to PRR, organisations use other complementary systems of performance management. Whilst the most commonly cited system of performance management was performance appraisal, other systems included quality circles, open learning schemes, suggestion schemes, team working, incremental pay scales, and high base pay levels.
- * The use of PRR appears to be more common amongst white collar/managerial grades than blue collar/manual grades. In addition, as managerial grades become more senior, they are increasingly likely to be covered by a system of PRR.
- * White collar/managerial employees are more likely to be covered by a system of merit pay or profit related pay based on individual performance whilst blue collar/manual employees are more likely to be covered by a system of payment by results based on collective or group performance.
- * Whilst 36.3 per cent of respondents indicated that there was no financial restriction placed on the operation of PRR, 63.7 per cent indicated that financial restriction were in place. Of those organisation with financial restrictions, 55.4 per cent reported that such restrictions were monitored by the Board of Directors.

CHAPTER 9:

COMPANY CASE STUDIES

9.0 COMPANY CASE STUDIES

9.1 Introduction

In order to support the quantitative data gathered from the questionnaire survey, qualitative data was gathered from case studies of four companies within the UK Food Industry. The companies selected for the case studies were chosen carefully to ensure that companies from different sectors of the industry, of different size, and from different geographical locations were represented. To secure the provision of detailed information, each company was assured that the information provided would be treated as strictly confidential and that the identity of the four companies would not be disclosed.

9.2 Company 1

The first company is based near Leicester in the East Midlands of England and its main operating activities are within the starch and miscellaneous foods sector of the UK Food Industry. Whilst the Company is based near Leicester, it has three other sites in England. The Company employs around 700 employees and in 1989 had an annual turnover of £75.4 million. The company currently operates four systems of performance related remuneration and views the following objectives as the main reason for operating systems of PRR:

- * to allow individuals to focus on their own individual performance by establishing a correlation between their performance and their subsequent remuneration;
- * to remove the notion of automatic salary progression by linking progression through salary bands to individual performance levels;
- * to be attractive to high calibre potential employees - many employees expect PRR as part of the overall remuneration package;
- * to establish at a middle and senior management level, a relationship between the contribution of individual performance and overall company profitability;
- * to encourage employee participation within the organisation through financial participation - if the company does well, so does the employee.

The four systems of PRR operated by Company 1 are described below:

9.2.1 System 1: Merit Pay (Salary Increase)

This system of PRR was introduced in 1974 and covers all the white collar staff within the company. The white collar staff are on a pay structure based on a job evaluation system (HAY). Within the pay structure, there are salary ranges for each grade of employee, the

range width increasing as the grades become more senior. For clerical staff, the salary range goes from 90 to 100 per cent, supervisory staff from 90 to 110 per cent, sales staff from 85 to 110 per cent, and for managerial grades, 80 to 120 per cent. The 100 per cent salary level for each grade is regarded as the appropriate level for a good, steady, competent performer. To progress through the salary range, the employee has to reach a merit level of performance. For an employee to progress beyond the 100 per cent level, superior performance would be required.

At the annual salary review, each employee is given a salary increase which is expressed as X per cent plus Y per cent, X per cent being the amount normally applied as a general increase and Y per cent being a merit salary increase. The X per cent, the general increase, is not implemented only in exceptional cases. Each year, every departmental manager is given a "merit kitty" which they can distribute to employees within their department who they feel deserves a merit salary increase based on their performance over the previous year. The performance of each employee is assessed via an annual appraisal system. The merit kitty normally represents around 2 per cent of the departmental paybill and is distributed by the departmental manager on a purely judgemental basis, there is no mechanical procedure where superior performance gets 3 per cent, average performance gets 2 per cent and so on. The company believes that equity within such a system can be maintained providing the overall allocation of merit pay across departments is monitored by senior management.

9.2.2 System 2: Sales Incentive

The sales incentive was introduced in 1978 and applies only to the field sales force and is based on volume of sales achieved against targets. The type of incentive offered to the sales force varies greatly and depends on what the management feel that the employees will find attractive. It may be in the form of holidays, white goods, luncheon vouchers and so on. The value of the incentive is on average equivalent to around 10-12 per cent of gross income although this amount varies between employees depending on their position within the sales league. Every quarter, the sales performance of each employee is entered on a league table. The top 50 per cent of the league table share the "incentive pot" although the pot is distributed on a variable basis depending on league position, the bottom 50 per cent receive no incentive.

9.2.3 System 3: Profit Related Bonus

The profit related bonus system of PRR is designed for management levels within the organisation and can be split into two parts, the middle management scheme and the senior management scheme. Both schemes however operate in a similar manner and are primarily related to the profits of the organisation.

The middle management scheme was introduced in 1988 and is designed to yield a bonus payment equivalent to 5 per cent of gross salary on the achievement of net profit target. If however only 90 per cent of net

profit target is achieved, a bonus equivalent to 2.5 per cent of gross salary is paid. In addition, if profits exceed targets, bonuses up to a maximum of 12.5 per cent are paid.

The senior management scheme was introduced in 1979 and has double the gearing of the benefits of the middle management scheme, it is designed to yield 10 per cent of gross salary as a bonus. Half of the bonus is related to net profit targets whilst the other half is related to the contribution of each individual to organisational objectives. These objectives are:

- * to achieve volume objectives for products produced;
- * to achieve the changes to information systems on time and on budget;
- * to reach productivity targets;
- * to increase the company efficiency through the development of a more focused, accountable and decentralised organisation;
- * to maximise the potential of human resources.

9.2.4 System 4: Profit Sharing

The fourth and most recent system of PRR to be introduced within Company 1 is a Profit Sharing Scheme for all employees, this came into

operation in 1991. The philosophy behind the introduction of this system is financial participation by the workforce. If net profit targets are achieved, the company sets aside 5 per cent of net profit to be distributed amongst all employees on a pro-rata basis. Essentially, this is equivalent to two weeks pay for all employees. Tied in with this system of PRR are the absence records of employees. The company is not trying to punish those employees who are off work on a long term basis but are trying to discourage those employees who take odd days off on an occasional basis. If an employee has two or less separate occasions of absence, and has not been absent for more than thirteen weeks throughout the year, they will be eligible for a payment equivalent to two weeks salary. If the employee has three separate occasions of absence, the payment is reduced to the equivalent of one weeks salary and if the employee has four or more separate occasions of absence, no payment is made.

The development of the above systems of PRR has essentially rested on the Personnel Department within Company 1 although the overall remuneration policies have been developed by the Board of Directors and a Human Resources Committee consisting of the Functional Director, the Financial Director, the Sales Director, the Personnel Manager and three Factory Managers. There has however, been a considerable influence on the development of PRR within Company 1 from its foreign based parent company. The parent company has a strong belief in employee participation within the organisation, the aim being that everyone should be involved to such an extent that they want to become committed to the success of the company. The remuneration policies of Company 1 therefore focus on encouraging employee involvement and maximising the

potential of their human resources.

