

**The Conditions Under Which Performance Related Pay  
Motivates:  
An Examination of a Newly Implemented System**

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## Contents

	Page No.
<b>1 Abstract.....</b>	<b>3</b>
<b>2 Introduction.....</b>	<b>4</b>
<b>2.1 The State of the Question of PRP at Company X.....</b>	<b>5</b>
<b>3 Literature Review.....</b>	<b>7</b>
<b>4 Choice of Questions.....</b>	<b>19</b>
<b>5 Methodology.....</b>	<b>24</b>
<b>6 Findings of Primary Research .....</b>	<b>28</b>
<b>7 Findings of Secondary Research .....</b>	<b>41</b>
<b>8 Conclusion &amp; Recommendations.....</b>	<b>42</b>
<b>9 Bibliography.....</b>	<b>46</b>

## **Abstract**

This dissertation explores the implementation of a newly designed performance related pay system and the possible issues arising from same. The type of research that was undertaken was action research as it was a live situation. In order to examine what issues or success was involved there were a sample number of staff members and manager/team leaders interviewed. Their perception and experience of the performance related system was vital as ultimately they would be the ones that would be taking participating in its operation.

As a result of the primary research of semi-structured interviews, I found that although the performance related pay structure was in its infancy, employees were quite positive about it. The main issues arising from same involved communication of goals and feedback, motivation and perception of fairness. The secondary research results proved that the staff members appear to be motivated to achieve the 10% retention bonus.

In summary, the main recommendations as a result of the aforementioned research and discussion are:

- Improve communications, especially feedback
- Visibility of other types of recognition and non monetary rewards
- Ensure procedural and content justice is perceived
- Consider “reversibility” rewards for the future

## **Introduction**

In February 2004, a business unit of 29 employees transferred from one contractor (Company Y) to another (Company X) on a client location (second generation transfer). This transfer took place under the remit of the Transfer of Undertaking Regulations. Prior to this transfer, the employees received a bonus of 10% of their basic salary every month without any performance reviews or measures taking place. This was in direct contradiction with their terms & conditions of employment which stated their performance would be measured on a monthly basis, "based on target achievement". Their basic salaries were not aligned and employees doing similar work earned different rates of pay without any apparent differences in individual's behavioural inputs or results outputs. In this dissertation, I am making the assumption that Company X was awarded the contract because at some level the Service Level Agreement between the client and the former company/contractor was not being met.

## **The State of the Question of Performance Relate Pay at Company X**

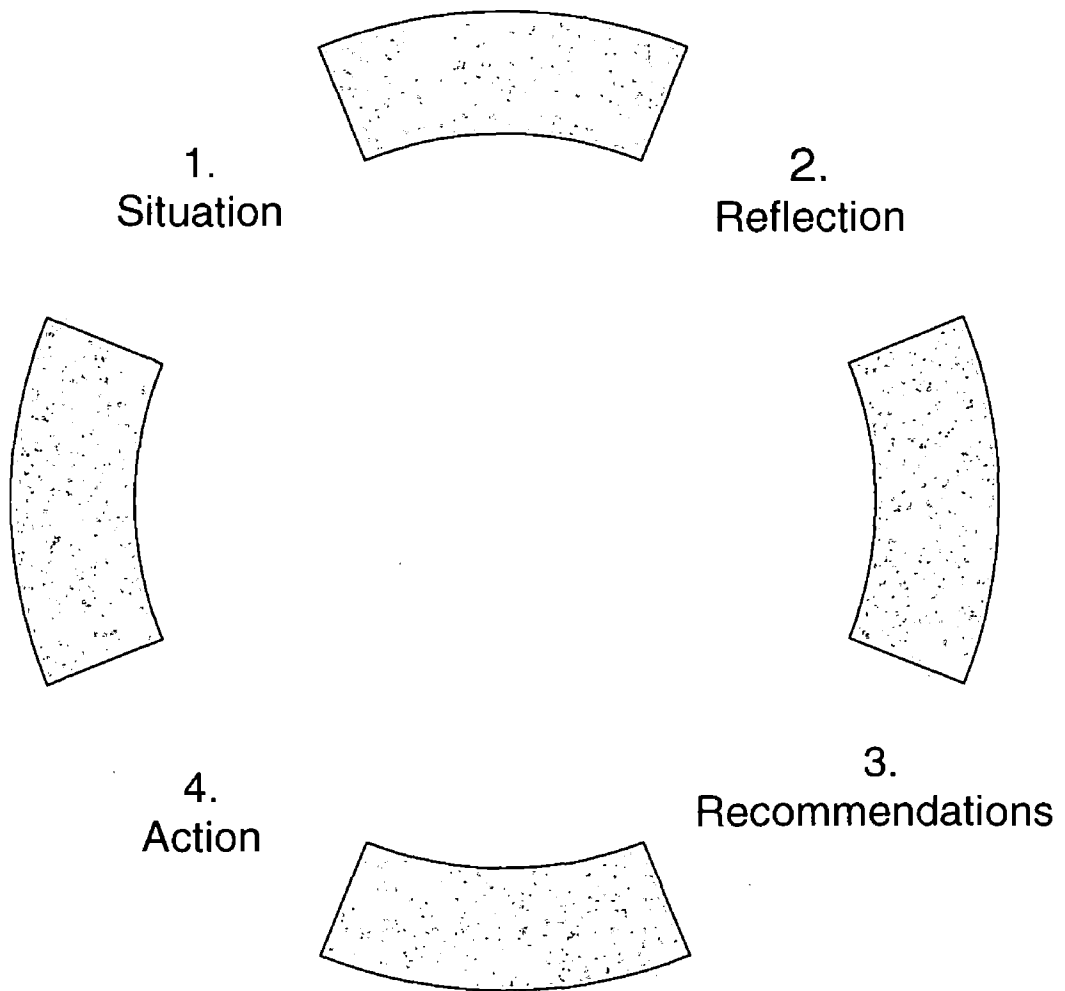
Interestingly, the culture of the company the 29 employees transferred to is also one where there is no clear connection or linkage between performance and pay and therefore it had not experienced a performance related pay system or administered one prior to this. It was felt that in order to improve performance, increase staff motivation and prevent the “brain-drain” of exiting employees from the contract, a performance related pay scheme would be introduced along with a once-off retention bonus of 10% measured by input/output performance criteria. Our reward system consists of the following philosophies and policies:-

- Performance appraisals are not connected to pay reviews and generally speaking the official appraisal and pay review does not occur at the same time of the year (with the exception of management level)
- People who do similar work receive similar pay regardless of individual performance
- National Wage Agreement increments are the main increments to most annual salaries (with the exception of management or promotions during the year)
- Employees that argue that they work harder/better than their peers and only receive the same remuneration are encouraged to look at the internal vacancies board for any positions that would earn them a promotion.
- Management argue that poor performers will be “managed” out of the company so that poor morale should not occur in the company.
- It is a policy that remuneration is not connected to length of service

This dissertation is designed to review the implementation and effect (if any) of performance related pay on motivation and to investigate four months following its implementation what issues could pose a problem or barrier to it operating successfully.

The route I have taken is Action Research as it is a live situation (See Diagram below) which has effectively allowed me the scope to analyse the situation as it was presented to Company X. The next stage was one of reflection where I have analysed what I’ve done to

date and formerly prepared the literature review and interview questions. My recommendations and or action will follow after reviewing the supporting evidence and documentation from my primary and secondary research.



## **Literature Review**

In order to examine the implementation of a newly introduced performance related pay system a review of the relevant theories and philosophies of motivation and performance related pay schemes are required. The aforementioned "Introduction" explains the back drop to the introduction of a PRP system which is both new to the transferring employees and to the transferee company.

### **Motivation**

One of the key issues in workplaces today is why people perform the way they do? At some point in time, every manager will ask him or herself how can I influence the performance of those who work for me? Motivation is the number one problem facing business today (Watson, 1994, p. 4). There have been a number of schools of thought in the development of motivational theory and performance related reward systems. While there are, what seems like, an infinite amount of theorists and writers on both of these subjects, in this dissertation I will concentrate principally on the ones that I believe are most relevant to this dissertation.

The Hierarchy of Needs theory by A.H. Maslow, (cited in Bowditch & Buono, 2001, pp 65-68) proposed that motivation is based on a number of human needs. These are arranged in a hierarchy that requires the "lower", more basic needs to be satisfied before increasingly less basic ones above. Following on from Maslow is a similar theory based on much of his work and that is Alderfer's ERG theory. He found evidence for only three levels of needs, basic existence, relatedness needs (dealing with social interaction) and growth (focusing on one's desire to achieve and develop). The main contradiction between the theories is that Alderfer found that although there was some progression from one level to the next, the boundaries overlapped and people could go from one level to another without actually satisfying the previous level sufficiently.

What effect does Maslow and Alderfer's theory have on performance related pay? An extrinsic reward like "pay" is important if we are to take into account the above theories as a motivating guide because pay may satisfy several of the needs in the hierarchy as it provides employees with the means to purchase items which satisfy their physiological needs and it enables them to meet their esteem needs, since it is one of the measures of self worth (Thornburg, 1992, pp 58-61). Both of the above theories have intrinsic and extrinsic aspects to it. One question which is relevant to the implementation of the PRP system is whether the new pay related system motivates the employees because it offers a better salary for improvement in performance or does the motivation derive from the growth opportunities in the career structure alluded to in the PRP documentation?

