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The Puzzle of Performance Related Pay?

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Abstract

Most research into PRP has been driven, in one way or another, by an underlying assessment of the motivational effects of such schemes, resulting in schemes being deemed to be at best unsuccessful in their objectives and at worst demotivating. Thus leaving a fundamental puzzle of why do organisations continue to utilise such schemes? This paper attempts to solve part of the puzzle by utilising concepts used for analysing previous pay systems but rarely in conjunction with PRP. Along with a progressive view of the politics of pay four case studies will highlight how differing results for similar schemes are largely due to PRP being an element of two fundamental bargains which take place to aid the management of uncertainty: An 'effort bargain' to establish new norms and customs of effort; and a 'process bargain' to establish new systems of administration. (140 words)

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Introduction

"Perhaps PRP is being measured against the wrong targets? Instead of placing it at the bottom of schemes that motivate it should be placed at the top of schemes that lead to control"(Thompson, Marc. Radio 4, 1993).

In light of the above quote the aim of this paper is to lay out an alternative framework for examining the use of PRP schemes and improving our understanding of the processes involved. PRP was strongly promoted by those intent on bringing about an alternative set of relations in the workplace to that of most of the post-war period. Yet a mixed picture of the practical implications of PRP has emerged leaving researchers with the task of investigating whether in fact these schemes met the huge expectations placed upon them, not least of which was an improvement in performance brought about by a supposedly fairer and more motivational pay system.

The fact that findings are largely negative against performance, fairness and motivation left many questions unanswered by research into PRP, not least of which is the theoretical weakness founded upon the failure to address a simple question; 'why do organisations manage PRP the way they do and why do organisations continue to pursue the PRP approach despite the operational difficulties commonly highlighted by observers (Kessler 1994)?

In several places throughout their research, Kessler and Purcell (1992) mention the possibility of control being a major factor involved in the use of PRP. These themes of control are present in the literature but undeveloped. A reader of Kessler and Purcell

(1992) may find it difficult to decipher what 'control' means within the article. There is no direct answer, but implicit are ideas of :

- control as creating order and manageability out of chaos;
- control as linking pay to organisational goals;
- control over staff, and the restructuring of the employment contract, which may bring gains as well as costs to both sides.

This paper attempts to fill some of the 'gaps' by combining a number of key analytical concepts previously deployed in analysing other pay systems but rarely employed in conjunction with PRP. It draws on research which analysed PRP in 16 organisations, including their origins, implementation, and link with other goals of the business but focuses on four detailed case studies to illustrate the main points. The paper will first briefly highlight the path that research into PRP has taken within the UK before moving on to suggest an alternative framework for analysing the use of PRP, one that recognises the dynamic nature of employee relations and the role that control takes within the workplace. It was found that PRP schemes involve a search for control and consent which is contingent on the 'politics of pay' within and around the organisation. The politics of pay involve many different factors at the micro, meso and macro level which are resolved through a process of bargaining, uncertainty and power relations. How these worked in practice concerning PRP will be examined in the four case studies.

The objectives of PRP?

It is widely accepted that the origins of PRP during the 1980s/90s reflects pressure from three main sources.

- A link to the ‘entrepreneurial spirit’ or the ‘enterprise culture’ (Armstrong 1995; Brading & Wright 1990),
- A link with, or to, strategic HRM (Brading & Wright 1990; Smith 1993), and
- pressures on reward systems from changing product/labour market and changing technology and work organisation (Vickerstaff 1992).

PRP held out the promise of a link with motivation while addressing all these factors (ACAS 1990; Brading & Wright 1990; Lawler 1977 & 1988.). Further the simplistic criteria behind PRP meant that few organisations were likely to admit that they could not meet them.

The debate into the efficacy of such schemes tended to concentrate on assessing the validity of the motivational claims made on behalf of PRP including the pay/performance link which was largely judged through its motivational effects rather than by corporate performance. Linking motivation to PRP has been extensively covered elsewhere and needs little reintroduction (Cannell and Wood 1992; Marsden and French 1998; Marsden and Richardson 1994; Thompson and McHugh 1995; Thompson and Buchan 1993; Thompson 1992). Needless to say very few positive effects were noted and all found PRP to be demotivational. For example, Marsden and Richardsons (1994) survey of the Inland Revenue found few positive effects except for the raising of staff awareness over objectives. One of the main conclusions was that, if the scheme did not improve employee motivation, it is hard to see how it could improve performance. Despite major changes to the scheme a return study found results similar to the original (French and Marsden, 1997).

This occurs because of the various problems associated with the pay/performance link. First, notions of equality and equity, rather than strengthening the principles behind PRP, were found to be competing ideologies which caused resentment and confusion for employees (Kessler and Purcell, 1992; Geary 1993). Second, even leaving aside its simplistic assumptions about motivation and fairness, much of what passes for PRP is not based on actual performance (Casey et al. 1992; IRS, 1991). Third, there is some indication that companies may not really know whether PRP improves individual or organisational performance (Cannell and Wood 1992). Two pieces of research sought to directly assess the effectiveness of PRP on performance (Lewis 1997; Thompson 1992): neither painted a very positive picture of PRP.