Within Company 1, it is the Board of Directors who set the limits on the payment of Merit Pay and the Sales Incentive. There are essentially no limits on the payment of Profit Related Bonuses or Profit Sharing since these are directly related to the profits of the organisation. To complement and support the systems of PRR in operation, the company also has a few management practices which can come under the heading of performance management. These systems of performance management include Quality Circles, Cascade Briefings, Consultative Committees and Performance Appraisal.

In addition to the four systems of PRR, the company also offers a range of remunerative benefits to staff which include: subsidised canteens; discount on company products; sick pay scheme; contributory pension scheme; 25 days holiday; company cars; private health care, and; subsidised mortgages. The actual benefits package on offer to each individual depends on their grade and level of seniority within the organisation. Company cars are provided in three ways: job requirement, status (for senior management), and market force (discretionary for top-end middle management). No system of cafeteria benefits operates within Company 1 and there are no plans to introduce such a system.

The Personnel Manager of Company 1 strongly believes that PRR policy and the various systems of PRR in operation require constant monitoring and revision to satisfy the demands of the organisation, the workforce and the employment market. He does not consider the systems of PRR

operated by his company to be perfect and identified three main problem areas:

- a) The first problem related to the Merit Pay System where each departmental manager has a "merit kitty" to distribute to the employees within the department, depending on each individuals level of performance. The Personnel Manager believes that the merit kitty is too small and does not allow departmental managers to make significant distinctions between the performance level of different individuals.
- b) The second problem related to the Sales Incentive System where the top 50 per cent of the sales force receive an incentive on a quarterly basis depending on their position within the sales league table. The main difficulty with this system is motivating the 50 per cent of the sales force who do not qualify for any incentive. It is the case however, that over the period of one year between 80 and 85 per cent of the sales force are eligible for some form of incentive.
- c) The third problem is a general problem and is concerned with the correlation between performance and reward. The personnel manager believes that the various systems of PRR have to be more sharply focused and make a link between performance and remuneration clearly identifiable. One possibility which is being considered is the introduction of a system where teams are rewarded based on their direct contribution to organisational objectives.

Should any individual employee within the organisation have a problem or grievance regarding the operation of either of the systems of PRR, their grievance would be dealt with through the normal employee grievance procedures operated by the company. This system is essentially based on the son, father, grandfather approach.

Company 1 was, in the past, an organisation which recognised trade unions and participated in collective bargaining over the terms and conditions of employment. As a result of declining trade union membership, the company took a decision to withdraw negotiating rights where membership density fell below 50 per cent in any one workplace. This policy has led to some difficulties in the operation of PRR both in workplaces which have maintained negotiation rights and in workplaces where these rights have been lost. The view of the Personnel Manager is that the changing policy has resulted in a lack of trust and a lack of understanding. He believes that the way forward is to operate the various systems of PRR in an open manner which will engender trust within the workforce. The Personnel Manager also observed however, that where the systems of PRR have been operating for some time or are on a collective basis, these remuneration policies have been warmly welcomed by the workforce and have been met fairly pragmatically by the trade unions.

On viewing the operation of PRR as a whole, the Personnel Manager of the organisation feels that it has benefited from an increase in employee productivity and effectiveness through the establishment of a relationship between their own individual performance and their subsequent remuneration. The view is that at least part of their

remuneration package is in their hands and they are able to influence that part of their remuneration through improved work performance. In addition, the company is keen to develop employee participation and involvement in the company through an association between overall company performance and employee remuneration. Whilst the profit sharing system of PRR is in its early days, the hope is that each individual will be able to identify with company performance and workforce effort which in turn will encourage employee loyalty toward the organisation. In the future, Company 1 does not propose any radical developments but aims to reassess and redefine the systems of PRR to establish a clear focus between performance and remuneration in line with organisational objectives.

Overall, Company 1 appears to be committed to a remuneration strategy, using PRR in a conscious effort to assist in the achievement of specific organisational objectives. It would seem that the company will closely monitor the use and effectiveness of its remuneration policies and adapt and improve these as necessary to increase overall organisational effectiveness.

9.3 Company 2

The second company is based in Birmingham in the Midlands of England and its main operating activities are within the ice cream/cocoa/chocolate/sugar confectionery sector of the UK Food Industry. Whilst the company is based in Birmingham, it has four main operating sites, three in England and one in Scotland. The company employs around 4500

employees and in 1989 had an annual turnover of £350 million. For operating purposes, the company is divided into a series of divisions and this has important implications for the operation of PRR within the organisation. Company 2 currently operates three systems of performance related remuneration and views the following objectives as the main reason for operating PRR:

- * to encourage employees to achieve high performance which will result in better above budget profits;
- * to share above budget profit performance with the people that generate that extra profit;
- * to encourage individuals, and workgroups, to focus on the overall performance of their division.

The three systems of PRR operated by Company 2 are described below:

9.3.1 System 1: Merit Pay (Bonus)

This system of PRR was introduced in 1974 and applies to all distribution staff - warehouse employees and transport drivers. For many years, industrial engineers were employed by the company to assess work content and establish a work rate for each job within the distribution network. A few years ago, the company stopped using industrial engineers on an annual basis since work rates did not vary a great deal from year to year. The industrial engineers are now only

employed when work practices change and new work rates required. These new work rates can then be used as an indication of merit levels of performance. Once these work rates are established, each employee is given the opportunity to earn a merit pay bonus on successfully meeting, or going beyond, the pre-determined work rate; or merit level. The merit pay bonuses are paid out weekly to staff and normally represent around one third of their normal weekly salary.

9.3.2 System 2: Profit Related Bonus

This system of PRR is the most recent introduction to the remuneration strategy of Company 2 and came into operation in 1990. It applies to all employees within the organisation who are not covered by one of the other systems of PRR. At the beginning of every financial year which operates January - December, each division within the company is given profit targets for the forthcoming year. Should the division achieve profits above the target level, employees within that division will be eligible for a bonus based on a percentage of their salary. The level of the bonus depends on two factors:

- a) the extent to which profits exceed targets, and;
- b) the position (level of seniority) of the employee within the organisation.

Firstly, as profit levels go beyond the pre-determined targets, the bonus payable to employees increases. Secondly, as the seniority of

the individuals position within the organisation increases, and their subsequent potential to influence profit levels increases, the amount of bonus also increases. For example, if profits are a few per cent above target, shop floor workers can expect to receive around 5 per cent of their salary as a bonus. On the other hand however, if profits are significantly above targets, a senior manager can expect to receive up to 50 per cent of their salary as a bonus.

9.3.3 System 3: Sales Merit Pay (Bonus)

The third system of PRR in operation within Company 2 applies exclusively to the sales force. The exact year the system was introduced is not known but it was believed to be in the early 1980's. Each year, every sales person is given a sales target for their region based on the sales figures from the year before. If the sales person goes beyond their sales target figure, they become eligible for a merit pay bonus. The actual amount of bonus depends on how far the individual exceeds their pre-determined target. For example, someone who achieves sales of 105 per cent of target will be eligible for a bonus of 0.25 per cent of salary. Whilst this may appear an insignificant amount, the level of bonus rises exponentially with the level of sales to a point where sales of 130 per cent of target will earn a bonus equivalent to 10 per cent of salary.