Frederick Herzberg's Motivation-Hygiene Theory (cited in Bowditch & Buono, 2001, pp. 68-70) suggests that the things people find satisfying in their jobs are not always the opposite of the things they find dissatisfying. These two dimensions i.e. those aspects of the job that can prevent dissatisfaction but do not influence employees to grow and develop (hygiene factors) and secondly those job-related dimensions that actually encourage such growth (motivators) he considered largely unrelated. The main implication of his theory is that a focus on hygiene factors could only prevent job dissatisfaction and for employees to be truly satisfied and perform above minimum standards, motivators had to be built into the job.

According to Herzberg's theory pay is not a motivator but only prevents dissatisfaction. "Most managers are aware of Herzberg's view that the job itself is the source of true motivation, not the pay or even the conditions of work" (Dwyer, 1994, p.17). Although critics of Herzberg's theory state that needs for salary, recognition and responsibility are both hygiene factors and motivators (Wall, 1973, pp 125-128), this theory is nonetheless very useful when considering what focus should be directed to the amount of extrinsic and intrinsic factors in the PRP system. It is interesting to note that in a study by Kovach (1987, p. 58-65) there was difference between what managers think motivates employees and what employees say motivates them. Managers concluded that employees were motivated by high financial needs and staff actually cited pay fifth on a scale of ten factors.



The question arising from this theory is whether the individual performance related pay system that will motivate them to greater performance levels or will it be something more intrinsic within the job?

Stephen Kerr refers to money as being “Unlike all other rewards, it simply does not saturate; that is, nobody refuses it, nobody returns it and people who have lots of it will generally do all kinds of things to get more” (1997, p. viii). He also argues that money has the capacity to help the self actualisation process of meeting people’s needs for recognition, status and self-esteem. This leads us to another argument....why do people discount money as a powerful motivator when we see that it plays such an essential role in people’s lives?

Expectancy theory by V. Vroom (cited in Bowditch & Buono, 2001, pp 73-75) assumes that motivation is a function of three components: 1) an effort-performance expectation that increased effort will lead to good performance (expectancy), 2) a performance-outcome perception that good performance will lead to certain outcomes or rewards (instrumentality) and 3) the value of a given reward to the individual (valence). This theory provides a framework for understanding how motivation operates. For example, the rewards must be desired by those who are putting in the effort and these individuals must perceive that differences in actual performance will result in differences in rewards or outcomes. It is important to note for the purpose of this dissertation that unless organisational reward systems can provide sufficient flexibility in the ways in which people are rewarded and that this reward is followed through, the link between high performance and obtaining goals will be undermined. Employees must also perceive that their effort will result in good performance, i.e. by properly training employees and clarifying expectations concerning good performance are some ways in which this effort-performance link can be strengthened.

Porter & Lawlor in 1968 undertook some research on Expectancy theory and their results generally supported Vroom’s theory that effort depends on the valence placed on certain outcomes and the expectancy that effort will lead to the attainment of those outcomes. (1968, pp 245-268). According to Hollyforde & Whiddett “Managers attempting to use

Expectancy theory as a tool to assist the motivation of their team members should remember that although generalisations can be made from what people may consider a rewarding outcome, the perceptions of the individual are key” (2002, p.82).

While the introduction of the new reward system appeared to follow the above principle, the key questions derived from this theory are:-

- Is it clear to employees that if they input more effort, will this effort will lead to greater performance?
- Are they aware that this greater performance will lead to a better reward or recognition? Is the effort that leads to better performance too wide?
- Do they value the reward, i.e. better salary, progressing between junior, senior and team leader positions?

Stephen Covey (1994, p.83) coined a term “begin with the end in mind” which is very relevant to the process of establishing individual or team based rewards. Goal setting theory (Locke, 1968, pp157-172) states that employees are motivated to achieve goals. Locke came to 3 main conclusions:- more difficult goals result in higher levels of performance, specific goals produce better results than general goals and the level of difficulty of a chosen goal depended on what the person undertaking the task was aiming to achieve. According to Bowditch & Buono, “Not every goal however, necessarily leads to enhanced performance since a particular goal may conflict with other goals a person may have, or be perceived as inappropriate for that particular situation” (Bowditch & Buono, 2001, p.77).

Steve Kerr gives a good example of this goal-conflict situation in his paper “The Folly of Rewarding A while Hoping for B” (1995, p.2). He describes the Vietnam War and makes the assumption (for the sake of demonstrating a point) that the main aim of the Pentagon was to win and the aim of the soldiers involved was to get home safely. He said one of the reasons the US did not win the war, was because the goals of the soldiers were completely in contrast to the goals of the commanders/Pentagon. For example, the soldiers’ got to go home when their tour of duty was over and this was the case whether or not the war was

won. Furthermore, the relative chance of getting home alive by obeying orders compared to the chance if they were disobeyed is also relevant as a deserter or mutineer was far more likely to be assigned rest and rehabilitation (on the assumption that fatigue was the cause) than he was to suffer any negative consequences.

Path-Goal Theory is derived from Expectancy theory and its basic focus is the examination of motivation and the way in which such diagnosis can influence the management of performance. “Individuals will be motivated to produce when they perceive that their efforts will lead to successful performance and the attainment of desired rewards. Management efforts to motivate, therefore, should focus on clarifying a subordinate’s “path” to a desired goal or objective” (Bowditch & Buono, 2001, p. 77). This theory was taken into consideration in the performance related pay structure as the pay structure was documented and given to all employees with the key elements required to be met, in order for the contract to succeed. It stated what competencies needed to be inputted and what outputs needed to be achieved, thereby giving the employees a comprehensive guide and focus to what exactly will increase their reward, recognition or promotional prospects.

This is a particularly interesting area for the PRP system because according to this theory if we assist people in identifying how to progress to receive better rewards (intrinsic & extrinsic) their focus would be very clear in where the effort should be inputted and performance improved.

B.F. Skinner’s theory of Operant Conditioning (cited in Hollyforde & Whiddett, 2002, pp.127-133) states that human behaviour is determined and maintained by the person’s environment i.e. certain behaviours will be reinforced and subsequently repeated. “Thus, according to Skinnerian theory; an individual’s behaviour or motivation is a function of the consequences of that behaviour. If we are rewarded for behaving in a certain way, we begin to make the connection between the appropriate behaviour and the reward, and continue to engage in that behaviour” (Bowditch & Buono, 2001, p 79). This “Reinforcement” theory suggests that if you desire to maintain a certain behaviour you must be able to manipulate the consequences of that behaviour. There is positive

reinforcement (rewards) to encourage consistent desired behaviour, negative reinforcement (avoidance; the withdrawal of negative consequences) and punishment to discourage those behaviours that we don't want repeated. To quickly solidify a behaviour, continuous and immediate reinforcement is useful. If there is too much of a time lag between the reinforcement and the behaviour, the psychological connection between the behaviour and reinforcer may not be formed.

In Steve Kerr's renowned paper "On the folly of A, while hoping for B", he describes several types of institutions, from governments, armies to sport coaches, which reward the wrong behaviour i.e. they reward the behaviour they believe they are trying to discourage. For example, he speaks about the government's award of budgets to different departments based on a direct result from this year's expenditure. To use his words "It probably is conceivable that those who award such budgets and contracts really hope for economy and prudence in spending. It is obvious, however, that adopting the proverb "to those who spend shall more be given", rewards not economy, but spending itself" (1995, p. 4).

How is reinforcement theory connected to performance related pay systems? Although we annually reward employees, is the "reinforcement schedule" of rewards for motivated behaviours and subsequent performance too far apart i.e. pay review on an annual basis. Also, is the reward sufficient reinforcement of behaviour/improvement required? Something to bear in mind is "rewarding" does not necessarily have to be all about the using "pay" to motivate. In fact replace the word "reward" with "recognition" and consider recognition of a job well done or full appreciation for work done. Examples of positive reinforcement could include visits to sites from top Directors to high performing employees, a personal note of thanks following an achievement of a goal (Knippen and Green, 1990, p.4).

Equity Theory cited by is based on people comparing the ratio of their input-reward to other people's input-reward. The key to equity theory is a person's perception of equity/inequity during a comparison between him/her and other persons. If an individual views this relationship as unequal, an attempt will be made to restore equality either by

working more or less effectively or by trying to obtain greater rewards through other means e.g. leaving the company. The relevance of inputs and outputs is decided by the individual. This means that the same inputs and/or outputs can be treated as relevant by one party and irrelevant by another. For example, an employee may see service as a relevant input in promotion opportunities, but the employer may not; an employer may see a new computer as a relevant output in lieu of the employee's extra effort but the employee may not (Hollyforde & Whiddett, 2002, p 63). Key ways in which equity can be restored include changing the quantity of input e.g. working less hard to justify being underpaid or changing outputs by negotiating to make the pay structure more equitable.