There are therefore many dilemma's thrown up by research into PRP indicating that performance and motivation are complex notions. Using motivation as the starting point for examining the success or failure of PRP, as most studies tend to do, therefore limits one as to the analytical depth which can be applied to discover the true nature of such schemes. Whereas most motivation models would appear to be establishing minimum conditions under which workers can be mobilised to consent to the nature of work which is demanded of them (Thompson and McHugh 1995) PRP is linked to much wider organisational issues.

Objectives for change: Control, consent and contingency.

Despite the negativity of the above other potential uses for PRP schemes may provide a starting point for examining their true nature. All concern control and/or management strategic choices for bringing about broader organisational change:

1. they signal a change in organisational culture (Fowler 1988; Kessler and Purcell 1992; Lewis 1991; Procter et al 1993; Pendleton 1992.);
2. they can be used to bring about a restructuring of the employment relationship (Fowler 1988; Kessler and Purcell 1992; Procter et al 1993);
3. they allow companies to reward selectively without an increase in the paybill (Goodhart 1993.);
4. they decentralise collective bargaining (Walsh 1992);
5. they can marginalise the role of the trade unions (Fowler 1988; Kessler and Purcell 1992; Procter et al 1993.);
6. they allow closer financial control (Kessler and Purcell 1992; Procter et al 1993; Pendleton 1992);
7. as organisations become flatter, it becomes more difficult to reward through promotion. PRP enables selective rewarding, combined with development programmes such as performance management systems, to dilute employee dissatisfaction (Goodhart 1993).

We can therefore begin the search for ways of explaining such behaviour in analytical terms. Kessler (1994) found that organisations are very much bound by their own histories and many of the factors discussed above show pay as a continuous process linked to the various environments in which the organisation and its employees operate. To a great extent, this means the situation in which the organisation might find itself is embedded in the social, political and economic situation in which it operates. For example, one prediction may be that that the outcomes of any PRP scheme may be very different in varying organisations even if the schemes appear largely similar on paper.

Contingency theory posits an appropriate functional fit between environmental settings and internal organisational structures. By the mid-1970s it was the dominant approach applied to specifics such as payment systems (e.g., Lupton and Gowler 1969). Despite proving overly deterministic the contingency approach was somewhat revived with the onset of HRM, with a variety of strategic HRM models being contingency models. The US literature on PRP favours very much the contingency approach (Balkin & Bannister, 1993; Bannister & Balkin, 1990).

One does not, however, have to view contingency theory as a set of measuring instruments and precise predictions about specific structural features for a particular task, its size and environmental attributes but, rather, useful as a conceptual and analytical framework (Francis 1994). The implications being that the form PRP takes may depend on the environment and the relevant actors.

Because studies are drawn into examining a link between PRP and motivation there has been little attempt to put PRP within a theoretical perspective or to link it to the overall objectives of change and restructuring (Kessler 1994). There is still a tendency to talk about PRP schemes in a generalised way and, despite the volume of descriptive literature on PRP, it still tends to be routinely referred to as a technique indicative of newer HRM approaches or illustrative of the shift from collectivism to individualism (Kessler 1994). By starting with the concept that pay concerns control over the effort bargain and the problem of double contract (Baldamus, 1961; Lupton and Gowler, 1969), the continued popularity of PRP in the light of the growing evidence against it may begin to make some sense. The employer has to use a set of both coercive and motivational policies in order to get employees to work as they would wish. It has long been

recognised that coercion, resistance and consent can all interact in a dynamic way to produce indeterminate outcomes (Burawoy 1979; Edwards 1986; Thompson and McHugh 1995). With this in mind, rather than all these schemes being doomed to failure (Kohn 1993), perhaps Thompson (1993) is correct in saying PRP is being measured against the wrong targets?

Before moving on it will be worthwhile to highlight in which sense I am talking about control. In most of the literature in this area 'control' conjures up notions of exploitation and is either viewed as something highlighting a lack of power of the exploited group versus a denial of existence by the exploiting group. Yet control can be both positive and negative. On the positive side it is viewed as a necessary part of organisational life by providing a degree of order, predictability, discretion, responsibility and autonomy. On the negative side it involves coercion, domination, exploitation and manipulation. In reality it is likely to involve a combination of the two depending on the relative strengths of the various actors. H & B (199?) There can also be three main connotations to organisational control all of which in reality over lap with each other. First, 'economic' control in the sense if control breaks down there is a lack of organisation and resources get wasted. Control is thus seen as a means of securing efficiency by achieving the best use of resources. Second, is 'psychological' control. This is necessary to create stable and predictable conditions within which people can work effectively. Control is thus a means of establishing predictability as a psychological well being and work performance can be disrupted by uncertainty ambiguity and disorder. Third is 'political' control in which powerful individuals or groups dominate others. Decisions in the control process are more likely to be taken by managers who resist attempts to let others, particularly subordinates, interfere. Control is thus a means of perpetuating inequalities of power and other resources

in the organisation. Control is thus multi faceted and derives from pressures and requirements both external and internal to the organisation.