The design and development of the above systems of PRR has been the responsibility of a group of company directors comprising the Managing Director of each of the divisions within the "parent" company. The

implementation of the systems is however the responsibility of the Personnel Department acting on the instruction of the Board of Directors. It is also the Board of Directors who place any financial restrictions on the systems of PRR although the only "real" restriction is the profit level of each division within the organisation. To assist the organisation in the achievement of the objective of improved performance and profit, the company also has a few performance management practices. These include Council Meetings, Team Briefings and a Performance Appraisal System.

In addition to the three systems of PRR mentioned above, Company 2 also offers a range of benefits to employees. The benefits available to each individual depends on the individuals level of seniority and length of service within the organisation. The remunerative benefits on offer include private health care; company cars; contributory pension scheme; holiday arrangements; sick pay; canteen, and; staff shop. Company 2 does not operate any system of cafeteria benefits and has no plans to introduce such a system. The personnel manager of the company did however suggest that perhaps they do offer cafeteria benefits - "they can take it or leave it".

On the whole, the personnel manager of Company 2 was very satisfied with how the various systems of PRR were operating within his company even though one of the systems was a recent addition to the remuneration strategy. He did however have reservations about relying heavily upon remuneration policies as the means of motivating employees to improve performance. It was his opinion that individuals become rather greedy and that "you almost see the pound notes flashing in

their eyes as they see the opportunity for a bonus". He suggested that PRR should be an element of a wider strategy of performance management. It appears however that the role of the personnel manager within Company 2 is to implement the decisions taken at a higher level within the organisation, rather than to formulate policies for the approval of the Board of Directors.

Should any individual within the organisation have a grievance relating to the operation and implementation of PRR, their grievance would be handled via the normal company grievance procedure which would involve an appeal going through the line management structure.

Company 2 is a highly unionised company and basically has three types of trade unions: those which represent the shop floor workers; those which represent junior management, and; those representing middle/senior managers. The trade unions representing the management levels within Company 2 are happy with PRR and view it as part of the "modern" management remuneration package. The trade unions representing the shop floor workers however are generally not in favour of PRR unless it can be guaranteed that it is for the benefit of all of their members and will not reduce the real value of the remuneration package both now and in the future. Since the profit related bonus system is relatively new to the organisation, the trade unions representing shop floor workers remain sceptical although the personnel manager believes that this will "sort itself out" in the long run.

In the opinion of the personnel manager of Company 2, PRR is geared towards improved employee performance and higher profits for the

organisation and as such appears to operate effectively. It is the aim of the organisation to focus on financial performance at a local, or divisional level, and to establish a clear correlation between the effort of employees within that division and their subsequent remuneration. The personnel manager of the company is of the opinion that PRR will be a predominant feature of human resource policies within the organisation for many years to come.

It would appear however that the introduction and implementation of systems of PRR within the organisation has taken place in a rather haphazard fashion. As the company has grown and evolved by taking over several smaller organisations, it has inherited, and retained, a variety of remuneration policies. As a consequence the company now essentially has a different remuneration policy and corresponding system of PRR at its various sites.

Whilst some harmonisation between the various systems of PRR has occurred, there appears to be no conscious remuneration policy which takes account of the benefits and drawbacks of PRR. It would appear that the organisation continues to operate systems of PRR partly because it has inherited such systems and partly because it has become "expected" for large organisations to operate such remuneration systems. There appears to be no premeditated effort to establish a correlation between the performance of the human resources and the objectives of the organisation.

9.4 Company 3

The third company selected for a case study is based in the North of Scotland and its main operating activities are within the milk/milk products sector of the UK Food Industry. The company has only one site, has around 200 employees and in 1989 had an annual turnover of £21.6 million. The company operates only one system of PRR and views the following objectives as the main reason for operating a system of PRR:

- * to give employees the opportunity to increase their earnings through improved individual performance;
- * to help in achieving a more contented workforce;
- * through improved employee performance, to result in a more efficient and productive organisation.

9.4.1 Merit Pay (Bonus)

In 1990, Company 3 introduced a system of PRR to cover all white collar/non-manual workers within the organisation - merit pay in the form of a bonus. The central feature of the merit pay system is an annual performance appraisal system on which all merit payments are based. Each year, the performance of every individual is assessed by their line manager under five headings:

- * quality of work
- * skills, knowledge, technical ability
- * reliability
- * initiative
- * team work

Using these five headings, the line manager scores the performance of the employee, awarding up to 20 marks under each heading. The total marks awarded to the individual determines the level of merit pay bonus which they will receive, the bonus is expressed as a percentage of gross salary:

Satisfactory Performance (60 or less)	No Bonus
Good Performance (61-75)	Low Bonus (2%)
Excellent Performance (76-90)	Medium Bonus (4%)
Exceptional Performance (91-100)	High Bonus (6%)

Normally, the performance appraisals take place between January and March with the merit pay bonuses being paid in July. The company feels that it is important to have a time gap between appraisal and payment since PRR is not the sole purpose of having a performance appraisal system. Performance appraisal is also concerned with improving employee performance, employee commitment and management/staff communication. The bonuses are paid separately from salary payments and are not counted towards pensionable salary. To ensure fair and

objective marking of appraisals, and the subsequent award of bonuses, the appraisals are double checked by Department Heads and the Chief Executive.

The development of the above system of PRR has involved three parties: the Chief Executive, a private consultant and ACAS. The driving force behind the introduction of a system of PRR within the company was the Chief Executive although he relied on the consultant and ACAS for advice on system design and implementation. The amount of finance available for PRR depends entirely on the financial performance of the organisation. In a good year, the company would expect to pay out the bonuses outlined above. In a poor year however, the company may have to reduce the amount of bonus payments available for staff. Such decisions rest with the Financial Controller. As stated earlier, the company also relies on Performance Appraisal as a method of improving employee performance and in addition has a system of daily Team Briefings. It was also suggested by the personnel manager that the achievement and continuation of BS5750 status also focuses on employee performance in relation to quality of product and service.

In addition to the system of PRR outlined above, Company 3 also provides a range of remunerative benefits which includes a subsidised canteen, contributory pension scheme, permanent disability scheme, company cars and free company products. As with most other companies, the range of benefits available to each individual depends largely on their position within the organisation. The company does not operate a system of cafeteria benefits. Should an individual have a grievance regarding the operation of PRR, it would be handled via the

grandfather, father, son grievance procedure.

Although the use of PRR within Company 3 is in its early days, there appear to have been few problems although the Personnel Manager did comment that it does take a great deal of time to implement and operate effectively. The company has also gained the support of the trade unions regarding the introduction and operation of PRR - the Personnel Manager believes that such acceptance was due largely to the positive experiences of PRR of the local union representative. In the future, the company hopes to introduce a second system of PRR to cover the blue collar/manual workers. Work has already started on the design of this second system although it would appear that the introduction of PRR for manual employees is unlikely to be in the near future.