According to research in equity theory there is strong support for the idea that when people feel inequity or dissonance especially if they feel underpaid will generally strive to achieve equity or consonance. There is also more evidence of those who believe they are being under-rewarded to seek equity than those who feel over-rewarded! Equity theory is relevant when grievances are raised by minority groups who take action to redress the situation. If inequity is highlighted and acknowledged by both parties, this theory suggests that the majority will feel uncomfortable about the situation as well as the minority. "Although this theory may help managers understand that a situation of inequity is likely to motivate people to take action, it is a theory that relies on a negative feeling in the individual to motivate him or her to take action – not a situation that many managers would want to encourage" (Hollyforde and Whiddett, p. 68). Is the performance related scheme that was put in place equitable? This will be a key factor involved in the development of performance related pay system.

### **Performance Related Pay Schemes**

This literature review thus far has reviewed and summarised the key motivational theories and their connection to performance related pay systems and its implementation into the company. However, a debate on whether performance related pay works and what is considered "best practice" requires further discussion. The seminal article used in this part

of the dissertation is the introduction of Stephen Kerr's (1997) edited book "Ultimate Rewards What Really Motivates People to Achieve" and is quoted from below.

Firstly what are the reasons for introducing a performance related pay system? There is evidence to show that the main reason to implement a PRP scheme is to act as a motivator by providing remuneration or recognition of achievement to employees. For example, if a company's goals become an employee's goals (remember the Vietnam War example where the US Government goals clashed with the goals of the soldiers) this can increase the chances of organisational success. "As a tangible means of recognising achievement, pay can reinforce desirable behaviour. Pay can also deliver messages on what the organisation believes to be important" (Armstrong & Murlis, 1994, p.39).

Other valid reasons include achievement of culture or organisational change, individualise the employee-employer relationship, emphasise the importance of teamwork, quality or key company goals. Attraction of new employees to the company and the retention of the existing employees is another strong motive to consider introducing performance related pay systems. (Armstrong & Murlis, 1994 p. 263). However, it is suggested that "the necessary culture may already have to be in place for a system of PRP to work effectively", as PRP by itself may be incapable of driving the organisational change (Procter et al, 1993, p. 73). This is very relevant to the dissertation as the reason it has been implemented is to drive the business unit to improve performance, increase staff motivation and prevent the "brain-drain" of exiting employees from the contract. However, there is no culture of performance related pay in the company and this could lead to be a relevant factor in its success or failure.

Not all writers feel that performance related pay is a wise move. Pfeffer (1998, p.203-204) is one such person who believes that although the variable pay systems are on the increase, they are fraught with problems. Amongst his criticisms of performance related pay schemes he states the following reasons for not introducing performance related pay schemes:-

- Subjectivity that rewards political skill rather than results

- Emphasis on the individual rather than the team
- No concern for organisational performance
- Short-term focus
- Results in fear

According to Kerr, the most fundamental equations in all psychology is “Ability x Motivation = Performance”. Alfie Kohn maintains that rewards cannot enhance ability because employees may not have the ability “relying on incentives to boost productivity does nothing to address possible underlying problems and bring about meaningful change” (Kerr, 1997, p. viii). A valid point if you had forgotten about “motivation”. Kerr counteracts this with “...rewards do affect ability by stimulating workers to focus more, study up on their jobs at home, take courses in school, and invest in better tools and information”.

Kerr, in his introduction to the edited “Ultimate Rewards” (1997), states that rewards should be capable of promoting “efficiency” and “equity”. He explains that ultimate rewards should take into account the following nine points:-

- Equity - A person’s rewards should be related to his/her job performance. Greenberg (1996, pp.155-167) discusses equity in appraisals in more depth and identifies 5 key points to ensure equity is met when carrying out performance appraisals (which will occur prior to the pay review):
  - 1) Soliciting the input of the appraisee to give him/her the opportunity to influence the information that will be used to make decisions.
  - 2) The importance of the rater’s familiarity with the employee’s work i.e. the use of diaries enhances the perceived fairness of performance appraisals
  - 3) There is two-way communication during the interview
  - 4) A legitimate appeal system to entertain employee’s grievances if they feel they receive an unfair rating.
  - 5) Standards applied consistently

Richard Williams believes that performance related pay is flawed in several areas and especially surrounding the equity issue, “But perceptions of outcome fairness do have important consequences for aspects of organisational performance – poor employee performance and higher rates of turnover and absenteeism, for example, where outcomes are seen as unfair” (Cropanzano & Greenberg, 1997, cited by Williams R, 1998, p181).

- Efficiency – rewarding in order to invigorate future performance i.e. employees are stimulated to work in ways that are beneficial to their organisation. In Kerr’s book, the article by Rob Goffee and Gareth Jones state that “we would expect to find that organisations high in sociability will value equity so much that they put up with quite a bit of inefficiency whereas organisations high in Solidarity will tolerate gross inequities to assure that their operations are efficient” (1997, p. ix).
- Financial & Non Financial Needs – money has the capacity to play a huge role in meeting most people’s needs for recognition, status and self esteem. Kerr maintains that if people believe that Herzberg is correct and money is not a motivator, it is only because the reward system is misused or mismanaged. “When financial rewards are distributed equitably and efficiently, the firm purchases employee motivation and energy to pursue organisational objectives. The trouble is that money is so often distributed in ways that are neither equitable nor efficient” (1997, p. xi).

Michael Rose agrees with Kerr stating that performance related pay is here to stay in his article “Spot the Difference” in People Management magazine. However, he says that during times of low inflation as pay differentials are smaller “with current salary grids providing differentials of just between zero and 7%” (1997, p. 2-3). He emphasises that in the past when bigger pay differentials was the norm they were able to reflect employees’ relative value to the company and they received large annual pay rises. But now with salary budgets of around 3%, it is proving difficult to create differentials. “In its worst form, PRP becomes a substitute for effective management. This happens when managers mistakenly assume that performance management and performance pay



are the same thing. But with small pay differentials, pressure may be back on the managers to manage effectively for improved performance, rather than relying on a pay system” (1997, p. 2-3).

- Availability – organisations with very small salary increase pools spend a lot of time rating and ranking employees which raises employee expectations and ultimately produces such pathetic increases that employees disappointment. In such cases the point is not that the financial rewards are important but that they are so insufficient that they are inefficient.

One of the factors to be aware of when introducing the performance related pay system is the size of the reward that will be offered to employees. Steve Kerr (1995, p.8) described a company whose annual merit for its employees was 5% for outstanding performance, 4% for the average performance and 3% for those employees who had committed gross acts of negligence. Because of the tiny difference in the increases many employees were indifferent to the possibility of earning an extra 1% or 2%. We can conclude from this that the size of the reward will depend on the effort to be put in to the work. If the valence is considered too small to the employee, he/she may not be motivated to put the effort that should lead to greater performance.

- Eligibility – This involves making certain rewards available to all in the organisation. For example bonuses for management only and not general level staff. Companies do this, sometimes for what seems like very good reasons to induce new starters or lower-level staff to aspire to climb the organisational ladder to gain the attractive rewards. However, restricting eligibility can be unproductive even though it was considered a good idea in the past where there were many tiers in organisations where people could aspire to progress, but in current company environments the organisations are much flatter and people are anxious to avail of the reward system. Kerr describes it similar to a situation like the lottery, where the chances of winning are astronomical yet millions of people buy tickets. Imagine a situation where people whose names were Jones were told that they were unable to claim the prize, even if they had the winning numbers.

The point is that although one chance in millions and no chance is similar, it produces different mind sets, i.e. a person by the name of Jones will never buy a ticket!!

- **Visibility** – In order for rewards to be effective, they must be visible. In companies where salaries are not disclosed, workers tend to claim to be worse off than they really are. Make the non financial rewards visible – praise, thank you notices, etc. According to Kerr, this principle of visibility is often violated. Two important points to note here is that in the absence of full openness of a reward system, employees feel that they are worse off than they really are and secondly don't forget to publicise the non-financial rewards also.
- **Reversibility** – There should be an ability to reverse a decision i.e. the decision to make a reward can be reversed so that it need not be distributed to the same individual in the future. This refers to bonuses that may be awarded one year to an employee but the following year it could be awarded to another employee, depending on performance and results of said employees.
- **Multi-sourced and Multi-determined** – who does the rewarding? Firms are moving towards 360 degree feedback and authority to make decisions in key areas is being delegated downwards to customers and subordinates to participate in the measurement of performance.
- **Doing Unto Others as they do onto you** – Are we rewarding the right people. For example, poor performers can easily get time off to go on courses or attend seminars but high performers are fortunate enough to get a day off as workload is heavy.

## **Conclusion**

The jury seems to be still out as to whether paying for performance is successful in motivating employees and ultimately leading to the success of organisations. In the final analysis, it appears that many performance related pay initiatives represents no more than a

“shuffling of the pack” (Kessler, 1995 p. 274) and that there is no “one” system that will guarantee success. There are too many factors involved that it is difficult to state that performance related pay works or doesn’t work. Such factors include type of industry, culture, current values, competencies, type of employees, design and implementation, communications, et cetera. It seems that there is a little “hit and miss” to each system and there is no one perfect performance related scheme but a “best fit” for your company.

The arguments to include the principles of one or all of the motivating theories mentioned above are strong and may all be valid, and they have been used when designing the performance related pay system and in its implementation. In fact the questions arising from the literature review are the questions which I have asked employees for the views on. As motivation is key to the success of performance related pay I have chosen questions surrounding employees’ thoughts on how they perceive individual performance appraisal, equity of reward, goals and ultimately what motivates them.