The Politics of Pay

Thus far, it has been suggested that PRP may not provide the benefits purported under its traditional uses. However, further investigation suggests that PRP may be better viewed as a control mechanism, whose nature is contingent on the organisation and its context. This is not contingency in a deterministic fashion, rather, it reflects that organisations have a degree of choice within organisational boundaries. This means that this paper recognises those factors already highlighted by others and combines them with a progressive view of control and contingency theory which recognise the political nature of pay. It is the politics of pay to which we now turn in order to clarify the picture. This can be highlighted through an examination of the 'politics of pay' which impact at the micro, meso and macro levels, though in practice they interact.

In essence, the political debate which has centred on and around PRP has pursued higher order aims than the motivating effects of cash or non-cash rewards (Smith 1993). The role of government in the determination of pay and performance norms is just as important as that between organisations and employees. The Thatcher government came to power in 1979, determined to contain labour costs as part of their programme of economic improvement. In this way, Smith (1993) argues that what they were attempting with regard to financial rewards was little different to that attempted by earlier Labour and Conservative governments of the post-war period. The difference was that, rather than using incomes policies and agreements with the trade unions, Tory governments sought to address labour markets factors directly.

Perceptions of performance vary at many levels. For the UK governments of the 1980s/90s, improving the performance of the economy was based on 'atomistic' competition via the introduction of market forces, deregulation and the individualisation of the employment relationship. Yet for companies these concepts do not necessarily have the same meaning. For example, competition may mean gaining greater control of the production process and the strengthening of market share. The growth of the multinational corporation (MNC) is certainly one indication of this. Also, the trend towards individualism was marked very much by 'standardised packages individually wrapped' (Evans and Hudson 1993). Recent changes to pay reflect three main factors acting on any organisation: a change in management strategies in light of intensifying competition; the adoption of new production arrangements; and key changes in the organisational context (Arrowsmith & Sisson, 1998). Thus highlighting a wide range of factors which potentially impact on pay decisions.

The implication are that the effects, of any pay scheme, on company performance are at best indeterminate. This problem is compounded by the fact that most companies do not appear to make any efforts to directly measure the effects of PRP schemes on company performance despite Williamson's (1975) insistence on considering the role of measurement and monitoring within the M Form organisation. Even indirect measures such as monitoring and surveys are largely based on gauging employee opinion and consistent application of the scheme (Gilman 1996). This is very interesting as the main raison d'être of these schemes is that they allegedly improve performance:

> "Reward management has been treated as something tangible, particularly by management consultants and Conservative governments, and has been touted as a

new input to management practice which can create improved economic performance and wealth and as an ingredient of the process of change to the enterprise culture across a variety of employing organisations" (Smith 1993: 45).

As the quote highlights PRP is essentially supposed to be about improving the performance of the organisation, yet the complex nature of the employment relationship means that pay is often utilised to address more than this.

Linking pay to performance is not problematic in the world of orthodox economic theory because the level of pay of any worker is determined by the forces of supply and demand. In the real world, however, we know that there are marked variations in efficiency and a range of indeterminacy in pay rates (Lester 1952), even for workers in the same occupations and districts (Brown et al. 1995). As Brown & Walsh (1994) argue the nature of this problem is an age old one. The act of hiring an employee is not sufficient to ensure that the job gets. The employer has to use a variety of means, including control, consent, etc., in order to get the employee to apply time and effort to completing the task. A rich tradition, used for analysing the nature of the employment relationship (Baldamus 1961; Behrend 1957; Hyman and Brough 1975; Brown et al. 1995; Brown & Walsh, 1994) proved successful in analysing other pay systems and will be utilised to analyse PRP.

For Baldamus (1961), the organisation of industry revolves around the administration process by which the employee's effort is controlled by the employer. The reason why this problem has received little attention is that it has been customary to describe matters in terms of efficiency. Efficiency is usually preferred because effort is neither easily measured nor defined. So the problem becomes one of definition,

concerning what interpretation and terminology are applied to the measurement of performance. The trouble is that performance is usually used interchangeably with concepts such as productivity, profitability and efficiency. Thus, there is a constant readjustment of attempts to define efficiency and hence effort and PRP may be seen by some as a conceptual way of aligning the two.

The use of incentive schemes rests on three assumptions (Behrend, 1957): that effort intensity can be varied, that the financial motive is the most important and that the only way of harnessing increased effort is by utilising incentive schemes. Yet there are some essential problems to the measurement of effort (Baldamus 1961; Behrend 1957):

- it is impossible to say whether two workers with the same work performance experience the same degree of effort.
- equal effort does not necessarily represent equal marginal productivity, though in incentive schemes it is equal effort which is rewarded. "A policy of paying a standard rate for equal effort and skill may thus conflict with a policy of rewarding according to marginal productivity" (Behrend 1957; 511).
- notions of effort have never been merely about the amount of energy expended on the job, but have always included the kinds of behaviours that should be expressed in doing the job.

The points to make here are fourfold. First, we are dealing with a notion of the effort bargain. Second, there are problems with the effort bargain due to the subjective nature of effort and the fact that it is extremely difficult to specify in advance the levels of effort needed. Third, this leads to problems of control and how to overcome such

problems. This leads finally to the point that employers may have to rely heavily on employee consent for many practices (i.e. the negotiation of consent).