Overall, it would appear that whilst Company 3 has limited experience regarding the use of a system of PRR, it is committed to the effective implementation of such a system. The introduction of PRR appears to be part of a conscious strategy to improve organisational effectiveness, and as has been suggested, the company hopes to expand the use of PRR to cover all employees. The personnel manager believes that further experience of the effect of PRR will lead to modifications to the existing system and should help in the achievement of organisational objectives.

9.5 Company 4

Company 4 is a multi-national company with operations throughout the

United Kingdom, in Spain, the United States of America, the Netherlands, France, Denmark, Norway, Sweden, Hungary, Finland, Belgium, Italy, Eire, and Hong Kong. Within the UK, the main operating activities of the company fall within the bread/biscuits/flour confectionery sector of the UK Food Industry. In 1989, the company had an annual turnover of £2723.7 million. Worldwide, the company has around 40,000 employees of which around 26,000 are based in the United Kingdom. Within the UK, the company operates four systems of performance related remuneration and views the following objectives as the main reason for operating systems of PRR:

- * to make employees focus on their individual, group and company performance;

- * to give employees the opportunity to control and increase their remuneration;

- * to dispel the notion that there is a standard rate for every job and that each employee is automatically entitled to that rate.

The four systems of PRR operated by Company 4 are described below:

9.5.1 System 1: Merit Pay (Salary Increase)

This system of PRR has operated since 1985 and covers the majority of supervisory and managerial staff within the company. The system was designed to establish a correlation between the performance of

individuals and their progression through salary scales. Each year, the performance of every employee covered by this system of PRR is appraised by their line manager. Depending on the outcome of this appraisal, the employee could receive no pay increase and remain static on their salary scale or could be given a salary increase which reflects their level of performance. Typically, an effective performer would be eligible for a salary increase of around 4 per cent, a superior performer 7 per cent and an exceptional performer 9 per cent. The actual salary increases available depend largely on the financial position of the company. For employees covered by this system of PRR, there is no automatic progression through salary scales, any progression has to be earned through high levels of employee performance.

9.5.2 System 2: Profit Related Pay

This system of PRR is restricted to senior managers within the company and was introduced in 1987. The main feature of this system is a correlation between the profits of the company and bonuses for senior managers. Should the company meet or exceed target profit levels, the senior managers would be eligible for a cash bonus, the level of bonus varying according to the degree to which actual profits exceeded targeted levels. The company believes that it is important that this system of PRR is restricted to those individuals who can actually influence the profits of the organisation. It also stresses that if profit targets are not met, no bonus is payable.

9.5.3 System 3: Profit Sharing

This system of PRR was introduced into in 1987 and aims to increase employee financial participation in the company. By getting employees involved in share ownership, the company hopes to encourage company loyalty, create an interest in what shares are, provide the potential for the payment of dividends, issue copies of the annual report and encourage employee shareholders to attend the Annual General Meeting.

Profit Sharing within Company 4 involves the distribution of a pre-determined proportion of profits to the employees in the form of company shares. Whilst the shares are allocated on an annual basis, they are placed in trust for a period of three years, it is a deferred trust. The value of shares to be distributed is determined by the Holdings Board of the company and depends on annual financial performance. Typically, each employee is likely to receive an allocation of shares worth around £130. Every employee who works at least 16 hours per week is eligible to receive an allocation of shares although managers also require a service qualification of 5 years.

To receive an allocation the employee merely has to sign a form which states that they wish to receive the shares and whilst most employees participate, there are a few employees who do not wish to receive an allocation of shares since they don't agree on principle to the idea of profit sharing.

9.5.4 System 4: Save as You Earn Option Scheme

This system of PRR was also introduced in 1987 and allows any employee to purchase company shares at a discounted rate. Employees are given the opportunity to purchase shares at 80 per cent of their market value and can contribute up to £250 per month for this purpose.

The development of the merit pay system of PRR was the responsibility of the Personnel Director together with the assistance of some senior managers. The system of profit related pay was developed by a remuneration committee comprising the main Board Directors together with some Non-Executive Directors. The other two systems of PRR were developed by the Board of Directors acting on the advice of senior managers from within the company. Any restrictions on the amount of finance available for performance related remuneration are set by the Holdings Board of the company who base their decisions on the financial performance (profits) of the organisation. In addition to PRR, the company uses other management strategies to try and maintain and improve upon high levels of employee, group and company performance. Such strategies include Performance Appraisal and Quality Circles.

In addition to the four systems of PRR operated by the company, it also offers a range of other remunerative benefits to staff which include: contributory pension scheme (choice of two), company cars, subsidised restaurants/canteens, sick pay scheme, accident insurance scheme and medical insurance. The package of benefits on offer to each individual depends on their position within the organisation. Whilst the company does not operate a system of cafeteria benefits, it does offer a choice

of two contributory pension schemes and a choice of company car, for those eligible.

Whilst the Personnel Manager does not have or foresee any major problems regarding the operation of PRR within the company, he did suggest that a few alterations to the various systems would be beneficial. These include reducing the 5 year service qualification for managers for profit sharing, reducing the 16 hours per week restriction for profit sharing, extending profit related pay to other groups and introducing more objective criteria for the appraisal of staff for merit pay. As with the other three companies studied, should an individual employee have a problem with any of the systems of PRR, this would be handled via the normal company grievance procedure.

With regards to trade union views on PRR within Company 4, the Personnel Manager believed that trade unions were not against PRR providing the basic pay levels met their aspirations and that the pay differentials between other groups is satisfactory. Overall, he believes that trade unions view PRR as "the icing on the cake".

Like Company 1, Company 4 appears to utilise PRR as part of a wider performance management strategy and has carefully considered the effect of PRR on the objectives of the organisation. It was suggested that the existing systems of PRR require minor modification and that the operation of the total remuneration policy requires systematic evaluation and appropriate revision and amendment.

Overall, it would appear that whilst the four companies examined have a different approach to the use and implementation of performance related remuneration within their total remuneration policy, many of the operational details of PRR are common across the companies. One important finding from the case studies was the degree to which PRR is introduced as a conscious strategy to assist with the achievement of organisational objectives. In some cases, the introduction and implementation of PRR was carefully considered whilst in other cases, the use of PRR was an insignificant development in the human resource policies of the organisation. In the instances where PRR was viewed as a constructive and positive management resource, there appeared to be senior management, and even Board involvement at the design and implementation stage. In one case, the motivation behind the introduction, implementation and revision of the systems of PRR came from the foreign parent company.

CHAPTER 10:

CONCLUSIONS

10.0 CONCLUSIONS

10.1 Introduction

This thesis has examined the relationship (or correlation) between the performance of employees and their remuneration, in the United Kingdom food industry. Payment systems which involve such a correlation have been referred to as Performance Related Remuneration (PRR). Performance related remuneration can be described as a management strategy aimed at assisting the achievement of organisational objectives through improved employee performance, and hence organisational performance, by increasing employee motivation through financial incentives directly related to the work performance of the employee.