### **Choice of Questions**

The questions which I have included in my questionnaire are of an exploratory nature and require explanatory responses. Questions 1 & 2 were designed to open the discussion into general performance related payments matters, ie their former reward system and the principle behind PRPs.

1. *Did you think your former reward system i.e. Company Y’s salary/bonus was effectively motivating you and others? Why or why not?*
2. *Do you think the principle of relating pay to performance the chances of success for the company? Explain answer.*

Questions 3 & 4 (below) are designed to probe employees’ expectations (Expectancy Theory) of the effort inputted and performance required within the job. In the introduction of any reward system especially a performance related pay system expectancy theory should be taken into consideration. It was explained to employees that effort should lead to

improved performance i.e. by spending more time processing expenses this should lead to improved knowledge in expenses processes (expectancy) and by proving advanced competency in SAP will lead to higher salary within the grade (instrumentality) and if the employees value the reward, recognition or promotion (valence) then the reward has been met.

3. *In this environment, do you believe that if you put greater effort into your job that it will lead to better performance or results from you? Explain. Is there any evidence?*
4. *In this environment, do you believe that better performance by you will lead to a better reward or recognition? Is the effort required from you too big for the size or type of reward you may receive?*

Question 5 is exploring whether the employees know or has it been made clear to them what areas they need to concentrate on if they wish to progress in the company. In the new reward system, the pay structure was documented and given to all employees with the key elements required to be met, in order for the contract to succeed. It stated what competencies needed to be inputted and what outputs needed to be achieved, thereby giving the employees a comprehensive guide and focus to what exactly will increase their reward, recognition or promotional prospects. This is a particularly interesting area because prior to the implementation of this reward system, we believed that if we assisted people in identifying the areas that lead to better rewards (intrinsic & extrinsic) their focus would be very clear in where the effort should be inputted and performance improved.

5. *“Is it clear to your staff exactly what inputs (behaviours) or outputs (performance) will result in upward progression through the salary bands and into more senior positions?”*

Is the once of 10% bonus enough to motivate/retain employees is what I am probing in Question 6 and in Question 7 is the openly communicated pay structure enough to motivate new or existing employees?

*6. Does the once-off 10% retention bonus motivate you? Explain answer.*

*7. Do you believe that the performance related pay structure in place is sufficient to motivate you? Why?*

Question 8 explores the theory behind Goal Setting theory, which states that once clear goals are set it can be the cause of high performance. Individual and team goals are identified by Management and Team Leaders and are usually linked in with the goals of the business. These are agreed with employees prior to implementation. However, do the employees understand the goals i.e. are they specific or are they too general? Are they clear or ambiguous and will this have a subsequent negative effect on employees' performance?

*8. Do you have goals? Are they clear? Did you agree with them? Are they realistic? Are you motivated to achieve them?*

Question 9 and 12 surround the issue of equity. When introducing this pay related performance system, equity theory was taken into careful consideration. In fact, in the company's overall culture, there is much discussion on this theory. The company pays similar salaries for similar jobs (no salary scales or grades), therefore employees who share the same position title will receive the same pay, regardless of input or output behaviours or performance. The contradiction is that although they roughly do the same work, the effort-output difference between them could be enormous and therefore there is inequity. In the new salary structure, there are salary scales for roles so there is the "similar work, similar pay" scenario and employees' reward depends on performance in that scale. So ideally, there is similar pay for people who do similar work but the measures of exact performance are taken into consideration when awarding annual increases. In order for the system to be

perceived as fair, it is necessary also to have an appeal route should any grievances arise in this process.

*9. In your opinion, is the performance related pay structure fair? Explain. In your opinion, do your colleagues think the new structure is fair?*

*12. Do you think there is a need for an Appeal's procedure to be included in the appraisal system?*

Questions 10 and 11. During the preparation of this reward system the reinforcement principle was strongly considered. It was felt that to show an immediate “reinforcement” of reward for certain behaviours and achievement of certain outcomes a once-off retention bonus of 10% was to be introduced. This coupled with the new salary structure, it was hoped that employees knew or could look forward to their improved performance and skills set being rewarded through reinforcement of pay related reward structures. For the bonus, it was stated to the employees that the bonus objectives were going to be measured on a monthly basis and that employees will be communicated at the end of each month what their monthly bonus will be. Again, although we annually reward the employees is the “reinforcement schedule” of rewards for behaviours/performance too far apart i.e. pay review on an annual basis. Also, is the reward sufficient reinforcement of behaviour/improvement required? Is the feedback given on regular basis and is it sufficient?

*10. Do you feel that your effort and achievement will be recognised in the new salary structure?*

*11. Is the feedback you get on your performance sufficient?*

Questions 13 and 14 are exploring employees’ feedback thus far and any problems they have encountered or could see arising in the future.

13. *Have you come across any problems in the system? If yes, please explain.*

14. *If no, in your opinion what problems could possibly lie in the future?*

Question 15 relates to the introduction of the new salary structure which was designed to prevent or even limit the high turnover that the previous contracting company experienced. It was perceived that this turnover could be as a result of lack of a perception surrounding clear career progression within the company, i.e. the self actualisation or growth part of the aforementioned theories. The new salary structure indicated three bands of salary for three different roles and it indicated how one could progress through the grades and intra-grades, to move from an Accounts Payable role to a Team Leader role. However, question 15 asks employees to rate from 1-6 what motivates them. In the manager / team leaders' questionnaires, I also ask them what rating they believe their employees would give themselves.

15. *In a rating from 1 – 6 (1 being the top motivator, 6 being the least), please state what motivates you?*

1. *Interesting work in job* \_\_\_\_\_
2. *Recognition from Team Leader / Manager* \_\_\_\_\_
3. *Pay / bonuses* \_\_\_\_\_
4. *Working conditions of work environment* \_\_\_\_\_
5. *Good relationship within team of colleagues* \_\_\_\_\_
6. *Progression in the job and more challenging work* \_\_\_\_\_

In questions 3, 4, 6, 7, 8, and 15, the Managers and Team Leaders are also asked their opinion with regard to the employees that report into them (See Appendices 2 and 3).

## **Methodology**

Armstrong states that “Reward management is about the design, implementation, maintenance, communication and evolution of reward processes which help organisations to improve performance and achieve their objectives” (1994, p. 23). Our reason for designing and introducing the performance related pay system (in direct contrast to our reward system) was to improve the performance of the contract and meet the Service Level Agreement negotiated with the client. The aforementioned theories and ideas in the literature review were considered key elements to the success of a performance related pay system and therefore the research questions included in the questionnaire are devolved from my literature review.

The research is of an exploratory nature where it was felt that tick box answers were considered a poor tool and more qualitative responses were required. It has been only 4 months following the implementation of the performance related pay and I believe that if I forced people to tick boxes, the results would be misleading. Firstly, the majority of the designing, planning, introduction and communication of the new performance related pay system happened in what could be considered as action research i.e. as Coghlan and Brannick (2001) describe it “the purpose of action research and discourse is not just to describe, understand and explain the world but also to change it.” (cited in Saunders, Lewis and Thornhill, 2003, p 94).

This action research commenced with the initial idea to change the reward system which at the time was unaligned and had no particular structure to it i.e. individuals doing same work were being paid different rates. At the same time, it was considered a good idea to begin rewarding people according to individual or team performance. We started by categorising staff by finding commonalities in their salary, experience and position title. This was done by meeting with them and their team leaders and manager to discuss their current activities, qualifications, experience and length of time in the position. Once a



detailed report was gleaned from the information, we were able to put categorise staff into three salary bands. Pfeffer's advice was taken into consideration i.e. "how much emphasis to place on pay as part of the management system; second, how much to pay, what level of compensation should be implemented; and third, whether to administer pay on an individual, group, or larger collectivity basis" (1998, p.196)

To ensure as much objectivity and transparency as possible, every employee was given a presentation on the design of the performance related pay structure on a one-to-one basis in advance of the introduction of same to the business unit. Each employee received a document explaining how the performance related pay system would work (Appendix 1). Progression up the salary scale for example (from starting scale to end of scale for AP Rep role) depended on success in moving from basic to advanced knowledge in the following 11 competencies:- Language, Developing AP Experience, Knowledge of SAP, Knowledge of relevant MS Applications, Standard and non-standard invoice processing, Expense Processing, Vendor Reconciliations, Query Resolution, Attendance/Punctuality/Behaviour, Customer Care Awareness, Individual Objective Achievements. The objective behind this structure was to show that while there will always be a certain amount of subjectivity in performance reviews, there are objective measures regarding vendor reconciliations, invoice processing etc.

The first band was Accounts Payable Representative which was the starting position in the shared services centre. The second and higher salary band was Senior Accounts Payable Representative and the third was Team Leader salary band. In each of the bands the success factors (i.e. competencies/experience achieved) for salary increments were identified and communicated to everyone. The client, manager and team leaders were involved in the discussions about which competencies and skills should be rewarded in this environment. As a result, we achieved complete alignment of salaries with the exception of one individual. One person was "red-circled" as being an exception to the salary banding i.e. his salary was higher than his level of job/skill/experience and this was something we inherited.

