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Title : 'Rewarding Employee Performance – Line Managers' Values, Beliefs and Perspectives.'

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Abstract

This article explores managerial perceptions of the effectiveness and fairness of individual performance related pay schemes. It draws upon findings from a two part study of middle managers' interpretation and application of performance related pay processes in a variety of organisational contexts. The analysis reveals that middle managers all too often do not share the principles or the stated objectives of the schemes they are required to operationalise. It concludes that the importance of managerial values and beliefs about rewarding individual contribution has been an overlooked and underestimated dimension in the design and application of individual performance related pay schemes (IPRP) despite the significance of the manager 's role in their organisational effectiveness.

Introduction

The architects of strategic performance interventions are reliant on line management to transmit the desired corporate messages but line managers have also been identified as the weak link in the application of performance management systems (Hendry *et al.*, 1997). This paper will argue that their belief in the operational appropriateness and fairness of such systems is a critical success factor. Through a survey of middle managers working in different employment sectors it explores:

a) managerial perceptions of the effectiveness and fairness of current organisational approaches to rewarding performance in terms of encouraging the types of behaviours employers stated that they were seeking from their employees.

b) the ways in which line managers interpret and apply these processes to achieve their own organisational priorities.

Based on the study's findings, it is will be argued that the importance of managerial values and assumptions about rewarding individual performance has been an overlooked and underestimated dimension in the design and application of individual performance related pay processes (IPRP). The extent to which line managers charged with implementing pay policies share the values that led to their development is both debatable and largely unknown. In practice, the study revealed that this was largely assumed rather than actively pursued and developed.

The study

The study was in two phases. The first phase (discussed in Harris, 1999) took place in 1995 and involved a survey of sixty managers. They were predominantly in middle management roles and were employed in a wide variety of sectors. Thirty-eight worked in the private sector (including pharmaceuticals, engineering, textiles, retail and distribution, transport and communications, banking and insurance), and twenty-two in the actual or recent public sector (the Health Service, the Civil Service and the privatised utilities).

In 80% of the organisations respondents were responsible for making decisions about pay for the employees in their own sections or departments. In addition, all respondents were recipients of individual performance pay although for one third of them the scheme they experienced was in some way different from the one they were required to implement for more junior staff. The aim of the survey was to identify, through an initial questionnaire and follow up semi-structured interviews, the line manager's perspective on the effectiveness of performance related pay processes in terms of encouraging the types of behaviours employers stated they were seeking from their employees.

The respondents indicated wide support for the principle of rewarding employee contributions; equally, however their experiences with their own organisational processes led them to be both cautious and concerned at what the new approaches actually delivered. The managers identified a set of non publicised objectives which were, in their view, more important than the officially stated objectives for the introduction of IPRP. The 'official agenda' was to increase employee commitment and improve individual motivation through a fairer reward system more focused on business objectives; the 'hidden agenda' was far more concerned with the control aspects of performance management system, with changing the culture, making managers manage, dealing with issues of under performance, reducing staffing levels and costs whilst increasing workloads. Such objectives were identified by 78% of respondents as the real driving forces behind the introduction of IPRP. Figure 1 summarises the perceptions of the respondents in the initial survey.

Insert figure one

For the respondents, IPRP tended to result in practice, at least for a significant minority of employees, in strong feelings of unfairness, an erosion of commitment and a growth of uncertainty and anxiety. Respondents described how they tried to reduce what they regarded as the most negative aspects of IPRP in the way they interpreted and applied the process. Their main aims emerged as trying to maximise stability for the employees they were responsible for and minimising any erosion of employee perceptions of their own personal trustworthiness.

The results from this first phase of the study reported above gave rise to a series of further questions :-

- Why did line managers view the schemes so negatively whilst continuing to support the principle of a pay system which recognised individual contribution?

- Why, in spite of the emphasis of the reported emphasis on devolving HR responsibilities to the line, did respondents feel so little personal ownership of, and commitment to, the performance processes they were required to implement?

