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PAYMENT SYSTEMS AND PERFORMANCE IMPROVEMENT: PARTICIPATION IN PAYMENT SYSTEM DESIGN

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Following our research findings (outlined in our last article in *Employee Relations*, Vol. 10 No. 4) we have attempted to put our results into practice on a number of occasions. This experience together with a desire to be as faithful as possible to our research results has led us to follow three general principles when examining or installing new incentive payment systems.

The advice we would give and the lessons we have learned are as follows:

Extend the Information that is Taken into Account

Research has shown that a good management team can motivate improved performance in an organisation through a wide variety of different kinds of payment systems, provided they put considerable effort into involving people from all levels and sections of the organisation in the design and implementation of the scheme[1]. This is not to say that the incentive scheme itself is totally unimportant. However, the process of matching a payment scheme to an organisation is one that demands considerable time and effort and achieving a match between the payment system and the expectations, motivations, patterns of inter-personal relationships and past history, and understanding the people in the system, is more important than matching the payment system to non-social characteristics of the organisation and its environment (such as terminology, market, location, and size), even though some of these structural contextual factors do have a small effect on results.

The importance of how the incentive scheme is designed and implemented is crucial to its success; and success is associated with the extent of consultation about the design and implementation of a scheme. This can be seen in Figure 1.

Ensure the Scheme is not Modified/Subverted in its Implementation

One of our in-depth research studies demonstrated how a company's strategic policy could be modified or subverted by lower levels of management pursuing other goals and objectives. This process has been observed when other change interventions have been made, for example the introduction of new technology[2].

The gradual weakening of a policy by individuals or groups pursuing other objectives at this important operational level can be further exacerbated by the failure to install adequate operating or control systems along with the introduction of the scheme. The effects at shop-floor level of what was originally a firm commitment at senior level to a policy or objective is governed by how it is seen and experienced by those lower down the organisation. It can differ greatly from what was intended. This process is shown in Figure 2. and is taken from one of our in-depth studies. It demonstrates how, without the necessary operating systems and controls, schemes can fail to make the impact intended.

Be Participative

Research and the experience of companies which have tried it have shown that consulting and involving employees in making decisions which affect the way they do their work leads to the best results, and indeed can lead to dramatic improvements in company performance[1, 3]. It