The process is further confused by the fact that, in terms of pay, there are at least two separate mechanisms at work in deciding what compensation should be allocated to each person. One is the occupational element, the other the employment element. The former refers to the skills and experience utilised in carrying out work while the latter refers to the amount of effort involved in doing the work. For Baldamus (1961), this is problematic because it is impossible to separate the two elements.

The role of social norms also has a large role to play here. The force of tradition is quite powerful, and when combined with an appeal to custom and practice the principle is strong enough to produce a moral content that is recognised by workers and employers alike, even to the point where it constitutes, in effect, a countervailing source of legitimacy to that of managerial authority. Hyman and Brough (1975) argue that there is much evidence that the definition of work obligation in the everyday employment situation can usually be understood as an example of *negotiated order*. Thus, what is at issue is the ideology and social imagery held by employees and employers, generated not only within work but in social life generally. This is the case for both employers and employees. Both usually hold strong views on the maximum as well as a minimum level of work effort to apply. The level of *negotiated order* depends on the power of the various actors. Once a compromise has been reached, Hyman and Brough (1975: 72) quote Flanders:

> One has not to take an over optimistic view of human nature to recognise that when job performance is governed by a set of agreed rules and when the rewards

> attached to performance are thought to be justly determined there is a much greater prospect of workers feeling a sense of obligation to give a fair day's work ....

In terms of the power relations involved here, while employers have power to some extent, the power of work groups is essentially defensive and reactive. With PRP we may be witnessing attempts by employers to negotiate new standards of effort and social norms. The three factors leading to changing pay systems mentioned by Arrowsmith and Sisson (1998) also create changing norms and go some way to explaining the demand for new pay systems, not just from employers but also from employees themselves. Employers look for new ways of reward and administration in light of restructuring while employees look for the same in the light of being restructured. The problem lies in each parties interpretation of what the outcome should be. It is to these contradictions that we shall now turn.

The Case Studies

The above highlight the complexity of the pay/performance relationship suggesting that PRP might be more appropriately analysed taking account of the 'politics of pay' and the contingency, consent and control involved. The paper focuses on ethnographic case studies in four of 16 organisations - Bank Co., Retail Co., Engineering Co. and Public Agency - to highlight these factors. After long histories of paternalistic employment practices all were undergoing immense restructuring and technological change of both the organisation and the jobs within it. Bank Co. is one of the UK's largest and most successful banks employing over 89,000 people around the world. Retail Co. is one of the UK's major high street chains employing 81,000 people world-wide. Engineering Co. is part of a separate division of Retail Co. engaged in the manufacturing side. Engineering Co. only employ 500 in the UK but is staffed solely by skilled craftspeople. Agency Co.

was originally part of the civil service but were given agency status under the 'next steps' programme. The agency employs 36,000 people across the UK. Three of the case studies were companies with the same schemes on paper, with the fourth (Eng. Co.) moving towards this type of scheme. This was a performance management scheme in which every individual is given a performance contract specifying their objectives for the year. These objectives are supposed to reflect a combination of the overall company objectives and those utilised for each individuals job.

The contingencies of PRP

Two distinct factors stood out concerning the variability of PRP schemes. First, despite similar pressures and similar pay schemes on paper there were variable outcomes. In line with the predictions of contingency theory, certain distinctive factors were portrayed by organisations which utilised PRP. Each of the four companies appeared to have similar pressures acting upon them including: changing technology and work organisation/structures; changing organisational structures; highly competitive environment with rapid product changes; a weakened position of labour, often accompanied by redundancies. Although it should be noted that some groups of workers did feel that they were gaining more bargaining power via the changes. Organisations, however, had a degree of choice over the way in which they implemented policies. This was indicated by the fact that despite a trend towards similar types of scheme, the application of the schemes displayed many differences. There was a diversity of performance criteria, methods of scoring individuals, and means of linking pay to performance (Gilman, 1998). Thus, the different labels disguised similar schemes while the similarity in the concept of payment systems disguised many differences based on organisation specific factors.

Second, all shared a constant 'tinkering' with their PRP schemes in order to correct deficiencies. The Engineering Co. scheme was one of the older type of PRP schemes which concentrated on behaviours and traits which the company thought were specific to the roles within the organisation. This type of scheme had already been experienced by the other three organisations prior to the implementation of new PRP schemes. The other three were all Performance Management schemes which on paper appeared remarkably similar. Yet there were clear differences in practice. These were mainly due to companies prioritising and dealing with the various pressures facing them in their own way as will be highlighted below.

Engineering Co., was undergoing immense change with responsibility for employees slowly being split up between new divisional structures in the parent company. Along with this, changing production techniques meant that there was great pressure to cross traditional demarcation lines. Despite being part of a group, management arrived at the decision to implement a PRP scheme separate from any pressures from central personnel They were largely concerned with gaining the flexibility and multi-skilling not possible within the existing job evaluation scheme, along with control of labour costs. The scheme took three years to negotiate and from the start the scheme was already experiencing difficulties and likely to be short lived. First, because it only allowed a transitional shift in terms of breaking down demarcation lines and second, it faced immediate pressure from the centre to standardise towards the type of scheme used in the rest of the company. In fact, as the research was concluding, management was already in the process of attempting to negotiate a performance management scheme which was equivalent to that in the rest of the organisation (i.e. Retail Co.).