- What were the managers' own views of fairness and justice when rewarding employee contribution and how did they apply these in practice in reaching individual decisions?

Figure 1: Middle Managers perceptions of organisational initiatives on individual performance related pay

Hidden Agenda

- Change the culture
- Remove complacency
- Make managers manage
- Save salary costs
- Reduce staffing levels
- Increase work loads
- More control
- Focus on under performance
- Greater compliance

Stated Objectives

- Increase employee commitment
- Improve individual motivation
- Better communications
- Greater feedback
- More employee flexibility
- Focus on business objectives
- More responsibility to line managers
- Fairer reward system
- Identify and reward good performance

Perceived Outcomes

- Increased stress and anxiety
- Focus on control
- Growth of uncertainty
- Protection of individual territory
- Reduced employee flexibility
- Erosion of commitment for a significant minority
- Distrust of Management
- Feelings of unfairness
- Loss of goodwill
- Motivates high performer in the short term

Phase 2

The second phase of the research took place in 1998 - 1999. All the previous respondents were re-contacted and 36 of them took part in a series of follow up, in-depth interviews. Of the earlier sample, twelve managers had moved to another employer or to new roles while six others worked in companies that were undergoing major restructuring or mergers which made the study's timing inopportune. Three organisations had actually discontinued the individual performance element of their pay systems and were in the process of a total redesign of their performance and reward structures. The remaining managers for a variety of work related issues felt unable to participate in a further study but indicated that their earlier perceptions of the performance pay processes they implemented remained essentially the same.

One third of the new sample reported that their organisations were either in the process of reviewing their performance and related pay structures or had already made changes since the earlier study. This trend is in line with the findings of the IPD’s last survey of Performance Pay in the UK which found four out of ten organisations had modified their PRP schemes between 1995 - 1998 (IPD, 1998).

The IPD's results suggested that organisations were increasingly 'adapting their schemes to improve the fit between reward and organisational strategies'. (1998:6). Similarly the author's respondents identified that their schemes had been or were being adapted with the aim of obtaining a better integration with other HR policies and company objectives. For example, six schemes now provided for more frequent formal performance reviews; a greater emphasis was being placed on identifying development needs and separating these from the evaluation of performance for pay purposes; and the devolution of HR responsibilities to the line had continued, with line managers increasingly being held responsible for coaching and developing their staff as part of their personal targets.

Despite all this change, only six respondents reported being part of the review process. There had been company-wide attitude surveys aimed at ascertaining the major influences on 'employee commitment and satisfaction'. But as Winstanley and Stuart-Smith (1996) suggest the design of strategic approaches to performance management relies more heavily on 'stakeholder analysis' than 'stakeholder synthesis'. Put another way, stakeholders' views may be elicited to see how they impact upon the overall business strategy rather than for actual incorporation into the design of the process. The lack of involvement of the line managers in the design process was mirrored by their continuing lack of ownership of the schemes they found themselves implementing and by their sense that these had been imposed rather than agreed.

The framework for structuring the follow up interviews was developed from the three factors which had been identified in the first phase of the study as most heavily influencing respondent perceptions of performance related pay. These were the organisational context, personal views on fairness and equity and managerial behaviours. These were used as the framework for structuring the 'follow up' interviews with the individual managers.

A difficulty in the first phase lay in distinguishing between respondent perceptions of having their own performance evaluated and those associated with acting as evaluators when carrying out line management responsibilities. To reduce this potential confusion the questions in the second phase interviews focused on line manager responsibilities in the operation of IPRP although it is recognised their own experiences when being personally appraised could still colour individual responses.

Respondents were asked to consider the three most significant positive and negative outcomes of the performance pay processes they were required to implement. Their responses are summarised in Tables 1 and 2 . Interestingly whilst respondents had little difficulty in identifying the negative outcomes, positive outcomes proved to be far more difficult to identify and six were unable to suggest any.