### **Semi Structured Interviews**

I have mentioned in my literature review the areas I require answered from the sample staff members. According to Saunders Lewis and Thornhill (2003, p.246) "In semi-structured interviews the researcher will have a list of themes and questions to be covered, although these may vary from interview to interview". The Manager and two Team Leaders were interviewed with a semi-structured interview style questionnaire as a guide and they were questioned as individuals as well as leaders of their staff. Five staff members were also interviewed along the same lines with similar questions. To ensure that the staff members knew that it was not a company project but a dissertation for the purpose of the successful completion of my Masters degree, a standard explanation was drafted and communicated to staff prior to the interview. It was also made clear that the interviews were voluntary and identities of participating staff were confidential. All interviews were recorded with the permission of the staff members and transcripts were typed up and analysed.

There was a concern surrounding the generalisability of findings from qualitative research, based on the use of small and what could be considered as an "unrepresentative" number of cases. However, out of the 29 people that transferred into our company, only 17 (if I exclude the team leaders and manager, process specialists) were included in the new performance related pay structure. As I am interviewing 5 people out of the 17, I am effectively interviewing under a third of the staff who experienced the move from the former reward system to the new performance related pay system, which I believe is a good representative sample.

My attempt to control bias from misinterpretation of language or words is another reason why I have deliberately taken the semi-structured interview route. As the majority of the people I interviewed are from a European or international background and English is their second language, it is important that if I perceive any misinterpretation that I can fix it quickly and try another way of explaining the questions.

Another possible (and probably the strongest) bias is the question surrounding my status in the company as the HR Manager who implemented this performance related pay system.

My role as researcher is unfortunate as I may be seen not to be as objective as I should be, i.e. people may not be as honest as they would be with a stranger. I am aware of and have tried to prevent any contamination to the integrity of the data by stating that this research is entirely for my dissertation and that the information is to be used confidentially for that purpose. Given my position and the fact that I was part of the team that introduced this PRP system, I realise that there will probably be some contamination and that people may not have been as open and honest as they probably would otherwise be.

### **Secondary Research**

This research is based on the measured targets put in place to track the award of the retention bonus (See Appendix 4) on a monthly basis and these targets were communicated to employees prior to commencement of the six month period. See results in “Findings of Secondary Research” below.

## Findings of Primary Research

While it only has been four months following the implementation the performance related pay system, there are some clear findings.

1. *Did you think your former reward system i.e. Company Y's salary/bonus was effectively motivating you and others? Why or why not?*

The above question was asked of all participants. It was agreed by all five employees, the manager and the two team leaders interviewed that their reward system with their former employer was not motivating. The reason they unanimously cite is because it was not measured and as a result employees received their bonus every month regardless of performance, i.e. it was an expected income.

*"In the beginning they were only saying that there were bonuses in every month and then according to your performance and time management and punctuality and stuff but since it started I don't see any evaluation being done but they're still paying that bonus with your salary so I don't think there's any motivation involved in any way to me and for me I'm getting paid extra and then for whatever reason there's no performance evaluation being done."* **(Quotation from one staff member).**

*"Okay – I don't think it was particularly motivating to people because the measurement of it was inadequate for our needs. We had a bonus structure – I think it was around 10% of salary for most people... emm... to be paid monthly in arrears. Unfortunately we couldn't really measure it, there was no attached measurement to it so most people were getting 100%. Therefore it became part of the expected salary and we couldn't use it as a tool to reward good performance or if you want to punish bad performance."* **(Quotation from Manager)**

**Okay so you thought that effectively it did not motivate people?**

*“Yes it was made part of the salary, it was an expected amount of money that you’d get every month. It wasn’t a tool that management could use, you know, to set objectives to measure and extra little projects people could work on and reward them with that bonus. So I don’t think it was motivating the team and I don’t think it was motivating me...”*

**(Quotations from Manager)**

*“I think it is good I think it is a great way of weeding out the good people from the bad people who work hard and do perform they’ll reap the benefits of it...than people who are lazy and don’t perform very well...”* **(Quotation from Team Leader)**

2. *Do you think the principle of relating pay to performance increases the chances of success for Company X? Explain answer.*

Out of the five staff members that were interviewed, three readily admitted that it would be reasonable to assume performance related pay could increase the chance of success of Company X. One staff member did state that the success really depends on how motivated people are i.e. what motivates them *“it depends some people are not money oriented some people are job or work oriented...whether they have their own job satisfaction as such I don’t really care how much I earn as long as I’m happy with the job and then get on well with people I work with.....money is not crucial”*.

The Team Leaders both agree that it’s a good way of encouraging competition and *“weeding the good people from the bad people who work hard and do perform”*.

The manager stated *“Yes....I mean in general I think everybody should be paid in relation to performance not in relation to how long they’re in the job or you know any other possible criteria...and I think that, not necessarily just for Company X, but for every company that’s the way you should pay people...based on your performance and then*

*performance of course comes from experience so somebody who is here longer will have more chance to perform but its linked to the performance itself not the length of service. The length of service just helps you get better performance. No, I really think that ... it increases the chances of success of Company X.*

**3. *In this environment, do you believe that if you put greater effort into your job that it will lead to better performance or results from you? Explain. Is there any evidence?***

Generally, most of the interviewees believed that if effort was exerted they would see or have seen the improvement in performance. One of the points that came up was that if employees stopped putting in effort, it would be very noticeable very quickly. Interestingly, the Manager stated that she believed the staff could see improvement in their performance if they put more effort into their jobs, but her own performance in her job depended more on tangible items *“My results would be in other things that sometimes are in tangible and its not just effort you know how people feel about their job attrition ...all these don't just depend on effort. They depend on me but they also depend on other people. My part is not just working harder it could be changing the way I work”*

**4. *In this environment, do you believe that better performance by you will lead to a better reward or recognition? Is the effort required from you too big for the size or type of reward you may receive?***

The pay reviews take place in September and the bonus reward will be distributed at the end of July so no rewards have taken place but the question ultimately is probing if they “believe” they will be rewarded. While two out of the five members of staff believe that better performance will or has been recognised (in appraisals and feedback), another states that he believes he will be rewarded for better performance but it's too early to say at the moment. Two of the staff members mention that they only get feedback if it's negative or if there is a customer complaint. The manager was questioned about her employees also and she stated *“I think the situation has changed because we have put a structure in place*

*where these are the rules and you can shout as much as you want if you don't perform against those criteria you would not get the recognition and the other way around. But we haven't put in place yet...no bonus has been paid off yet and no pay rises has been distributed so I think people still maybe a little bit...they have to wait and see whether they'll get it.....and there is an element that it is still quite hard to measure...its difficult to see the number of queries and things like that....we don't have the tools to measure so you know some people may feel that they are answering a lot of queries but its not visible and is that going to be noticed when money discussions are taking place. I'm not sure. I think there's still doubts but better than before."*

**5. *Is it clear to you exactly what inputs (behaviours) or outputs (performance) will result in upward progression through the salary bands and into more senior positions?***

It was clear to four out of the five staff members that were interviewed what inputs were required from them and what results they need to achieve in order to progress in this environment. They stated that the salary structure document was a good guide *"I think I do know, the document helps a little and the appraisal helps and the rest of it you just have to see what they give back to you"* One person didn't really understand the question so the answer was not considered relevant. The Manager stated *"They should because we've certainly published it and its something that you know every time a conversation like that takes place I would certainly mention it and its common knowledge on the floor that these are the things that need to be done for you to go up and we've also had performance reviews so if there was behaviours which are not necessarily measurable in the same way, they were discussed as well so people know, I think they know what they should do, em, its never perfect and you can't give feedback to people every day on every single action that they do, so I hope that they do know."*

**6. *Does the once-off 10% retention bonus motivate you? Explain answer.***

Four out of the five staff members stated that the bonus did motivate them. The fifth said that while it would be good to receive it, she would prefer to do a good job, "...its not crucial.....I know extra money is good but you know its once a month type thing it doesn't bother me very much I still do my work". One employee said it did motivate him but the measurements for the past two months were not completed so he didn't really know how he was doing with regard to achieving his goals, *"Its been definitely over a month or two months before the 10% was measured...so I think the last time it was measured was two or three months ago...sorry I'm not sure the way it actually works..."*

The Manager stated *"It does and it doesn't...again going back to my earlier point...you know I'm looking for a more, you know, personable recognition of my own work. Money is great you know....give it to me and I'll take it....but its not the, you know,....certainly if I wanted to leave, it certainly wouldn't keep me here. I wouldn't stay and wait until the bonus was in my pocket. It wouldn't be a reason on its own. In relation to the way the bonus is structured I would have preferred if it was more performance based. 60% of the bonus is attendance and punctuality and although its good because we did have a problem with those two areas before we put the bonus in place and I think it has worked. We've watched it carefully and we've deducted people if they weren't adhering to the rules and you know a lot of them has changed since then. I think that's good...I don't particularly have an issue I don't think with my attendance or with my punctuality so you know business as usually and only 40% is performance and I find that for me I would prefer if the balance was the other way around"*.

One of the team leaders spoke about the 10% motivating her staff: "It motivates them to come into work. I'm aware and I have witnessed people's absenteeism because they are aware of their bonus and their lateness when they are constantly late and they realise that they are not getting their bonus allocation for that month because of their lateness they do start coming in on time which is brilliant...but then they slip again...."