Retail Co. is the parent company of the above and was experiencing the selling and buying of different companies and the re-organisation of its divisionalised structure. Combined with this were: pressures in the retail markets had led to a restructuring of work organisation especially in the shops where there was now a clear distinction emerging between 'back end' and 'front end' staff; and rapid technological change, especially with the introduction of computerised systems. Managers welcomed the introduction of PRP but were uncertain as to the accuracy of the objective setting process. They felt that the scheme put them under pressure rather then providing them with help and guidance. Shopfloor workers thought that objectives were too standardised. They often resented the fact that they were being told exactly how to sell, in addition to being closely supervised and monitored by mystery shoppers.

Managers and employees in Public Agency had similar problems to those in Retail Co. They too faced restructuring and technological change but were probably the most frustrated by the whole process as they did not have full control over their own destiny. They faced twin pressures from government who constantly changed their policy towards how the Agency should carry out its work and from the Treasury who were in overall financial control despite the Agency being portrayed as an autonomous organisation. This meant that the Agency was always working within parameters that had been pre-specified by government.

Staff at Bank Co. were also undergoing changing organisational and work structures and although competition was growing rapidly it is probably true to say that the greatest pressures for change came from rapidly changing technology which was

completely transforming the roles of staff within the bank. Like Retail Co. there was a particular move towards 'back end' and 'front end' staff and a specialisation of various roles. Managers at Bank Co. had been used to PRP for a long time. What they were not used to was the fact that their performance was now so closely tied to their pay. Managers at Bank Co. were not strangers to having their performance scrutinised but in the past this was mainly for the purpose of promotion. Thus, they not only felt that control had been taken away from them but also that their roles were moving, due to changing job structures, away from what they considered they should be.

Contradiction in the search for control?

Many of the contradictions highlighted above were due to schemes having more of an emphasis on aiding a change in the way that the organisation was administered and in altering the equilibrium level of effort in the following ways:

- controlling labour costs and their distribution;
- mass individualism – individual, but standardised contracts; and
- flexible standardisation - the combined search for flexibility and standardisation simultaneously.

Labour costs and distribution

It is almost built into our value of the work/pay relationship that we should have a fair link between what we do and what we receive in return. In fact, employees may believe in equity of pay structures because it represents lasting differences in the status of labour (Baldamus 1961). The problem with all four schemes was that there was very little evidence of a genuine link between an individual's performance and their reward. Secondly, the objective of new pay structures may not just be to improve performance *per*

se. For example, most of the organisations sought to control the distribution of performance, and hence, pay, through their schemes. A typical distribution may be that 10% do not exceed their contract (i.e. fail), 90% meet their contract (i.e. are average) and 10% exceed their contract.

What this means is that organisations are arranging all workers so as to share out a pre-determined 'pot' of money. While this may be acceptable and fair within the limits of a pay budget, confusion stems from the fact that organisations go on to portray the scheme as purely performance based and employees expect it to be so. It does not take long before staff realise this is not the case, with the consequence that the scheme loses credibility. A further problem is that within this distribution, rewards are aimed at giving more to the above average performance and nothing to the below average performance within the limits of the pay 'pot'. Therefore, only a certain number of people can ever better their pay above the average, whatever their performance. This means that the determination of performance comes more under the control of the organisation which then attempts to base it on setting new norms. The new norms in the case of PRP, however, are set on the basis of the best and not the average performer. This is highlighted by the fact that employees are put under constant pressure to accept higher targets:

> at first I was really motivated, but then in reality.....PCA (portfolio contribution analysis) which is the income side of things, we get peer pressure on what to achieve, you know, so and so has agreed to this why can't you (Bank Co.).

However, once objectives were exceeded, the new figures tended to be incorporated into next year's targets, thus making the 'average' employee more like Taylor's first class worker (Newton and Findley 1996). For example, Mangers commented:

> "We set the goals and they say that the targets are achievable, but when you achieve the goal the posts move again" (Retail Co.).
>
> "It's to get more work out of you. You are made to feel that you have never done enough" (Agency Co.)

To add to the confusion, the total pay 'pot' can be manipulated by the organisation so that if decreased, performance then becomes based on ever smaller amounts. Even the average worker may get less than he or she would have expected under previous schemes and these new pay schemes and structures may have allowed the redistribution of income to particular groups, mainly managers and the higher paid (Rubery 1997).

Mass Individualism

Crouch (1993) argues that as part of the return to the doctrine of orthodox economic theory, there is a new kind of mass individualism based on an 'exit' type of market. It is the mass individualism and not so much the exit type of market which is significant here in that the 'mass' signifies that everyone is the same, while 'individualism' means that everyone is to be treated differently. Thus, the inherent contradiction is summed up in a single concept.