Insert Table One and Table Two

Table 1 Positive Outcomes for the Managerial role

What would you identify as the positive outcomes of IPRP to you as a manager in undertaking your HR responsibilities?

Positive Outcomes	**% who identified among the first three**
Helps with the planning and organising of work	61%
Able to recognise those individuals who have contributed the most	70%
Makes me formally appraise all my staff	55%
It has changed the culture , people are generally less complacent	14%
Agreeing targets does help to focus staff	33%
It makes it easier to monitor performance	48%

Table 2 Negative Outcomes for the Managerial Role

What would you identify as the negative outcomes of IPRP for you as a manager in undertaking your HR responsibilities

Negative outcomes	**% who identified among the first three**
It does not act as a motivator for the majority	68%
Just not worth all the time and trouble for the amounts involved	67%
It is a very time consuming process	72%
There are too many constraints imposed on the decision making process	64%
Presents me with conflicting objectives	12%
Leads to injustices when you can't reward individuals who deserve recognition	19%
Individuals become too focused on their personal targets	25%
Unworkable at times of major organisational upheaval	17%
Can be a real demotivator when employees feel they have been unfairly treated	26%

Organisational Constraints

Organisational constraints were identified as a major cause of subsequent unfairness which eroded the effectiveness of the rewards system as a motivator (Storey and Sisson, 1993). 85% of the managers identified such constraints as the overwhelming influence on the outcomes of the process and their ability to make 'effective and fair' pay decisions. Many were beyond the direct control of the organisation but they were nevertheless seen as a key influences on IPRP's effectiveness. During a period when low inflation had led to total annual pay awards averaging around three percent, a repeated observation was that there was insufficient money for IPRP to be an effective motivator.

The size of the compensation pot was highlighted as a critical factor in the process and, in some instances, its impact could be altogether eradicated if overly small as Marsden and Richardson (1992) reported in their study of Inland Revenue staff. Similarly the IPD's survey (1998) found three quarters of employers feeling that their IPRP awards were, to some degree too low to act as a motivator. Smaller awards encouraged the managers to take an increasingly collective approach to pay decisions on the basis that *'for such a small amount it is not worth the hassle involved'*. This was particularly the experience among the public sector participants where the managers' views were typified by the Departmental Head in the Civil Service who observed *' if there isn't much for anyone then it is better to share it as evenly as possible – it makes for less trouble in the long run.'*

Asked to consider the benefits of the IPRP process, 61% of the managers identified the related processes of identifying goals, planning and organising work. The relative value placed on any monetary benefit and the clarification of expectations was found to be heavily influenced by the occupational group's expectations. For example, Dowling and Richardson’s (1997:360) survey of performance-related pay for managers in the National Health Service revealed that the money available was less important as a motivator than the clarification of their objectives that the scheme had introduced. It was concluded that the degree of success of the NHS scheme revolved mostly around the way in which work objectives were set.

Despite these positive outcomes, the major issue (identified by 72% of respondents) was that performance measurement and evaluation were taking up growing amounts of managerial time. This was increasing with organisational requirements for more continuous formal monitoring to encourage earlier managerial attention to potential problems than offered by a traditional annual appraisal process. For 'hard pressed' managers faced with a continuing escalation in the range of their HR responsibilities, the outcomes of the process needed to demonstrably justify the time and effort spent on it. Only three respondents were fully confident that this was the case. Gratton *et al’s* longitudinal study (1999) of eight 'high profile' companies similarly found the bureaucracy of performance management processes and the constant documentation attracting regular criticism.

Whilst respondents could see value in a proper recording system, if only to be able to subsequently defend their own decision making, there was a feeling that overly bureaucratic processes and ensuring that 'the paper trail was fully in place' had become objectives in their own right at the cost of investing in the quality of personal interactions and gaining commitment through high trust relationships between manager and employee.

