

## chapter 8

### Bonus HRM in Practice

#### Bargaining performance related pay

Some HRM writers have described the 'new pay' agenda as 'revolutionary' because it overthrows the collective manner of setting rewards favoured by trade unions (Paauwe, 2004). Others see these developments as attempts to exclude trade unions in order to construct a more individualized employment relationship (Gunnigle et al. 1998), and as a way of creating an organizational culture driven by 'ideology' (Sisson and Storey, 2000). This reported case suggests that organizations can design a pay system that combine elements of the old and the new:

Severn Trent Water has introduced performance-related pay for all front-line staff so they are assessed in the same way as managers and directors. 'This is an important step in terms of alignment and marks a shift in culture, pay practice and trade union partnership by enabling genuine pay progression linked to performance,' said David Akers, HR operations manager.

The new pay matrix required training so that first-line managers who were responsible for determining the award became comfortable with rating their staff, said Akers. 'In the first year we had more people rated above average as managers were reluctant to say staff was average,' he said. Since the new pay structure was introduced there has been a 20 per cent increase in the number of employees reporting they feel fairly rewarded and recognized for what they do, according to a survey.

At Severn Trent Water, management linked total reward to overall company performance based on profit, safety and attendance records. Interestingly, they engaged the trade union in the process. This case illustrates workplace research that emphasizes the importance of the fact that reward systems will be influenced by the political and institutional context in which they operate (Edwards and Sengupta, 2010). As is the case with other HR practices, management cannot view pay practices as a technique that can simply be applied, rather as an engineer selects a tool from a toolbox. The workplace is an arena in which social and power relationships shape beliefs, expectations and, not least, pay arrangements.

**Stop!** What are the advantages and disadvantages of the new pay scheme at Severn Trent Water for [a] management and [b] the trade union? What other HR practices and processes would you introduce to make sure the performance-based pay arrangements were successful?

### **Sources and Further information**

The extract is taken from Katie Hope's article, 'Water firm widens scope of performance related pay', *People Management*, October 13, 2005. M. Beer and M. Cannon (2004) 'Promise and peril in implementing pay-for-performance. *Human Resource Management*, 43 (1): 3-48. P. Marginson (2009) 'Performance pay and collective bargaining: a complex relationship,' In S. Corby et al. (eds.) *Rethinking Reward* (pp. 102-119), Basingstoke: Palgrave. J. Arrowsmith et al. (2010) 'the management of variable pay in European banking', *The International Journal of Human Resource Management*, 21 (15): 2716-2740.