



chapter 8

reward management and inequality

HRM in practice: Performance-related pay

Finding fair and effective ways to pay employees is a big issue in both the private and the public sector. Many organizations use appraisal to drive pay decisions because they want to tie performance to pay, believing that this will motivate people to do their best at work and that it is a fair approach. Money is important to everyone who holds a job, and we all know people who have refused a job because the money is inadequate. However, while money is a powerful force, this does not mean that money alone motivates us every day to put forth our best efforts.

Consider this scenario (Coens and Jenkins, 2002). At 8 am one morning, your manager asks you to work on a project. You and your team work hard on it all day, coming up with some good ideas. Your manager says the next morning that he had handed you the wrong brief (so all your work on the project the previous day has been wasted). What would your reaction be? You would undoubtedly be upset. If work were only about money, such incidents might not be an issue. After all, you would be paid for the work you did and the time you spent working on the 'wrong' project. But you would undoubtedly not be happy with the news:

This is because, regardless of money, each of us has a deep desire to do meaningful work. After going through this scenario many people tell about how they took a pay loss to quit jobs that did not allow them to contribute, that seemed like a waste of their time and talent. All of this does not mean that money isn't a motivator. It does however begin to show us the depth of complexity in sorting pay, motivation and work. (Coens and Jenkins, 2002)

A recent UK government-commissioned review advocated a more elaborate system of performance-related pay (PRP) for senior civil servants. Under this system, the best would get the highest pay, and the worst would lose pay. Yet evidence shows that, for jobs that encourage teamwork and collaboration, individually based incentive pay does not work. Some research demonstrates that paying people for doing something actually reduces their other motivation for doing it. Sometimes 'it is hard for economists to understand that human nature is more complex than their models'

(Layard, 2011).

However, PRP schemes bring certain problems with them, as evidenced by this quote (Layard, 2011):

The first is demoralisation. It is great to be recognised but hugely discouraging not to be. Research shows that assessment by different assessors often favours different workers – so it is not surprising that feelings of bitter injustice are common. Everyone knows that a system of promotion is essential, but annual performance related pay, which grades colleagues into classes, introduces unnecessary tension. Co-operation not competition should be the dominant ethos.

Stop! To what extent do you agree and disagree with the arguments for and against PRP? Consider other ways in which managers could encourage a highly motivated workforce. To what extent is meaningful work more or less important than incentive? What are the key components of meaningful work?

Sources and further information: See Coens and Jenkins (2002) and Layard (2011) for background to this feature.

An interesting debate on PRP can be found in Leopold and Harris (2009), and for an example of PRP, read the article by Samantha Gee, KPMG's Head of Reward (Gee, 2008).

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