The practice of centrally imposing organisational parameters on the allocation and distribution of ratings (Snell, 1992) was a considerable source of frustration for managers who saw it as negating the intentions of the pay policy. Having been exhorted to manage and to discriminate between different levels of performance it was widely regarded as 'interference' then to impose a predetermined formula for pay decisions. Instructions from the central HR function to follow a particular distribution pattern led one manager in the banking sector to observe ' *I don't know why they asked the line managers to get involved in the first place if they intended to tell us all along how to make the decisions.'*

Recognising that a centrally imposed pay matrix was causing managers to lose faith in the system, a number of UK companies - for example, United Distillers and Scottish Amicable - have led the way by abandoning a pay matrix (IDS, 1997). Local managers in these companies are now allocated a budget and expected to distribute it as pay awards based on their ratings of an employee performance. Such an option is less feasible in organisations where labour costs are a major part of overall costs or the pay budget is largely externally imposed as in the public sector.

Although there had been a general trend since the first survey for setting goals which encouraged team working and co-operation, a quarter of respondents felt that their PRP systems still encouraged too great a focus on personal targets, which resulted in inflexibility. This was also as reducing innovation when individuals perceived they were more likely to be rewarded for conformity than risk taking, especially where results could be less easily measurable and more unpredictable**.** The managers themselves recognised that adhering to a 'tried and tested' route to achieve their personal goals was a more predictable route to achieving targets and organisational recognition. For Whitener *et al* (1998:525) this leads to a 'potentially tragic outcome' for organisations seeking to encourage a more trusting organisational climate and greater flexibility which will never be realised because of the reluctance of managers and employees to take the risks involved.

Finally one issue which had not been identified as a key consideration in the initial survey was the appropriateness of performance related pay systems at a time of major organisational upheaval. This had been a personal experience for a number of respondents and 17% observed that they felt IPRP was unworkable in periods of significant internal restructuring and should be discontinued.

Fairness and Equity

The 'in depth' interview data revealed that many of the organisations in the study sample had made significant endeavours in the design of their systems to demonstrate the procedural justice of their schemes. This was particularly evident in providing opportunities for 'employee voice' in the process (Thibaut and Walker, 1975) through publicised appeal procedures and a commitment to transparency.

Despite these arrangements respondents believed that there were real political constraints when it came to their application in practice. The irony is that whilst the managers pointed to the anger and frustration that lapses in procedural fairness could cause, they could themselves be the perpetuators of such injustices. Inconsistencies in performance assessments and related pay decisions across and between different levels of managers were recognised as a significant problem and a justifiable source of grievance for certain employees. The respondents quoted personal experiences of unfairness in the evaluation of their own performances and the role models set by senior managers emerged as an crucial factor in setting the standards of behaviour for the managers to follow in dealing with their own staff.

Nearly two thirds of the respondents identified their ability to reward individual employees for their contribution as a benefit of their system. In practice, however, they frequently revealed a value system that made it difficult for them to exercise their judgement in the way a scheme intended. Faced with offering financial recognition to only a selected few best performers managers had to make uncomfortable choices between alienating those high performers they were unable to sufficiently reward or treating everyone the same by singling no one out for a higher award. This operational dilemma was exacerbated in circumstances where there was insufficient financial reward available to meet employees' expectations.

Mindful of future co-operation and trying to keep their own trustworthiness in tact, the majority of managers elected for a collective approach. This led to criticisms from senior management that they were failing to operate the scheme properly. The Compensation Manager for a recently mutualised Building Society grappling with this very problem among local branch managers complained '*the trouble with our branch managers is that they are too close to the staff they supervise, they are still in the trenches fighting with the troops*'.