Performance related remuneration, however, is not the only or necessarily the best method of motivating employees, it may purely be an element of a broader performance management strategy aimed at the achievement of organisational objectives. Performance management can involve a series of formal or informal management practices adopted by an organisation and its managers to increase commitment and individual and corporate effectiveness. It may incorporate the establishment of performance objectives, training and development plans, monitoring the performance of the workforce as well as a pay linkage. Performance management may therefore involve some or all of the following complementary management practices:

- * performance related remuneration
- * performance appraisal
- * reducing worker fatigue/ergonomics
- * human relations management
- * management systems
- * work design (job rotation, job enlargement, job enrichment, quality circles, work groups)

Whilst PRR is used to assist in the achievement of many organisational objectives, the single most important reason for operating a system of PRR is to improve organisational performance through motivating the effective performance of individual employees. In order to survive in the modern commercial world, organisations must ensure a high level of organisational performance. This can mean many things but is most commonly interpreted as meaning financial performance which can be measured in terms of profitability, turnover, return on capital and capital growth. In some cases however, organisational performance cannot be measured purely in financial terms and is therefore measured using alternative criteria such as levels of service and quality. Organisations which fall into this category are commonly found in the public services and would include the National Health Service, the Armed Forces and the Emergency Services. Organisational performance can therefore mean many things and may include:

- * financial performance ((profits/liquidity/capital)
- * customer service
- * quality of product/service
- * efficiency/productivity

Previous research [Argyle (1989), Davidson et al (1958), Bowey et al (1982), IPM (1992)] has shown that systems of PRR if managed correctly can assist in achieving the objective of improving organisational performance. It is therefore possible that PRR can improve organisational performance by:

- * rewarding employees whose performance is assessed to be of a high standard;
- * motivating all employees to perform well;
- * supporting a performance orientated approach to work;
- * encouraging the use of work systems appropriate to the organisation;
- * promoting forward planning and objective setting.

In addition to the main objective of improving organisational performance, PRR can assist in the achievement of additional organisational objectives such as:

- * organisation change
- * attracting, recruiting and retaining employees
- * encouraging employee involvement
- * flexibility of pay bargaining
- * maintaining or establishing employee differentials

The success or failure of PRR in assisting the achievement of the above objectives depends largely on the degree to which remuneration is

effective in motivating employees. In chapter 3, three theoretical approaches to motivation were examined: the physiological theories, the cognitive theories and the social/behaviourist theories.

The physiological theories suggest that humans are motivated by the necessity to satisfy a series of innate needs. Such innate needs include hunger, thirst, safety, social acceptance, esteem and self fulfilment. In such circumstances the use of PRR as a motivational tool would only work if the provision of financial rewards would assist in the fulfilment of innate needs.

In contrast to this theoretical approach, the cognitive theories suggest that individuals are motivated through an active process involving the conscious assessment of the effort and subsequent implications or outcomes of certain actions. In such circumstances, individuals would only be motivated by PRR if the outcome of a specific action was the provision of a financial reward and such a financial reward had a high cognitive value to the individual.

The third theoretical approach, the social/behaviourist theories, suggests that the individuals are motivated by external factors in the environment. The suggestion is that behaviour is reflexive and instinctive and is a response to a specific stimulus or group of stimuli from the outside environment. This theory therefore places a great emphasis on the effect of learning and reinforcement and the effect of rewards and punishments. In such circumstances therefore, PRR would only be effective as a motivational tool if the provision of financial rewards was considered to be a reward for a specific action or outcome.

Overall, it appears that the three approaches to motivation have strengths which help to explain the motivational influences behind human behaviour. Individuals appear to be motivated partly by innate needs, partly by cognitive processes and partly by external influences. The degree to which these innate needs, cognitive processes and social/behaviourist influences motivates individuals depends on two factors:

- * the stage of development of the individual, both physically and mentally, and;
- * external environmental circumstances.

The value of PRR as a motivating factor can therefore be explained by reference to the three approaches to motivation theory, and is dependant on the development of the individual and external environmental influences.

Whilst the practice of paying individuals for their labour goes back many, many centuries, the main developments in performance related remuneration in the United Kingdom have occurred since 1900. In the earlier half of the century, such developments were on a relatively small scale and depended largely on various economic and political events, such as the World Wars and the Great Depression. Since the 1970's however the use of PRR in the UK has risen, more or less continuously, to the current position where it has become "normal" to find a performance based element in most remuneration packages. Throughout the 1980's there has been a series of studies on PRR within the UK to try and establish the level of use of PRR, the reasons for

using PRR and trends in the different systems of PRR in operation.

These studies have included:

- * The Merit Factor - Rewarding Individual Performance (1985)
- * Labour Flexibility in Britain: The 1987 ACAS Survey
- * Development in Payment Systems: The 1988 ACAS Survey
- * Paying for Performance (1988)
- * Paying for Performance in the Public Sector (1989)
- * Putting Pay Philosophies Into Practice

These studies have shown that in the United Kingdom, around three quarters of all employees have some aspect of their wage/salary determined by a system of performance related remuneration. Whilst the systems of PRR in operation over the past 10 years has varied, the main trend has been away from traditional systems of payment by results to systems of merit pay, profit sharing and employee share ownership. The studies also identified the main reasons why organisations introduce systems of PRR into their remuneration policies. Among the main reasons cited were:

- * to assist in the achievement of organisational objectives such as efficiency, profitability and quality;
- * to establish greater managerial control over pay;
- * to reward employees on the basis of their performance;
- * to enable organisations to address the increasing problems of recruitment, retention and motivation.

In addition to identifying the main reasons for introducing systems of PRR into organisations, the studies also identified a number of trends relating to the use of PRR within organisations. These trends include:

- * the replacement of annual salary/wage reviews with a system where an increase in salary/wage is dependant on the level of employee performance;
- * the replacement of automatic salary/wage incremental increases with systems where salary/wage progression is dependant on the level of employee performance;
- * the increasing use of formal and systematic methods of assessing employee performance, such as performance appraisal based on work objectives;
- * the increasing use of job evaluation to assist with salary structures and merit progression;
- * the extension of PRR to most categories of employee within organisations;
- * the increasing use of PRR to assist with cultural change within organisations;
- * the increasing use of PRR within the public sector as well as the private sector.

Overall, these studies demonstrate an increasing use of PRR in all sectors of employment and suggest that such interest will continue throughout the 1990's. PRR appears to be a fundamental component of the "management toolkit" to assist with the achievement of various organisational objectives.

Before an organisation introduces a system of performance related remuneration, it is essential that the remuneration strategy of the organisation is examined and is found to be consistent with the needs and objectives of the organisation. A prerequisite to a successful system of PRR is an appropriate salary structure. Organisations can opt for one, or a combination of several salary structures. The main salary structures available include:

- * graded salary structures
- * individual job ranges
- * progression or pay curves related to competency levels
- * job family systems
- * spot rates
- * pay spines
- * rate for age

In addition to being appropriate to the needs and objectives of the organisation, it is important that the salary structure is flexible enough to enable the organisation to respond to internal and external pressures. An effective remuneration strategy should also be fair and consistent in rewarding employees appropriate to their level of performance. the use of systems of PRR can help to ensure that such fairness and consistency exists.