Brown and Hudson (1997) argue that, a change in pay system is a central aspect of introducing the individualisation process. The assumption of individualism in pay is that if effort can be brought down to the individual level, it is easier to measure and enables the payment of appropriate subsequent levels of reward. This, for some, leads to the

assumption that the collective means of representation is seen as inappropriate. The fact of the matter, however, is that collective rules and regulations are still highly appropriate and it may well be the case that there are transaction costs benefits for organisations in offering uniformity (Brown and Hudson 1997). This as to be weighed against the benefits of flexibility involved with PRP which may off-set the transactions and other costs of moving away from bureaucratic structures (Rubery 1997). So organisations might want to individualise pay while retaining the collective element of rules. For as Brown and Hudson (1997) themselves argue, managing pay on an individual basis is certainly no simpler than managing it through collective bargaining.

Organisations have developed internal labour markets, seeing them as a means of containing opportunism and contributing to efficiency (Edwards 1990). Many of the organisations were struggling with the distorting effects of attempting to simultaneously individualise and develop their internal structures. One of the problems is that the focus on the individual as the unit of work through PRP means that the collective and social elements of the work are left hidden (Townley 1989).

One of the ways that 'mass individualism' can be highlighted in PRP is through the objective setting process whereby individualised objectives become standardised in order to provide objectivity. Objective setting is seen as a mechanism for linking corporate plans to the daily work process of each person. It can also be seen as an 'exposure strategy', exposing employees to financial and organisational information about the company's competitive situation in a bid to win employees over to the goals of the organisation (Smith 1991). Combined with this, records of how employees meet these objectives then make up the main source of information for effort stability control. For example, not all

managers know how employees do their jobs or how much effort they put in. The appraisal or objective setting process can aid them in establishing what jobs entail in greater detail. In retail Co., for example, staff have monthly 'blue cards' in which they have to list what they had done and then show it to supervisors for them to approve that this was so. A supervisor commented:

> "The scheme allows us to sort out the wheat from the chaff, put round pegs in round holes. It shows everything up and gets you close to what staff do" (Retail Co.)

This can only be true, however, if the firm does not constantly undergo major changes. Yet most organisations and employees are experiencing many changes. For example, objectives at Bank Co. were seen to be inaccurate and often unachievable from the start of the contract. This led to a lack of co-operation between various new sectors within the bank as they sought to hit their individual targets. Objectives were made even more inappropriate by the fact that staff shortages meant that employees often had to cover for different jobs within these sectors. A similar effect was also present within Public Agency, though not so severe. In Public Agency, it was more the case that objectives were in opposition to what staff thought the job entailed. Staff thought that spending time with the clients was an essential part of getting them back to work, and also for identifying who the 'genuine fraudsters' were. Objectives, on the other hand, were reducing the time they were allowed to spend with each client while increasing the numbers expected to be taken off the unemployment figures. Staff in all the organisations were also upset by the fact that the objective setting process talked the language of empowerment, yet in reality, the opposite was happening. In Retail Co., objectives attempted to reinforce behaviours which employees thought inappropriate for their jobs.

While on the one hand the company were promoting the scheme as a two-way relationship in which workers set their own objectives, on the other, they were giving them objectives they did not agree with. This not only attempted to control their behaviour but also the exactly what and how they should communicate with customers.

The severity of the processes involved is partly dependent on the severity of the pressure which management may be under. Where there is little pressure the objectives remain relative. For example, at Public Agency the pressure to hit the government targets was great but it was spread throughout the organisation and largely seen as stemming from government rather than from management. However, in Retail Co. the emphasis was less on figures in the objectives than on direct controls and monthly objectives which already existed. The objectives were more to do with reinforcing the behaviours which were to be utilised in meeting objectives.

Standardised flexibility

Combined with the individualisation process a need to simultaneously internalise, standardise and provide flexibility was also noted in all the case studies. In the case study companies there was a great deal of standardisation of jobs. On the surface, employers were no longer looking for skills in terms of broad range, but rather, those utilised individually on the job (Regini 1995). In reality, employees were utilising a broad range of skills in covering for other jobs, but were only being paid for those in their performance contract. Thus, the development side of the contract acted as a means of absorbing knowledge from employees as they discussed what their job entailed each year, while the contract was based on a standard job gauged on the application of new measurement norms.

Mostly this standardisation was brought on by the application of new technology and new product ranges, but also by organisational decision-making. The fact that more complicated computerised measurement systems existed meant that organisations also thought that performance management systems were highly appropriate for the purposes of standardisation. The problem was that the concentration on 'paper efficiency' gave organisations the illusion that what they were measuring and monitoring was accurate. Yet while they were highly efficient at recording facts and figures, what they could not do is identify how tasks were performed. This was left to appraisers through the performance review and objective setting processes. Although in reality this was not always done accurately or effectively.

There was a greater division of labour and standardisation in all but Engineering Co. Here, the emphasis was more on being able to cross demarcation lines rather than narrowing them. Hawkins (1978) argues that traditional craft norms of custom and practice make it very difficult for organisations to change their norms. Yet in Engineering Co., job specificity was internalising employee norms, by making them specific to the organisation rather than the tradesperson or skill, while PRP enabled the organisation to change roles, cross demarcation lines and make them more specific to the organisation. It could be claimed that this job specificity was a form of standardisation in itself.