Where team work and close co-operation were fundamental to the effective working of a section or department, the managers resorted to their own coping strategies which reflected their own concepts of equity and distributive justice (Miller, 1996) rather than the principles upon which the systems were based. Resorting to a collective approach highlights one of the fundamental tensions for managers in the application of IPRP. In terms of a survival mechanism for managers trying to achieve high levels of trust and reciprocity it is a justifiable means of achieving what Watson (1994: 32) describes as ‘productive co-operation.’ If, however, the expectation of employees is that the objective is to distinguish between different levels of performance, such an approach can increase the sense of unfairness employees have about a process which in practice offers neither procedural nor distributive justice.

Managerial behaviours

Building up and reinforcing managerial trustworthiness was identified by respondents as the essential ingredient in ensuring future employee co-operation and commitment. Blau (1964) observes that trust is generated by reciprocating for the benefits received from another and through a build up of exchanges over time. Yet managers and employees are also involved in a series of economic exchanges in their relationships which place little emphasis on trust but are concerned with attempts to structure the employment relationship to protect personal interests (Eisenhardt, 1989). The tensions between these different exchange relationships were evident in the managers' reported difficulties in reaching IPRP decisions. In trying to satisfy the requirements of one form of exchange, they found themselves struggling to meet the requirements of the other.

This dilemma was well illustrated by the differing approaches adopted by two line managers. The control based approach of one Manager in the Electricity Supply Industry was summarised as *' well they may not like me but at least I am a consistent bastard and they know I will try make sure rewards go to those who contribute the most*'' contrasted strongly with the Health Service Manager who saw attempts to incentivise individual pay *'as demotivating for the majority'*. She described her role as maintaining trust and co-operation through *'not rocking the boat by singling individuals out for different treatment but keeping my lot as happy as possible to cope with the mounting pressure of work'.*

Butler *et al* (1991) observed that politics can thwart changes in performance management processes and certainly two thirds of managers in the study saw their role, at times, as one of lessening the harsher aspects of senior management policy. Achieving and sustaining predictability in the employment relationship is, as Osterman (1987) suggests, a less recognised but central objective of management. This was evident among the respondents who tried to mitigate the negative aspects of IPRP if it was seen to be adversely affecting employee commitment or leading to employee 'survival anxiety' (Boxall 1996). Their rationale for doing so was largely explained by the importance they attached to maintaining trust in their relationships with the employees they supervised. Although this was driven partly by self interest to achieve prescribed targets it was also out of a belief that this was a better way to maintain employee commitment than through an reward processes which 68% had identified as ‘not motivating the majority’.

Obtaining future reciprocity and employee co-operation were, from the middle managers' perspective, key considerations in demonstrating trustworthiness and fairness in pay decisions. The dimensions of trustworthy behaviours identified by respondents were behavioural consistency, personal integrity and honesty, sharing and delegating control, regular communication and the demonstration of concern for the individual. Based on the behaviours they had personally experienced 'good managers' were described as those who shared informed, explained decisions and talked through issues. In those organisations where secrecy was a defining characteristic of the pay process, as it was in one large pharmaceutical company, respondents saw this as leading to low trust which they tried to mitigate by sharing whatever information they had at their disposal.

Where organisational constraints had eroded the potential to deliver what managers regarded as their part of the deal it encouraged them to blame the limitations of the process in justifying pay decisions to employees. The danger observed in an earlier study on the introduction of performance management systems was that this could lead to a form of 'abdication management' (Beaver and Harris, 1996) where managers blamed any inconsistencies in their decision making on the vagaries of the system rather than their own judgements. Whilst many line managers welcomed the opportunity to make pay decisions about their own staff, a fifth of respondents found being in the spotlight just too uncomfortable and felt ill prepared which resulted in the familiar excessive ‘middling’ in performance ratings.