7. ***Do you believe that the performance related pay structure in place is sufficient to motivate you? Why?***



Two of the five staff members said that they are motivated by the structure in place. One stated that as she has not been rewarded yet (i.e. pay review) so she cannot state for sure. Another staff member said that she knows that if you're at the top end of one of the salary grades, it is not as motivating. Another staff member said it would be more motivating if the pay review was every six months (in line with six monthly appraisals) and not only on an annual basis. The manager states *"I think for the general staff...yes....for the new people that we hired with those new rules....they started at the bottom and in six months if they perform they'll get a little bit more which is something and they know what they have to do to go up. We need to just make sure that it happens, that if the people do fulfil the criteria that they get what they should get, you know we hold our side of the promise. Team Leads. I don't know, because you see for Team Leaders a lot of it is more subjective, its not you know do you have this, this, this then if you do you will go up. Also you have a little bit more of discrepancies between the difference Team Leads because some were already on board before they might have been on a slightly higher salary, we have one person on the top end and another who is at the lower end and there's no, to me, there's no significant differences between their performance, it was just the starting salary that they had and I think this may be demotivating for the one or two people who are at the bottom. There's no evidence that you know..."*

**8. Do you have goals? Are they clear? Did you agree with them? Are they realistic? Are you motivated to achieve them?**

Two staff members stated outright that they had no goals or targets. One person said that her goals were more training goals rather than targets. Another staff member said after much probing that her goals were the criteria surrounding the bonus measurements but didn't think these were realistic *"If you really want to seriously analyse it... its not realistic...no because you always things waiting for approval.... issues that don't get solved because people are not responding...from all invoices that we get that we deal with all invoices..."*. Only one person stated that he had goals *"Well there were some objectives laid down...there were some team objectives some individual objectives laid down...they*

were quite general in a sense insofar as while there were definite goals there; there was kind of an emphasis on getting to know other peoples roles and routines as well and the whole functioning of the team..”

The Manager stated her goals are departmental goals but how she achieves them is up to her. When questioned if they are realistic she stated “Em...some of them...I think they are all realistic, the only thing is, is timing, you know, how long do I have to achieve that because some of them we’re quite close and others we are not so I think all of them would be realistic long term with the right resources and everything in place its just what happens in between to get there”.

**9. In your opinion, is the performance related pay structure fair? Explain.**

According to three staff members it is fair. Another stated that it looks fair on paper but that he would have to reserve judgement until the September pay review. The final staff member stated that it is fair up to a point but then once you get to the top of the grades, there may be nowhere else to go. One staff member said that although she thought it was fair for her, she believes that more recognition should be given to people who are working very hard “Just that motivation to make you feel better psychologically feel better as well as make them motivated and better performance in the following year as well as to show to new people look she’s doing great and she’s getting this and new people would actually think oh like you know if I was like her like doing what she does then I would be getting recognised”

The Manager stated “I think its fair and its not fair. Its fair to the extent that you know there’s criteria and you know you have them or you don’t. I think its fair that somebody comes in and we measure them against the criteria that we have. We place them on the pay structure and then we move them along as they develop those particular criteria and its open and people know what they have to do. Em, its not fair to the extent that somebody could have a lot of experience in other areas but because they don’t have you know AP on SAP, for example, they don’t, can’t be in the Senior Rep scale although I see that they will

*move up they're quicker, they still have to wait until the next pay review until they could do that."*

**11. Do you feel that your effort and achievement will be recognised in the new salary structure?**

All five staff members stated that they are hopeful that their effort and achievement will be recognised in the new salary structure. They are all very positive about it and don't appear to have any preconceptions. The salary structure does not apply to the Manager.

**12. Is the feedback you get on your performance sufficient?**

One staff member said she was in the company eight months before and the appraisal Company X gave her was her first and she was very happy with her feedback but mentioned that the team meetings was not the venue for the feedback. *"We use to have team meetings I think all the teams though have been fairly busy, we have. The last team meeting was 3-4 weeks ago the issues we had were discussed but there not really team meetings to give you a pat on the back they are more like your not doing your job properly"*. Another staff member stated that she does get feedback but only on an occasional basis *"It's quite rare to get feedback, when you do it's good usually, you do know why they are saying what they're saying..... you get positive as well, but I don't think you hear either one of them often enough."* Another staff member stated that the team meetings were not a good forum for individual feedback *"Right no not really...usually you don't know until its brought to attention...there are team meetings on a weekly basis which we'd praise the overall team rather than individual performance..."*

The Manager stated that her feedback tends to be more negative as she is directly tasked by the client and as Company X is the outsourcing company, it has a more "customer service" slant to it...*"There's two sides. There's performance from the client and how they perceive the performance of the department and obviously my input into it – I do get feedback. But I think the way its generally done is just to highlight what hasn't been done. Or maybe it's the way I perceive it because I'm sure its not just 100% negative but that tends to be the*

way and I think that's kind of normal because you don't you know, rub your vendors back and say well done for this and well done for that. You kind of tend to look at the things that are left incomplete.

**13. Do you think there is a need for an Appeal's procedure to be included in the appraisal system?**

All five staff members felt there should be an appeal's procedure in the appraisal system to prevent subjectivity. "Yeah definitely especially because its one persons opinion at times the team leader has such a busy job that they don't actually get time to see the work that your doing and it might go unnoticed and they mightn't see the work that your doing or if your not working that might go unnoticed as well...you know..."

The Manager felt strongly about this point, stating that she knew some decisions has been appealed but she felt it has not been completely constructive:-

"Em...yes I suppose there is one. I just think and some people have used it....I just think...one thing that maybe we haven't really done right is or done too much is having an appeal procedure for everything and I think people using hr kind of ways to resolve things that could be resolved otherwise and you know people writing letters to complain they don't like somebody else, and you know appealing because they're not happy with one word that has been put in their appraisal and things like that. I think that that's a bit too much and I think it needs to be there because again I could be wrong or I could be totally biased and you know assess somebody incorrectly and I think they should have a way of appealing it but at the end of the day, some people actually want you to change everything and you went through the stages of reviewing it with them, listening to their comments, you may have changed some of your comments if you thought yeah okay maybe I was a bit too tough...they're still not happy, they want...you know there are some people that will try to dictate what you should say in it and I think you should draw the line and say well look, I've put your comments in but I don't agree and I'm your manager so this is what I think of your performance and its to help you improve...we can't agree...let's just leave it..."

***And do you think their complaints, especially their written complaints are because of a breach of trust or do you think they're sincere complaints?***

*I'm sure there's....you know people don't put in a complaint just for the sake of it because they have to go through the process as much as you do and I don't really think that anyone would go through that just for the sake of it. I think that it is trust....I think that there's an element where they don't think they can go to somebody (i.e. HR) and I think that the more we create that environment where you put in a letter to HR and they will deal with it and they will fire the person you don't like...that's not the environment we want to have ....we should be able to resolve those issues internally.*

One of the Team Leaders also spoke strongly of the appeals procedure *"I think if you're going to take the appraisal as a very serious thing well then yes....in my case I don't think it was a fair appraisal of my work....it was a fair appraisal of an incident but then again if you bring in an appeals procedure your going to have people who might not be happy with one answer and would want to go through the whole thing....no matter how much you appeal it if your manager doesn't think that you are capable of it or as good as you think you are it can turn into a messy scenario...you know it can keep going on and on and on and constant appealing..."*

One person also suggested that there should be a suggestion box so that people could put their complaints/suggestions in without having to sign their name to it.

***14. Have you come across any problems in the system? If yes, please explain.***

Generally, staff members didn't really have a problem with the system. One member did state that she felt that the criteria in the performance related pay structure was hard to measure and that could be a problem. The Manager felt that the exacerbation of issues was a problem, *"Yeah...I suppose just the exacerbation of issues which are to me perfectly normal in the office ...you will always have issues like that ....people are not happy about this thing or that thing ...and they seem to be bringing it up to a higher level than they should and you know its because they probably don't feel...you know either than they think*

that it's the way because we've made it look like it is the way that its where they should take the complaint or they problem or maybe its because they don't want to go through the way which is through their team leaders or their managers, whomever, maybe because you know us as a management group are not approachable or because we don't do anything about it ....there could be many reasons...but yeah I think that that's the main problem just that any small little thing becomes a very serious problem straight away...em ....and I think it's a little bit too much."

**15. If no, in your opinion what problems could possibly lie in the future?**

Only one person said that she felt that there might be an equity issue going forward "I think it might feel unfair to some people because some people will learn things a lot quicker than others and to be in the company the exact same length of time and to be paid less because your performance is not the same, so those who aren't grasping things a quickly as others might feel it's unfair".

**"So do you feel it's fair that people who are better at their job and faster and maybe more intelligent or academic get paid more than people who don't perform to the same high levels".**

"I think everyone's efforts should be evaluated, obviously if someone is absolutely brilliant and someone is not it should be recognised, but at the same time if someone is really trying their best and they just cannot get the same speed for example and they're doing really well in their own level then that should be recognised as well".