This led to changing norms, in that all the case study organisations comprised jobs that were becoming very much job specific to these organisations. This is much more complicated, however, than the process of deskilling portrayed by Braverman (1974). While jobs were being standardised, it is not automatically apparent which were being

deskilled or upskilled. In Engineering Co., job content seemed to be enlarged at first sight in terms of the amounts of skills used (i.e. multi-craftsmen). Yet because the jobs were becoming more standardised around particular roles or products they gave the impression of being more easily measured. In many cases the jobs and the work organisation were in a transitional phase. This meant that employees were having to become more flexible in covering more than one type of role. The problem was intensified by the fact that the organisations were downsizing, usually before the transition was complete.

Part of the problem is due to the way in which performance contracts are set. In Bank Co. and Retail Co. the performance contracts for individuals were completely standardised, other than the addition of numerical details. There is however a difference between those which are standardised because management could not be bothered to differentiate them and those which are standard because head office have provided standard templates of what they should look like. Public agency Co. was an example of the former while Bank Co. and Retail Co. were examples of the latter.

The companies attempted to provide standard contract templates in an effort to stem the amount of subjectivity surrounding objectives, which then meant that that the objectives did not reflect the whole of an individual's job. These also allowed management to ignore the process of setting objectives relevant to the individual, which organisations were so keen for them not to do. The fact that organisations like Bank Co. are staffed by managers who were already very self-motivated because of the status that the positions they held meant that, for most, the money side was secondary. Yet the fact that they were treated as if they did not understand their jobs caused much resentment. Managers

struggled with their contracts because they were standardised and did not cover essential parts of the job.

> "It used to be well defined but with all the change it as become so woolly. We have merged and jobs have changed but I still have the same contract".
>
> "It is human nature that if you have got a contract driving you, you tend to drive your work to achieve that contract".

Consent for PRP schemes?

Given the potential negativities highlighted above and in other studies there needs to be a possible explanation for the apparent lack of explicit conflict around PRP? The main reason is because in all four companies employees consented to the use of the schemes in various ways. First, employees saw the appraisal process as an opportunity to 'voice' their opinion, especially for those who felt they had little collective bargaining power but retained an amount of personal bargaining power. This was so even where the appraisal process was less of a positive experience due to the prevailing culture of paternalism (e.g. Retail Co.).

Secondly, and related, some employees felt that they could use the scheme to their own advantage, including finding various ways of manipulating targets or results. For example, in Engineering Co. employees saw it in terms of getting extra pay for additional tasks some of which they were already doing. In Retail Co. those with potential good sales performance used the scheme to their own benefit in additionally highlighting this fact through objectives.

Thirdly, employees initially considered the schemes to be better or more efficient than previous schemes which in most cases were reaching the end of their cycle. In Public Agency, employees did not mind that the organisation was searching for more efficient ways of providing the service. Many of them found the old ways of doing things to be overly bureaucratic and thus welcomed a certain amount of change. In their opinion, the problem was that the kinds of processes and objectives being imposed on employees were more the product of cost-cutting exercises than of an efficiency exercise. Management still had certain sympathies with other employees in that they felt more aligned with employees than being the 'agents of capital'. Both were bearing the brunt of the many changes which the organisation was undertaking. Thus, to an extent, both management and employees were willing to conspire in the 'fudging' of figures. PRP in Bank Co. appeared to have many more positive effects than the rest of the schemes in that it gave managers a wide degree of autonomy over the possible awards for good performance. Managers, however, did not welcome the unconsolidated nature of PRP. Also autonomy was within tight financial constraints and combined with increasing standardisation of objectives managers felt devalued.

Fourthly, employees thought positively about an overriding emphasis on developmental factors among the schemes although managers and employees mentioned that this was rarely carried out in practice. Also managers in all of the companies considered themselves conscientious and very self-motivated and valued the autonomy PRP gave them despite the financial constraints. In Retail Co., managers welcomed the performance management process as a good idea but had doubts about how it worked in practice. Employees were driven more by peer pressure than objectives, as were managers

in Bank Co. This was because carrying out the job competently gave them an element of 'status' in the eyes of others.

Finally, All employees tended to view themselves as good performers and therefore expected to be able to get an increase in pay through these schemes. In most cases, for reason discussed in more detail below, they were to be highly disappointed.

Discussion and Conclusions: Bargaining, uncertainty and power relations

The politics of pay highlights that, to change effort levels, motivation or attitudes of fairness, one has to change concepts of social norms, implying that there is an econ-socio-political element involved. This means that organisations may have to stay, to some extent, within the boundaries of their historical legacies as was highlighted by Kessler (1994).

Yet while social norms can create some kind of social order, they can also stand in the way of change so that while certain systems, as in free collective bargaining, may have been the norm for many years, it became less acceptable in the 1970s. Due to the escalating costs and complexity of capital equipment and the growing size of production units, management have moved towards rationalisation and planning. However, for planning to be effective, it requires predictability and control. Labour costs and utilisation, the aspects of companies' economic environment over which they have the greatest direct influence, represent one of the primary targets for rationalisation and control.

The changes in the case study organisations, which were primarily driven by competition, technology and product market changes, meant that new relationships were

being sought by the organisations, ones in which predictability and control were all important. For example, each of the companies had changed their job structures and methods of measurement relying on, in all but Engineering Co., computer systems for the measurement of performance indicators. Giving the illusion that performance could thus be measured. Additionally it gave management the illusion that new effort standards could be set and monitored. In this sense PRP must have seemed an ideal way of balancing all these forces and dealing with change.