When selecting a system of PRR, organisation have a wide variety of systems to chose from, each system establishing a different correlation between performance and remuneration. The various systems of PRR

available include:

- * payment by results
- * bonus schemes
- * profit sharing
- * profit related pay
- * sales incentive
- * employee share ownership plans
- * merit pay

It is quite clear that the number of options available to an organisation when deciding upon a remuneration strategy are numerous. Whichever salary structure and system of PRR the organisation decides to implement, it is essential that the following factors are given careful consideration:

- * the objectives of the organisation
- * the characteristics and nature of the workforce
- * external pressures
- * the objectives of the remuneration package

10.2 PRR and the UK Food Industry

From the 415 questionnaires sent out in the survey aimed at gathering quantitative data, a representative sample was returned in terms of number of responses, size of companies represented and sectors of the

UK food industry represented. This data, together with information from the case studies examining the use of PRR in four companies, allows us to draw some conclusions regarding the use of PRR in the UK food industry.

The various studies carried out in the 1980's regarding the use of PRR in UK organisations suggest that in the UK, a system of performance related remuneration is more likely to be found in organisations with a large number of employees. Whilst 78.5 per cent of organisations in the UK food industry appear to operate some system(s) of PRR, the data does not suggest such a correlation. This contradictory finding may be explained by the fact that if systems of PRR are becoming regarded as part of a "normal" remuneration package, employers may feel pressure to conform to the norm and introduce a performance based element into their remuneration policies, be they large or small employers. The suggestion therefore is that as systems of PRR become common place in the terms and conditions of employment of employees, it will be reasonable to expect the majority of employers to operate a system of PRR irrespective of the size of their organisation.

The studies also reveal a trend regarding the use of systems of PRR and the categories of employee covered. It appears that a higher proportion of managerial/white collar employees will be covered by a systems of performance related remuneration than blue collar/manual employees. This finding is very significant and is not unique to the UK food industry. Accordingly, it would be useful if further research was undertaken to determine why systems of PRR are applied more to particular categories of employee.

On looking at the systems of PRR in operation, the data from the surveys of the 1980's suggests that within the United Kingdom, the most commonly used systems of PRR are merit pay, either in the form of a bonus or salary increase, and profit related pay. The data from the UK food industry corresponds with this finding with 54.9 per cent of organisations operating a system of merit pay in the form of a bonus, 52.9 per cent operating a system of merit pay in the form of a wage or salary increase, and 31.4 per cent of organisations operating a system of profit related pay. In addition, of the four companies examined in the case studies, all four operated a system of merit pay whilst three also operated a system of profit related pay. It would appear therefore that the three systems of PRR most commonly utilised within the United Kingdom are merit pay (bonus or salary increase) and profit related pay. A further trend which is common between the surveys of the 1980's and this survey of the UK food industry relates to the number of systems of PRR in operation within each organisation. In both cases, it appears that if an organisation has a performance based remuneration policy, they are more likely to operate more than one system of PRR than rely entirely on one system.

This fact that organisations tend to operate more than one system of PRR can be explained by examining which systems of PRR are used for various categories of employee. In the studies of PRR in the 1980's and in this study of the UK food industry, white collar/non-manual employees were more likely to be covered by a system of merit pay or profit related pay whilst the blue collar/manual employees were more likely to be covered by a system of payment by results. Since the characteristics of different systems of PRR are more applicable to

particular categories of employees than to others, it inevitable that if an organisation has an element of PRR within its remuneration policy, it will employ a variety of systems of PRR.

On examining why organisations implement systems of PRR, a number of organisational objectives can be identified regarding the use of PRR, both in the studies of the 1980's and in this study of the UK food industry. Whilst the primary aim behind the use of PRR is to improve or even maintain organisational performance, a number of underlying objectives can be identified, these include:

- * to increase output
- * to increase profit
- * to improve quality
- * to motivate staff
- * to improve employee work satisfaction
- * to improve employee recruitment and retention
- * to reward employees according to performance

Whilst some of the above objectives appear to be concerned with employee motivation and work satisfaction, it is clear that the primary aim of any system of PRR must be to help sustain or improve the effectiveness of the organisation. It is only when the future of the organisation is taken into account that further secondary aims and objectives can be considered.

The various studies of performance related remuneration undertaken in the 1980's identified a link between the use of systems of PRR and the

presence of recognised trade unions within the workplace. It appeared that a system of PRR was more likely to be found in an organisation which recognised trade unions than an organisation which did not. In this study of the UK food industry, no such correlation was found. It would appear therefore that if a trade union is satisfied that the introduction of a system(s) of PRR is not going to disadvantage the majority of the membership, and may indeed result in benefits, it is unlikely to object to such developments. The only correlation found in this study relates to the presence of trade unions and organisation size. It appears from the data that as company size increases, as defined by number of employees, so does the likelihood of the presence of trade unions.

An important aspect of any system of performance related remuneration is the measurement of performance. In some systems, the correlation between remuneration and performance is based on organisation performance such as profit levels. Systems which rely on such a correlation include profit related pay and profit sharing. Other systems of PRR establish a correlation between the remuneration of the employee and the performance of a groups of employees or a department. In such circumstances, performance could be based on efficiency levels, the achievement or pre-determined objectives, or the success or failure to operate within confined budgets. In the surveys of the 1980's and in this survey of the UK food industry, it was found that systems of PRR which rely on workgroup or collective performance are most likely to be found amongst blue collar/manual employees. On the other hand systems of PRR which are based on a correlation between employee remuneration and individual performance are more likely to be found

amongst managerial/white collar employees. Once again, this provides an opening for future research which could help to explain why some systems of PRR, which apply to particular categories of employee, are based on a correlation between group or collective performance and remuneration rather than individual performance, and vice versa.

When establishing a correlation between the performance of individual employees and their remuneration, it was found both in the surveys of the 1980's and in this survey that the measurement of individual employee performance was based on a system of performance appraisal. The central feature of such systems generally involves the establishment of objectives against which the performance of the individual is assessed. Such assessment is normally carried out by the individual's immediate superior and would perhaps be verified by another superior further up the line management structure. In such circumstances, it would be interesting to determine whether organisations make a conscious decision to develop an integrated system of performance appraisal and PRR or whether existing systems of performance appraisal are united with systems of PRR in an ad hoc manner.

Whilst this thesis has identified trends in the use of PRR within the UK food industry, and compared such trends to previous research findings, there are areas regarding the use of PRR which require further investigation.