**In a rating from 1 – 6 (1 being the top motivator, 6 being the least), please state what motivates you?**

- Interesting work in job** \_\_\_\_\_
- Recognition from Team Leader / Manager** \_\_\_\_\_
- Pay / bonuses** \_\_\_\_\_

*Working conditions of work environment* \_\_\_\_\_

*Good relationship within team of colleagues* \_\_\_\_\_

*Progression in the job and more challenging work* \_\_\_\_\_

Criteria	SM1	SM2	SM3	SM4	SM5
Interesting work in job	1	1	2	1	3
Recognition from Team Leader/Mngr	4	5	6	6	6
Pay/Bonus	5	2	3	3	1
Working Conditions of work environment	6	6	5	2	4
Good relationship with team of colleagues	3	3	4	5	5
Progression in the job and more challenging work	2	4	1	4	2

**SM = Staff Member**

**TL = Team Leader**

**Mngr = Manager**

The above results are interesting. The top motivators for all the staff members seem to be more intrinsic motivators like interesting work or progression and challenge. Pay and bonus are important also as is good relationships with colleagues. Working conditions are not considered terribly motivating and the recognition from Team Leaders/Manager is the lowest motivator.

Criteria	Mngr	TL	TL
Interesting work in job	1	2	1
Recognition from Team Leader/Mngr	5	5	3
Pay/Bonus	6	6	6
Working Conditions of work environment	4	4	5
Good relationship with team of colleagues	3	3	3
Progression in the job and more	2	1	2

<b>challenging work</b>			
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Coincidentally, interesting and challenging work and progression also is the key motivator for management and team leaders. All of them also appreciate a good relationship with their colleagues, working conditions seem to be quite important to them too. Recognition from their superiors is considered to be the second last motivator with pay being the least motivating factor.

**What Manager and Team Leaders believe motivates their staff**

<b>Criteria</b>	<b>Mngr</b>	<b>TL</b>	<b>TL</b>
<b>Interesting work in job</b>	1	2	2
<b>Recognition from Team Leader/Mngr</b>	4	6	6
<b>Pay/Bonus</b>	3	4	3
<b>Working Conditions of work environment</b>	5	1	5
<b>Good relationship with team of colleagues</b>	2	5	1
<b>Progression in the job and more challenging work</b>	6	3	4

It is interesting to note that the Team Leaders and Manager have suggested a very similar rating of motivators as the Staff Members themselves. It is also interested to note that practically all employees interviewed quote "Recognition from Team Leader/Manager" as the least motivator.



## Findings of the Secondary Research

Criteria	Results
<b>Continuous Employment Mandatory</b>	3 people left out of 29 that transferred i.e. 10%
<b>Satisfactory Attendance 4%</b>	2 people have lost the full 4% for over 4 days sick taken 4 people have lost 1% for less than 3 days sick
<b>Punctuality 2%</b>	2 people have lost 2% for two months as punctuality was poor 3 people have lost 2% for one month
<b>Performance 4%</b>	1 individual received only 1/3 of 4% for 3 months running and then 0% on the fourth month
<ul style="list-style-type: none"> <li>• <b>Clear month ends</b></li> <li>• <b>No legitimate complaints</b></li> <li>• <b>Individual team objs.</b></li> </ul>	2 persons received only 2/3 of 4% for 1 month 1 person received only 1/3 for 1 month 1 person received 2/3 of 4% for 2 months The rest received all the 4% performance bonus

The findings of the above table are quite good in that they are a definite improvement in attendance, punctuality and objectives. Prior to the bonus being put in place there were large problems with absenteeism and punctuality (according to the Team Leaders and timesheets dating back to December 2003 & January 2004). Also it is notable from the results that the majority of the punctuality/attendance issues were at the beginning of the six month period and have not reoccurred since. This would tie in with the “reinforcement” theory as the employees usually receive their feedback at the end of the month being measured, so they know if they do not receive their bonus or partial bonus on a monthly basis. It is also noted in the majority of cases also that the performance measurements have improved over the six months. Unfortunately, 10% bonus does not appear to motivate people to stay with the company for the 6 month period.

## **Conclusion & Recommendations**

I believe the conclusions are quite positive, although I realise that it is early days yet. All participants in the primary research agreed that their former reward system did not motivate them. All participants apart from one also believed in the principle that Performance Related Pay was a good idea and led to Company X being successful (the exception being more intrinsically motivated). There appears to be a certain amount of trust there also, as the participants have not received the benefits of a pay review but they are all “hopeful” that it will be rewarding and fair.

Regarding the secondary research, although only four months has been measured (only 2 months for one team!), the results indicate that people are making an effort to achieve the bonus, especially with regard to the measurements they have control over, i.e. punctuality and attendance. While five people have lost some part of their bonus on performance issues, I believe that in this shared services environment there are other mitigating factors involved and it may not be through lack of motivation or effort on the employee's part that he/she did not receive 100% of the bonus. Also the 10% bonus was completely not availed of for the three people that left the company in the meantime. I believe that Steven Kerr, quoted in the literature review, was correct in stating that the effort expended will depend on the size of the bonus and if it is considered too small, it will not be motivational value. 10% bonus is great to receive but it may not prevent an employee from leaving the company if he/she were motivated in a more intrinsic manner.

### *Communications*

It is clear that communications do need to improve surrounding the issues of the individual or team goals and also the every day or every week feedback people require so that they know they are doing a good/bad job. The communications issue will be a problem going forward especially when the appraisal in September will be connected to pay. One employee suggested pay reviews on a six monthly basis alongside the appraisal. I don't know if this would be such a good idea either. Nearly half of the people I interviewed

stated that the bonus/remuneration did not motivate them to work any harder or put in more effort. Although I do believe that people need more recognition on a much more regular basis with rewards of a non monetary type being distributed regularly.

### *Motivation*

The reward of the 10% bonus and a better salary is motivating for the majority of the people questioned (57% motivated by pay/bonus –v- 43% not particularly motivated by it). However, one staff member, one team leader and the manager said that although it is nice to have, it is not something that really motivates them. Doing a good and interesting job, getting on with colleagues and looking forward to progression is more motivating for them. It appears that most of the people that are questioned perceive the bonus as reward for the past and then depending on what they receive this will act as a motivator for the future. I am getting the impression from the staff members that if there are conflicting views on what they believe they deserve and what their Team Leaders believe that they deserve, it will be a deep demotivator and people will be motivated to achieve “equity” balance. The feedback of the distribution of bonuses on a regular monthly basis is therefore vital communication of realistic performance, i.e. putting reinforcement theory into practice and I don’t think currently there is much emphasis on this.

It is interesting to note that the Manager and Team Leaders are quite accurate in their suggestions of what of criteria they believe motivates the staff members. It is also noted that everyone interviewed regardless of job position has stated that the least motivating criteria is “Recognition from Team Leader/Manager” and I believe there could be good cause to suspect leadership issues in this business unit.

### *Perception of Fairness*

All of the people interviewed believed there should be an appeals procedure in principle which is considered to be procedural justice discussed in the literature review. However, in practice one Team Leader and the Manager felt that it could be impeding to management’s credibility and it could also encourage an influx of more complaints also. The Manager’s thoughts were that there might be too much appealing along a HR route over something

that is perfectly normal i.e. not liking some things said in the appraisal, or not liking one of your colleagues. Although she believes that it arises from a trust issue:-

***“And do you think their complaints, especially their written complaints are because of a breach of trust or do you think they’re sincere complaints?”***

*“...you know people don’t put in a complaint just for the sake of it because they have to go through the process as much as you do and I don’t really think that anyone would go through that just for the sake of it. I think that it is trust....I think that there’s an element where they think they can go to somebody (i.e. HR) and I think that the more we create that environment where you put in a letter to HR and they will deal with it and they will fire the person you don’t like...that’s not the environment we want to have ....we should be able to resolve those issues internally”.*

The Team Leader’s point of view was that employees should be mature enough to accept issues in a mature manner and not appeal every time they have a problem. She stated that if there’s an appeal procedure for something silly, employees will never accept what management say.

The points of views expressed above are based on their recent experience of employees appealing their appraisal outcome. These appraisals took place in March and marked the “line in the sand” for measuring performance going forward. It was a more forward-looking view rather than retrospective. No monetary or remunerative reward was attached to this appraisal and yet one entire team appealed their outcomes and another person refused to sign her appraisal. The route they took was via the HR Department.

My recommendation going forward on this point would be that HR push back complaints of this nature and allow the natural appeal to the next line of management to work and ask people to put the nature of their complaint in writing to the next Line Manager.

I believe we have satisfied the majority of the best practice criteria surrounding performance related pay systems discussed in the literature review. For example, we have been successful in communicating what is perceived as a fair system. The majority of the employees interviewed have stated that they know what areas they need to put effort into in order to progress into more senior roles and to earn a higher salary. Insofar as eligibility is concerned the performance related performance system is open to everyone. It was pointed out though by one interviewee that some employees near the top of the scale, for example, Senior AP Representative, may not have anywhere to go if there is not a Team Leader position available. This is something to bear in mind going forward.

“Visibility” of non financial rewards could be improved somewhat. Currently employees do not seem to be aware of or are not in receipt of regular recognition or non-monetary reward/consequence of good/bad work. At the moment “Reversibility” is working quite well i.e. we have taken back percentages of bonus from employees who do not meet their goals. However, moving forward when the bonus is distributed at the end of July, the reversibility of monetary rewards will be limited, except for as a consequence of demotion.