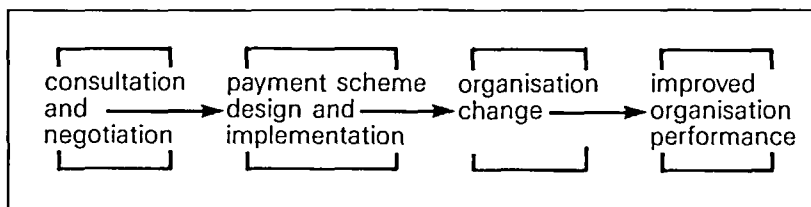


Figure 1.
Significant Factors of Incentive Payment Scheme Success

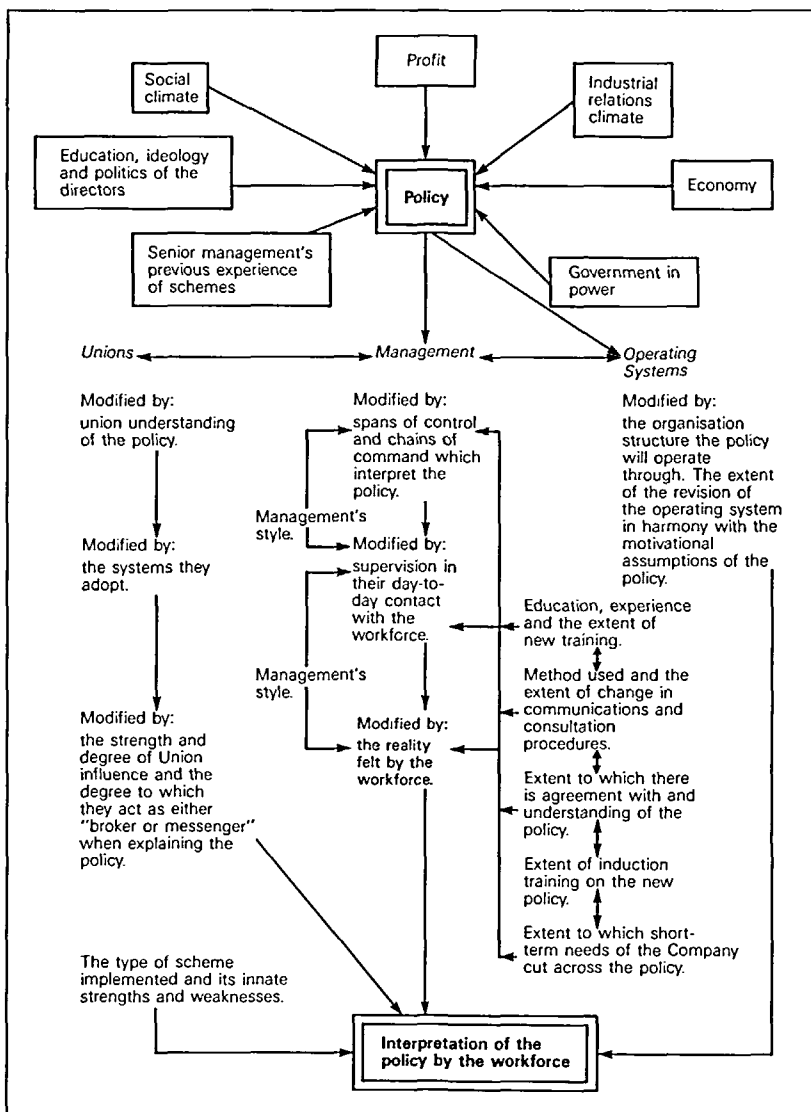


Figure 2.
The Modification and Interpretation of Policy in the Main Subsidiary Company

has been shown that a company facing possible closure can rally its staff and workforce through a system of involvement and consultation and turn the company around from one with poor quality, unreliable delivery, high costs and poor reputation. With an already successful company the results may be just as substantial because these principles of good decision making still hold.

The *process* of involvement and consultation at the design and implementation stages of a new payment system can:

- provide a better understanding of the contextual structural variables;

- alert management to many areas where performance can be improved and satisfaction increased, irrespective of the incentive scheme;
- minimise drift and decay of the scheme.

Our experience in the design of payment systems leads us to the following recommendations and guidelines.

Practical Steps to a Participative Approach

The first requirement is for commitment to a programme of change to be made at the top of the organisation. The next is to develop a team of managers who know what is required of them and have the enthusiasm to make it work. And the third is for the rest of the workforce concerned to be convinced that the project is worthy of their support, to be shown how to make it work, and to be assisted in its operation.

The programme could follow a schedule such as:

Management Discussion about the Programme

Discussions amongst senior managers about the programme and identification of a management team to develop it further. It should be recognised that participation is difficult to restrict to just one set of decisions, and that achieving a participative approach to designing a payment system requires a change of management style and the establishment of a structure of participation.

Since the aim of an incentive scheme is to improve productivity, a key focus of attention in the participative process should be ways of improving productivity. This should be linked to a payment system capable of paying increased rewards when these improvements are achieved. It is not the payment system which will lead to improved productivity: a payment system can only reward productivity improvement and make it easier to gain co-operation with efforts to improve productivity.

Worker Participation

A participative structure can be established by setting up a series of small groups of six to eight people from different levels of an organisation (such as shop-floor workers, supervisors and managers) whose work is closely inter-dependent because they are from the same section, department or function of the company or are involved in the same project. They would need to meet fairly regularly to discuss ways of tackling particular problems related to productivity improvement. These problems are of two kinds: those which the group puts forward as ways of improving productivity; and problems which management feed into the group for solution. It is important for both types of problem to be tackled and any decisions reached are then implemented.

Decisions should be reached by discussion based on full information with the aim of reaching a consensus or best compromise. The manager still has his authority and responsibility for the decision in the end; but the team will have influenced the decision and, even if they would have preferred a different course of action, they will know why this one has been selected. They will each have the opportunity to contribute their ideas and knowledge towards making it work when it is implemented. Issues about which it is reasonable for the workforce to be involved but on which management and the workforce are likely to disagree fundamentally are better left for the normal channels of negotiation, and care should be taken to recognise any such issues and transfer them as soon as possible or avoid bringing them into team discussions.

The area of operation for such a participative approach includes all the issues associated with getting the work done more effectively — such as methods of working, ways of organising work, systems for increasing efficiency, changes in technology, etc.

This kind of participative approach requires essentially a change in management style. For the range of issues just mentioned, instead of managers taking decisions independently, based on their own judgement, they will deliberately involve the people whose work is to be affected by the decision, in making that decision. For some people this is not a major departure from their present style, and for them the approach is a way of ensuring that the style is applied reasonably consistently by management and the maximum benefit for the company and its employees is obtained. For others it may be a very different way of reaching decisions, and some supervisors and managers will find it difficult to understand. They will need advice and encouragement until such time as they can see for themselves how effective a style of management this is.

A participative team may sometimes be set up drawing together people from different sections of the company, where the traditional departmental boundaries may themselves have to change in the future to meet some change in the work or in the technology, or where a project affects several different sections of the company. Such a team could be temporary if the project is one which does not require a permanent re-alignment of responsibilities and change of organisation structure; that is, if things will return to normal more or less when the project is completed. However, teams would usually be permanent groups. It is advisable to change membership periodically to give other people the chance to take part, for example by replacing two members annually.