Company 1 in the case studies identified the foreign parent company as a major influence on the introduction, implementation and development

of PRR within the organisation. Since the use of PRR is becoming increasingly widespread, it would be interesting to identify the main catalyst behind the introduction of PRR in organisation. In addition, it is important to identify who within the organisation has the responsibility for a) the design of the system, and; b) the implementation and development of the system. It would also be interesting to identify how different systems of PRR operate and develop in the different divisions/sites of large organisations.

A further area regarding PRR which requires further study is the extent to which different systems of PRR are applied to different categories of workers. It would be interesting to investigate the extent to which certain systems of PRR are applied exclusively to particular categories of employee whilst others are applied more generally. A focus of this study could be the difference between systems of PRR applied to managerial/white collar employees, and those applied to blue collar/manual employees. It appears that whilst systems of PRR have been applied to white collar/managerial employees on a large scale for many years, the use of systems of PRR amongst blue collar employees has been more limited. Research on the use of PRR on blue collar employees over the next few years may show that whilst the level of application of PRR to white collar/managerial employees will remain relatively static, there will be substantial developments in the application of systems of PRR to blue collar employees.

From the literature and studies currently available, it appears that an important omission with regards to research in the area of PRR relates to the use of PRR in different industries. There appears to be no

comprehensive piece of research which examines the differences, or similarities regarding the use of PRR across different industries. Whilst this study provides information on the UK food industry, it would be interesting to compare these findings with trends in the use of PRR in different industries. It may be interesting for example, to examine the use of PRR in manufacturing industries and compare these findings with the use of PRR in service industries.

In conclusion, this thesis identifies a number of trends relating to the use of PRR within the UK food industry and compares these findings with previous research performed during the 1980's. Whilst there are some similarities between the research findings of this thesis and the findings of such bodies as the Income Data Services, ACAS and the Institute of Personnel Management, several differences have been highlighted. Overall however, the use of PRR within the UK food industry is significant, and will figure highly in management policies for many years to come.

APPENDIX

QUESTIONNAIRE

28 September 1990

Dear Sir/Madam

PHD RESEARCH THESIS

I am currently working on a PhD Research Thesis and would be grateful if you could spare a few minutes of your time to complete a survey questionnaire. Your organisation has been specially selected as a representative of your sector of the food industry and when combined with other responses should provide a representative sample.

Since the early 1980's, the trend in remuneration policy has been towards the use of various systems of performance related remuneration. Such systems aim to create a direct link between the performance of employees and their subsequent remuneration. The objective of my research is to focus on the UK food industry and try to identify trends in the use and style of systems of performance related remuneration.

All completed questionnaires will be strictly confidential and any compiled data will be displayed anonymously making it impossible for any individual organisation to be identified.

I am employed as a Lecturer in Economics and Business Studies at the above College and specialise in teaching personnel management and industrial relations. I am also a part-time lecturer at the University of Glasgow. I possess a Bachelor of Arts degree in Applied Social Studies, a Master of Science degree in Personnel Management and am a Corporate Member of the Institute of Personnel Management. My PhD research degree is being completed in conjunction with Glasgow Business School, the University of Glasgow where my supervisor is Dr James McCalman. My employment experience covers retail management, personnel management and academic lecturing and research.

It is my intention to forward to all those individuals who return the questionnaire a summary of the results from the survey at a later date. In the meantime, if you have any questions about the research please do not hesitate to contact me at the above address. Again, thank you for your assistance.

Yours Sincerely,

David A. Hume

SURVEY ON THE RELATIONSHIP BETWEEN THE PERFORMANCE OF
EMPLOYEES AND THEIR REMUNERATION IN THE UK FOOD INDUSTRY

NOTES ON COMPLETING THIS SURVEY

1. For the purpose of this survey, performance related remuneration is the explicit linking of remunerative rewards to individual, group or company performance (or any combination of the three). Remuneration involves all types of benefits including financial and non-financial rewards.
2. There are 25 questions and will take around 15-30 minutes of your time to complete. It is important that you answer all questions appropriate to your organisation. Please return the questionnaire before Friday 19 October 1990.

THANK YOU for assisting me and contributing to this important investigation.

SECTION ONE: RESPONDENT AND ORGANISATION PROFILE

1 Name of Organisation:

Address:

.....

Name of person completing this questionnaire:

Job Title:

Telephone Number:

2 Approximately how many people does your organisation employ?
circle box

0 - 49	1
50 - 99	2
100 - 199	3
200 - 299	4
300 - 499	5
500 - 1499	6
Over 1499	7

3 Which of the following classifications best describes the main business area of your organisation? circle box

Oils and fats	1	Bread/biscuits/flour confectionery	7
Meat/poultry products	2	Sugar/sugar by-products	8
Milk/milk products	3	Ice cream/cocoa/chocolate/sugar confectionery	9
Fruit & vegetables	4	Animal foods	10
Fish/seafoods	5	Starch/miscellaneous foods	11
Grain/cereals	6	Soft drinks/beverages	12

4 Is your organisation unionised? circle box

Yes	1
No	2

4a If yes, which trade unions are recognised within your organisation?
please state

.....

.....

5 In your opinion what are the main objectives of performance related remuneration? circle five boxes and rank them either 1,2,3,4 or 5

To increase output	1	
To increase profit	2	
To improve quality	3	
To improve recruitment	4	
To motivate staff	5	
To improve employee work satisfaction	6	
To satisfy employee/trade union demands	7	
To assist with organisational change	8	
To improve managerial control over remuneration	9	
Others (please state)	10	

6 Which system(s) of performance related remuneration currently operates within your organisation? circle box(es)

Payment by results (eg. piecework)	1
Merit pay (bonus)	2
Merit pay (increase on salary/wage)	3
Profit related pay	4
Profit sharing	5
Commission	6
Other (please state)	7
No system currently operating	8

7 If no system currently operates, does your organisation intend to introduce a system of performance related remuneration in the near future? circle box

Yes	1
No	2

7a If Yes, which system(s) is to be introduced? please give details

.....

.....

.....

.....

8 Which system(s) of performance related remuneration have previously operated within your organisation? circle box(es)

Payment by results (eg. piecework)	1
Merit pay (bonus)	2
Merit pay (increase on salary/wage)	3
Profit related pay	4
Profit sharing	5
Commission	6
Other (please state)	7
No system previously operated	8

9 If no system of performance related remuneration has ever operated within your organisation, which of the following reasons has prevented the introduction of such a system? circle box(es)

Objections from employees/trade unions	1
Satisfied with existing employee performance	2
Financial constraints	3
Alternative systems of performance management used	4
Don't know	5
Other (please state)	6

10 If a system of performance related remuneration has previously operated within your organisation, but does not currently operate:

a For which of the following reasons did your organisation stop using such a system? circle box(es)

- Dissatisfied with the results

1

- Administrative difficulties

2

- Objections from employees/trade unions

3

- Too expensive to operate

4

- Don't know

5

- Changed to an alternative system of performance management

6

- Other (please state)

7

.....

b When did your organisation start using a system of performance related remuneration? please write approximate date

.....

c When did your organisation stop using a system of performance related remuneration? please write approximate date

.....