In summary, the main recommendations as a result of the aforementioned research and discussion are:

- Improve communications, especially feedback
- Visibility of other types of recognition and non monetary rewards
- Ensure *procedural* and content justice is perceived
- Consider “reversibility” rewards for the future

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

Signed: Emer Harding

Date: 17/6/04

Student Number: 01158899



## Company X Salary Structures Accounts Payable

### Accounts Payable Representatives

Job Title	Start Salary	End of Scale
AP Representative – Probationary (6 Months)	€23,500	N/A
AP Representative upon successful completion of probationary period	€24,500	€27,000*

\* Subject to performance review and 6-monthly appraisals

### Entry to AP Representative

<b>ADVANCED COMPETENCY IN THE FOLLOWING:</b>
Language (if required)
Previous AP Experience an advantage
Good standard of competency in computer applications
Previous experience in office environment
Second level completion certificate or equivalent
Relevant third level qualification desirable

### Success Factors for AP Representative Salary Scale Increment

SKILL	BASIC	ADVANCED
Language (if required)		✓
Developing AP Experience	✓	
Knowledge of SAP	✓	
Knowledge of relevant Microsoft Applications	✓	
Standard and non-standard invoice processing	✓	
Expense Processing	✓	
Vendor Reconciliations	✓	
Query Resolution	✓	
Attendance / Punctuality / Behaviour	✓	
Customer Care Awareness	✓	
Individual Objective Achievements	✓	

## Company X Salary Structures Accounts Payable

### Senior Accounts Payable Representatives

Job Title	Start Salary	End of Scale
Senior AP Representative	€27,000	€30,000*

\* Subject to performance review and 6-monthly appraisals

#### Success Factors for AP Representative to achieve Senior AP Representative

<b>PROVEN ADVANCED COMPETENCY IN THE FOLLOWING:</b>
Knowledge of SAP
Knowledge of relevant Microsoft Applications
Standard and non-standard invoice processing
Expense Processing
Vendor and Balance Sheet Reconciliations
Journals
Query Resolution
Customer Care Awareness
Language (if required)

#### Success Factors for Senior AP Representative Salary Scale Increment

<b>ADDITIONAL COMPETENCIES / EXPERIENCE</b>
Minimum 12 months experience in AP Role
Exemplary Attendance / Punctuality
Proven record for achievement of individual objectives
Excellent interpersonal skills (written and oral)
Demonstrable teambuilding experience
Excellent working relationships with others
Ability to represent team if required
Minimal supervision requirement – work on own initiative
Excel in a demanding environment

## Company X Salary Structures Accounts Payable

### Accounts Payable Team Leader

Job Title	Start Salary	End of Scale
Team Leader	€30,000	€37,000*

\* Subject to performance review and 6-monthly appraisals

#### Success Factors for AP Representative / Senior AP Representative to achieve AP Team Leader

<b>PROVED ADVANCED COMPETENCY IN THE FOLLOWING:</b>
Knowledge of SAP
Knowledge of relevant Microsoft Applications
Standard and non-standard invoice processing
Expense Processing
Vendor and Balance Sheet Reconciliations
Journals
Query Resolution
Customer Care Awareness
Language (if required)

<b>MANAGEMENT COMPENTENCIES / EXPERIENCE</b>
Minimum 12 months experience in a Senior AP Role
Exemplary Attendance / Punctuality
Proven record for achievement of individual and team objectives
Excellent interpersonal skills (written and oral)
Demonstrable teambuilding experience
Excellent working relationships with others
Ability to motivate others
Ability to appraise performance and set objectives for others
Ability to solve complex queries
Proven record in resolving staff grievances
Ability to delegate tasks to others
Excel in a demanding environment

## **Company X Salary Structures Accounts Payable**

**Notes:**

- All rates will be reviewed annually on the 1<sup>st</sup> September each year to take account of individual performance appraisal and Government Partnership Agreements.
- Performance bonus previously paid by Equitant has been included in the salary structure above and therefore no additional performance related bonus payment will form part of this structure.

## Appendix 2

### **Semi-Structured Interview Questionnaire for Manager and Team Leaders**

1. Did you think your former reward system i.e. Company Y's (former employer) salary/bonus was effectively motivating you and others? Why or why not?
2. Do you think the principle of relating pay to performance the chances of success for Company X (current employer)? Explain answer.
3. In this environment, do you believe that if you put greater effort into your job that it will lead to better performance or results from you? Explain. Is there any evidence?
  - a. Do you think that your employees believe that greater effort by them will lead to better performance or results? Explain.
4. In this environment, do you believe that better performance by you will lead to a better reward or recognition? Is the effort required from you too big for the size or type of reward you may receive?
  - a. In same environment, do you think your direct reports and other staff believe that greater performance by them will lead to a better reward or recognition? Do you think the effort required from them is considered too big for the size or type of reward they may receive?
5. Is it clear to your staff exactly what inputs (behaviours) or outputs (performance) will result in upward progression through the salary bands and into more senior positions?
6. Does the once-off 10% retention bonus motivate you? Explain answer.
  - a. In your opinion, does the once off 10% retention bonus motivate your staff. Explain answer.
7. Do you believe that the performance related pay structure in place is sufficient to motivate you? Why?
  - a. Do you believe that the performance related pay structure in place is sufficient to motivate your staff and retain them in the company? Why?

8. Do you have goals? Are they clear? Did you agree with them? Are they realistic? Are you motivated to achieve them?

a. Did you set goals for your staff? Do you believe them to be clear? Did your staff agree with them? Are they realistic? Do you think your staff are motivated by them?

9. In your opinion, is the performance related pay structure fair? Explain. Do you think your direct reports believe it to be fair?

10. Do you feel that your effort and achievement will be recognised in the new salary structure?

11. Is the feedback you get on your performance sufficient?

12. Do you think there is a need for an Appeal's procedure to be included in the appraisal system?

13. Have you come across any problems in the system? If yes, please explain.

14. If no, in your opinion what problems could possibly lie in the future?

15. In a rating from 1 – 6 (1 being the top motivator, 6 being the least), please state what motivates you?

- Interesting work in job \_\_\_\_\_
- Recognition from Team Leader / Manager \_\_\_\_\_
- Pay / bonuses \_\_\_\_\_
- Working conditions of work environment \_\_\_\_\_
- Good relationship within team of colleagues \_\_\_\_\_
- Progression in the job and more challenging work \_\_\_\_\_

a) In a rating from 1 - 6 (1 being the top motivator, 6 being the least), please state what motivates you?

- Interesting work in job \_\_\_\_\_
- Recognition from Team Leader / Manager \_\_\_\_\_
- Pay / bonuses \_\_\_\_\_
- Working conditions of work environment \_\_\_\_\_
- Good relationship within team of colleagues \_\_\_\_\_
- Progression in the job and more challenging work \_\_\_\_\_

## Appendix 3

### **Semi-Structured Interview Questionnaire for Staff Members**

1. Did you think your former reward system i.e. Company Y's (former employer) salary/bonus was effectively motivating you and others? Why or why not?
2. Do you think the principle of relating pay to performance the chances of success for Company X (current employer)? Explain answer.
3. In this environment, do you believe that if you put greater effort into your job that it will lead to better performance or results from you? Explain. Is there any evidence?
4. In this environment, do you believe that better performance by you will lead to a better reward or recognition? Is the effort required from you too big for the size or type of reward you may receive?
5. Is it clear to you exactly what inputs (behaviours) or outputs (performance) will result in upward progression through the salary bands and into more senior positions?
6. Does the once-off 10% retention bonus motivate you? Explain answer.
7. Do you believe that the performance related pay structure in place is sufficient to motivate you? Why?
8. Do you have goals? Are they clear? Did you agree with them? Are they realistic? Are you motivated to achieve them?
9. In your opinion, is the performance related pay structure fair? Explain.
10. Do you feel that your effort and achievement will be recognised in the new salary structure?
11. Is the feedback you get on your performance sufficient?
12. Do you think there is a need for an Appeal's procedure to be included in the appraisal system?
13. Have you come across any problems in the system? If yes, please explain.
14. If no, in your opinion what problems could possibly lie in the future?

15. In a rating from 1 – 6 (1 being the top motivator, 6 being the least), please state what motivates you?

- Interesting work in job \_\_\_\_\_
- Recognition from Team Leader / Manager \_\_\_\_\_
- Pay / bonuses \_\_\_\_\_
- Working conditions of work environment \_\_\_\_\_
- Good relationship within team of colleagues \_\_\_\_\_
- Progression in the job and more challenging work \_\_\_\_\_



## Appendix 4

Name:  
Team Leader:  
Month:

Criteria	Amount	Measure	Applies to	Result
Continuous employment with company X from Feb 7 <sup>th</sup> 2004 to 31 <sup>st</sup> July 2004	Required	This is mandatory. No bonus or portion of bonus will be paid to any employee leaving service before 31 <sup>st</sup> July 2004	Transferred employees only	
Satisfactory Attendance	4%	Measured over the six month period, unplanned absence: Up to 3 days – 1% deducted Between 4 and 5 days – 2% deducted Over five days – 4% deducted  Exceptional medical circumstances will be taken into account at the time of bonus award	Individual	
Punctuality	2%	Measured monthly by Team Leaders and agreed with AP Manager. Pass / Fail criteria. Each unsatisfactory month will equate to a deduction of one-sixth of 2%	Individual	
Performance	4%	Measured monthly by Team Leaders and agreed with AP Manager Based on the following country team results:-  a) Clear month ends b) No legitimate complaints c) Individual team members  Each unsatisfactory occurrence of the above	Country Teams	