It is desirable to have a managers' team to consider changes in the way managers do their work, and

the same for white-collar sections of the staff. It follows from this that a managers' team is an essential first step to introducing this kind of participative approach since they are being asked to change their way of reaching decisions and if their commitment to making the exercise a success is to be there, they need to be involved in the decisions about how to set up the system in the first place.

Programme of Work for the Management Team

- (a) Discussions of how to operate through Participative Teams; what difference it will make to their own decision-making responsibilities; why they *should* open up their decisions for prior discussion with those affected; how the approach differs from what they do already; and the effects on their authority.
- (b) Discussion of how to cope with proposals which arise from the teams; the need to respond and show that things get done; the need for flexibility and willingness to alter things to suit others; the need to encourage team members to prepare and research their proposals adequately; the need to review how much change has been made in response to team proposals.
- (c) Identifying the areas of the company which each team will represent, and some initial ideas as to which to start first.
- (d) Identification of suitable tasks for the management to give to the teams. This should involve analysis of company priorities and future plans and from these to pick out one, or preferably two, tasks for *each* team. These tasks should be matters which require a reasonable amount of work and discussion, with a time-scale in the range of one to six months. Longer projects could be divided into stages if this were possible. Each manager should play a large part in identifying the tasks for the teams in his areas. These managers should prepare suitable remits for the task, with back-up information needed to get on with the project.

Discussions with the Staff/Workers for whom Participative Teams are Intended

- (a) The first step is to convince them that they wish to take part in the exercise. Since it will give them the opportunity to influence the decisions which affect their work, a good presentation of the proposals should win their support. There is nothing in the approach which runs counter to the aims of trade union representatives, and their support for the exercise will greatly assist in its acceptance by their members. It is wise to ensure at this stage that such

representatives know what the project is about, how it has worked elsewhere, and how they can play a vital role in its operation.

- (b) The next step is to invite the workforce or staff to nominate or volunteer to make up a team for their area (say six for each team) and ask them to select one of these people as their joint chairman. The management team should assign the supervisor joint chairman and check that he is willing to accept this role, plus any other management and support staff thought to be needed in each individual team.
- (c) The next stage is to hold discussions with all the joint chairmen about the matters they will need to know in order to operate the teams. These will include more information on what the team should do; its procedures, remit, etc.; how to chair a meeting; how to write a report; efficient administration of meetings; effective communications within the team and outside it; understanding how the company operates (systems, procedures, manufacturing methods, economics, etc); and any other issues which the management team feel should be discussed and/or the joint chairmen request.

Recruitment of a Full-time Co-ordinator

By this time most people in the company will understand the exercise and will know how much commitment the company is giving it. This is a suitable time to call for a volunteer to be seconded for one or two years to the post of full-time Participative Team Co-ordinator. This job involves ensuring that the teams operate smoothly and are adequately serviced.

Pilot Teams Followed by Extension to Other Areas

The teams can then be set into operation.

Six-monthly Review

It is necessary to review achievements and progress to date on a regular basis in order to resolve difficulties which will arise, answer questions, provide greater impetus where necessary, etc. The first review should take place about six months after the teams begin to operate, and should take the form of presentation of the relevant information to a group consisting of all the joint chairmen of existing teams plus members of management and, where relevant, trade union representatives.

Co-ordinating Subcommittee

A very small group of four or five people is needed to meet the joint chairmen of each team for about an hour each month, to discuss how their team is progressing, what problems it has run into, and what it has achieved. They will need to be sufficiently senior to resolve difficulties which may arise, such as insisting on action when no action

has been taken despite a team having agreed changes.

Links between the Participative Teams and the Payment System

One of the tasks for the teams can then be to determine how their departmental or section performance can best be measured and related to payment from a new performance-related incentive scheme. The simplest possible mechanism and links should be devised, since the extra pay is by way of being a reward for the extra effort and improved performance resulting from the changes made by the participating teams. It is *not* the extra pay which motivates the workforce to improve efficiency. It is a mistake to think of incentive pay as analogous to the petrol which drives an engine; it is more like the oil which facilitates the movement of the engine. The driving force must come from some other source, namely: a good management and the involvement of everyone in the organisation in a participatory programme of performance improvement.

Conclusion

The blueprint outlined in this article is a very different one from that traditionally advocated by those usually involved in pay systems investigations. The evidence presented from our research, and the success that we have experienced in the practice since, lead us to believe that it is overwhelmingly a more effective approach. But to make this sort of approach succeed will require a change in attitudes which are very deep rooted in some sections of British management. We hope that those who doubt our blueprint will look carefully at the evidence before deciding there is nothing new to learn.

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