11 Which system(s) of performance management does your organisation use in an attempt to improve employee performance? please give details

.....
.....
.....
.....
.....
.....

IF YOUR ORGANISATION DOES NOT CURRENTLY OPERATE A SYSTEM OF PERFORMANCE RELATED REMUNERATION YOU NEED NOT COMPLETE THE SECOND SECTION. PLEASE RETURN THE QUESTIONNAIRE IN THE REPLY PAID ENVELOPE PROVIDED. THANK YOU VERY MUCH FOR YOUR COOPERATION.

SECTION TWO: DETAILS OF YOUR SYSTEM OF PERFORMANCE RELATED REMUNERATION

12 When did your organisation start operating a system of performance related remuneration? please write approximate date

.....

13 Which of the following categories of employees are covered by your system of performance related remuneration? circle box(es)

Senior management

1

Middle management

2

Junior management

3

First line supervisors

4

Technical

5

Clerical/secretarial staff

6

Shop floor employees

7

Others (please state)

8

.....

14 How long has your system(s) of performance related remuneration been operating for the following categories of employees? circle box(es)

	Does not apply	Under one year	Under two years	Under three years	Under four years	Five years & over
Senior management	0	1	2	3	4	5
Middle management	0	1	2	3	4	5
Junior management	0	1	2	3	4	5
First line supervisors	0	1	2	3	4	5
Clerical/secretarial staff	0	1	2	3	4	5
Shop floor employees	0	1	2	3	4	5
Others	0	1	2	3	4	5

15 Does your organisation use different systems of performance related remuneration for different categories of employee? circle box

No	<input type="checkbox"/>
Yes	<input type="checkbox"/>

15a If Yes, please give details

.....

.....

.....

.....

.....

16 Approximately, what percentage of employees are covered by your system(s) of performance related remuneration? circle box

1 - 10 per cent	<input type="checkbox"/>	51 - 60 per cent	<input type="checkbox"/>
11 - 20 per cent	<input type="checkbox"/>	61 - 70 per cent	<input type="checkbox"/>
21 - 30 per cent	<input type="checkbox"/>	71 - 80 per cent	<input type="checkbox"/>
31 - 40 per cent	<input type="checkbox"/>	81 - 90 per cent	<input type="checkbox"/>
41 - 50 per cent	<input type="checkbox"/>	91 - 100 per cent	<input type="checkbox"/>

17 What percentage of your employees actually receive performance related remuneration? circle box

1 - 10 per cent	<input type="checkbox"/>	51 - 60 per cent	<input type="checkbox"/>
11 - 20 per cent	<input type="checkbox"/>	61 - 70 per cent	<input type="checkbox"/>
21 - 30 per cent	<input type="checkbox"/>	71 - 80 per cent	<input type="checkbox"/>
31 - 40 per cent	<input type="checkbox"/>	81 - 90 per cent	<input type="checkbox"/>
41 - 50 per cent	<input type="checkbox"/>	91 - 100 per cent	<input type="checkbox"/>

18 Are there restrictions on the amount of finance available for performance related remuneration? circle box

Yes

1

No

2

If Yes, who sets the limits? please state

.....

19 For the purposes of performance related remuneration, is the performance of employees within your organisation assessed on an individual, group or organisational basis? circle box(es)

Individual

1

Group

2

Organisational

3

20 Does your organisation operate a system of performance appraisal? circle box

Yes

1

(if Yes, please go directly to question 21)

No

2

(if No, please go directly to question 22)

21 Is your organisations system of performance appraisal an integral part of its system of performance related remuneration? circle box

Yes

1

No

2

If No, how is the performance of employees assessed for the purposes of performance related remuneration? please give details

.....

.....

.....

PLEASE GO TO QUESTION 23

22 How is the performance of employees assessed for the purposes of performance related remuneration? please give details

.....
.....
.....
.....
.....
.....

23 When the performance of an individual is assessed for the purpose of performance related remuneration, who normally carries out the assessment? circle box(es)

Immediate superior	1
Immediate superior's superior	2
Personnel department	3
Other (please state)	4
.....	

23a Are these performance assessments countersigned? circle box

Yes	1
No	2

If Yes, who countersigns the assessments? circle box(es)

Immediate superior	1
Immediate superior's superior	2
Personnel department	3
Other (please state)	4
.....	

24 Does your organisation have any facilities for individual grievances regarding performance related remuneration? circle box

Yes	1
No	2

If yes, please give details

.....

.....

.....

.....

25 Please use this additional space for any additional comments or information about the implementation, use or effectiveness of performance related remuneration.

THANK YOU VERY MUCH FOR YOUR COOPERATION.

PLEASE RETURN THE QUESTIONNAIRE TO: DAVID A HUME
DEPARTMENT ECONOMICS AND MARKETING
SCOTTISH AGRICULTURAL COLLEGE
AUCHINCUIVE

CASE STUDY QUESTIONS

CASE STUDY QUESTIONS

Company Information

1. Historical Background
2. Main Activities (Products)
3. Organisation Structure/Location
4. Turnover/Profits
5. Number of Employees/Categories

General Questions About PRR

1. Which systems of PRR are currently in operation?
When were they introduced?
2. Which categories of staff are covered by PRR?
Are there different systems for different categories of staff?
3. Have any other systems of PRR been used previously, if so, which ones and why stopped?

Specific Operational Questions

1. What was the strategy behind the introduction of PRR?
(ie. why was PRR introduced?)
2. What are the aims of PRR?
3. How does each system of PRR operate?

Measuring Performance

1. How is performance measured? (and how often)?
2. Are different criteria/systems for measuring performance used for different categories of staff?
3. Is it individual performance or group/team performance which is measured?
4. Does teamwork hinder or help the systems of PRR?

Relating Pay to Performance

1. How is performance translated into a financial reward?
2. What is the potential difference between a poor performer and an excellent performer?
3. What is the time gap between performance measurement and payout?
4. Is this a deliberate gap, or coincidental?
5. Financial Restrictions - who sets them and how are they decided?
6. Cost of PRR
 - finance
 - staff time

PRR Development

1. Who developed the systems of PRR, and how long did it take to develop?
2. How much training did/do staff get regarding the operation of PRR?
3. **Problems:**
 - main operational problems
 - working as anticipated?
 - have the systems been revamped?, if so why and what changes were made?
 - are the systems revamped as a matter of routine?
 - how are changes made?
 - are performance targets changed? if so, how, by whom and when?
4. How successful is the use of PRR?
5. What criteria is used to judge success?
6. What main benefits does the organisation gain as a result of PRR?
7. If you had the opportunity to start afresh, a) would you use PRR, and b) how would you do it?
8. What are the plans for PRR in the future?

General Questions

1. How do the trade unions/employee associations view PRR?
2. Are there any other systems of Performance Management in operation?
3. What "benefits" package is offered to employees?
4. Which benefits are related to performance and which ones are not?
5. Do your organisation operate 'cafeteria benefits'?
6. Grievances - how are they handled/have there been any?
7. Abuse of systems/is it 'policed'?
8. Example documentation

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