It has long been argued that control is shifting and contested, with swings between worker autonomy and direct managerial control. Both employers and employees can use social constructions to legitimise certain levels of wages. From the 1980s, one saw an increased ability to engage in behaviour of this kind on the part of employers. The point to be made is that norms are not fixed and hence pay standards can be changed. PRP may be one way of doing this. It was noted above that organisations have to apply different methods of administrative control in order to extract employee effort (Baldamus, 1961). This means that there has to be both an 'effort bargain' and a 'process bargain' to establish the basis and administrative rules of the new relationship.

Effort Bargain

Every employment contract involves a bargain to decide how much effort is required and how much is utilised. It has been customary for the basis of this bargain to revolve around three factors: Custom and practice, formal standards, and the conflictual tension between the two (Littler, 1982). Systems like scientific management were aimed at making the notion of the effort/wage bargain more transparent and changing the basis of custom and practice in favour of the organisation. For this to be the case there has to be a

normative basis to levels of effort built into skills and occupations. So there must be some relationship between effort and control in the minds of those involved in the bargain.. The objective of the various parties involved is to guess as consistently as possible the purely subjective element of effort standards, and subsequently to adjust rates of pay in accordance with them (Baldamus, 1961; Littler, 1982). Baldamus may have had piecework in mind , but PRP may turn this on its head in that it keeps pay rates relatively consistent, while giving employees the impression that they can adjust their effort to get more. Therefore, one could argue that PRP has resolved the problem not by being scientific but by admitting that it is not scientific and leaving management discretion and power to deal with the contradictions. Technical tools such as computer systems are thought to make consistent the guesswork on effort intensities and make it easier to establish these customary norms. But as Edwards (1991) argues custom only becomes practice when it ceases to be an understanding and becomes a right to be insisted upon. Thus a bargain must take place to establish custom.

One of the main problems is that if there is a further division of labour and if job roles are fractured, then there are no longer any customary standards. Yet it is equally true that if jobs are changed purposely then it may allow a redefinition of effort levels to suit. So there may be a dual purpose in which some effort norms have changed due to restructuring, but some restructuring may also be specifically aimed at changing effort norms. This led Baldamus to describe the bargain as involving: effort stability controls (criteria of employee performance in order to guess the effort needed) and effort intensity controls to increase degree of effort. PRP involves both these elements.

Process bargain

If we combine this with the increasing use of technology and job standardisation, this means that the control of effort via the use of incentive schemes such as PRP also then requires other specific devices for administrating such schemes (e.g. HRM). Littler (1982) implies that the process is all about identifying effort levels and then trying to formalise these into standards. Different management techniques all have in common the fact that they were utilised in order to aid the stabilisation of the average level of individual effort over time. It is this stability function of effort control which appears as a separate mechanism from any market mechanisms which may be at play (Baldamus 1961). And which is usually more commonly recognised as the system of administration.

For some organisations piecework was an example of an attempt to reinforce effort levels under a previous system of employment regulation. The problems with that system was that employees found ways of restricting output (Brown 1973). Output restriction was based on fears of rate cutting and these fears were fed by past experience of rate cutting. So in an arena of mistrust, management were faced with the problem of lack of observability. The same is apparent with PRP over objective setting. This highlights the fact that effort controls are heterogeneous and cannot be confined to particular modes of control.

A final element in the process bargain is that employers have to respond to changes in perceived risk attached to traditional internal labour market structures, even if these responses involve them in increased costs (Rubery, 1997). The attraction of PRP in offering the illusion of empowerment must be extremely attractive in these situations. Also, the rhetoric of delegation and decentralisation may help to disguise enhanced surveillance and concentrate power at the centre.(Newton & Findlay, 1996).

The above discussion highlights the extreme complexity of the employment relationship. This paper argues that more value can be gained by highlighting the processes by which this complex interaction works and its outcomes. The whole process is better viewed as a bargain within the environmental context (i.e. the social, political and economic pressures). It is the re-negotiation of control and effort. On the one hand, the employer wants the flexibility of labour inputs to gain competitive advantage. On the other hand, there are what the employer sees as social, political and economic obstacles acting as barriers to this. Using the framework allows one to delve deeper into the rationales underlying the use of PRP schemes identifying their organisation and effect.

It introduces the possibility that the motivation for changing pay structures may not just be the result of changing organisational requirements or needs, but may also be to do with changing power relations between capital and labour and among worker groups more generally. It is precisely the political and labour market changes in the UK and changes to the wider external environment that not only stimulated organisations to make changes, but also gives them the opportunity to do so. The fact that changes in the external environment stimulates and gives organisations the opportunity to change does not explain why PRP does not give a precise link between pay and performance. That PRP is used to address many differing factors might do so, however. The research found that changes in the companies studied were complicated by a simultaneous search for control, compliance and consent to aid the management of uncertainty. Further the outcomes and the schemes were largely specific to each organisation, depending on the negotiation of the 'politics of pay'. Taking into account the 'politics of pay' and the search for control and consent

allows one to delve much deeper into the rationale and contradictions of PRP than does a motivational outlook. (8900 words)

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