Conclusions

The study revealed a group of line managers who were widely supportive of the view that pay systems which recognised individual performance were fairer, in principle, than systems of pay based on rewarding seniority (Lawler 1973: Kessler and Purcell, 1992). Similarly Guest and Conway (1997) found evidence in the third annual survey of the state of the employment relationship in the UK that employees had a preference for working in organisations where there was 'an attempt to link pay and performance'. Yet the managers reported an ongoing gap between the 'espoused' theory of paying for performance and what was delivered in practice (Stiles, 1999). A lack of congruence in the objectives of organisational performance management processes was illustrated by the lack of real incentives in the present systems to encourage line managers to invest time in supporting, encouraging and developing employees. Despite recent modifications to many schemes recognition was still identified as more attainable through the achievement of short term, measurable targets.

Although it had been anticipated that the beliefs and values of the managers would be highly influenced by the employment sector they worked in this factor was not as significant as expected. Although the general level of concerns about IPRP schemes where they existed were greater in the public than private sector much of this was due to organisational constraints rendering the process unworkable in the eyes of the managers rather than any deep rooted belief in its unacceptability.

The evidence from the author’s study and the IPD's survey of performance related pay (1998) in the UK reveal what appears to be significant differences between those issues regarded by employers as serious problems and the degree of importance attached to them by middle managers. Whereas the IPD's research reported that the amount of managerial time a scheme took up was regarded as a serious problem by only 13 % of employers this was a major issue for 70% of line managers in the study. Only in the importance of managerial training in the process was there little disparity between employers in the IPD survey and the observations of the middle managers. Training the managers was the most significant problem identified by employers in the IPD's survey but, whilst this issue was mentioned by an identical percentage of managers in the author's study, it was not identified as one of the most serious problems associated with PRP.

Although middle managers have been identified as 'the critical communicators ' and the 'enactors of strategy set by top management' (Hutchinson et al.1997), those in the study reported a lack of ownership of performance-related pay processes, significant constraints in its application and real concerns about its fairness and effectiveness as a motivator. Their low commitment to organisational IPRP processes could, to a considerable extent, be explained by a perception that these had been essentially imposed with a different set of objectives to those publicly stated.

Respondents viewed the costs of IPRP as significantly outweighing its benefits. The amount of managerial time it subsumed, the conflicts it could create and the potential for decisions that decreased rather than increased levels of employee trust were seen as more likely to lead to adverse consequences than positive outcomes. Whilst the control features of PRP were generally regarded as its main benefit to busy managers there was a recognition that this could also led to individuals resenting an erosion of their individual autonomy and an accompanying loss of initiative in their work roles.

Organisational constraints, work force values and their personal experiences of what motivated the majority of employees led the managers to have a far greater belief in the importance of demonstrating trustworthy behaviours as a means of encouraging employee commitment than paying for individual performance. In addition, perceptions of fairness among the managers were frequently more closely related to those of the employees they supervised than the principles reflected in the systems they had to apply. This was evident in a group of operational managers who 'adjusted and fine tuned' their interpretation and application of the PRP process to obtain a 'fit' with their own sense of fairness and what would be regarded as equitable by the majority of the workforce.

The practical implications of this approach was the potential for diffusion and even a distortion of a scheme‘s key objectives, particularly in its ability to deliver longer-term goals as the pressure of present demands. Using Rousseau's (1996) categorisation of transactional and relational psychological contracts, the majority of respondents placed a far higher value on relational contracts as a means of developing trust and co-operation than incentivising pay which was seen to encourage a more transactional approach to the employment relationship.

Although there had been considerable attempts to demonstrate fairness in the reported PRP systems, most of the processes were so individually focused and transacted that the scope for lapses in procedural justice 'both alleged and real' were considerable. Many of the managers seemed intuitively aware of these pitfalls. Yet at times their attempts to avoid taking any risks in their decision making which might reflect badly on their personal integrity or judgement could result in systems that were viewed with considerable cynicism and even as rather pointless in terms of their final outcomes.

Finally there was evidence that the trend towards decentralisation had limited the integration of pay processes with other HR strategies as it relied heavily on line managers undertaking a co-ordinating role for which they had neither the time nor the inclination (Thornhill and Saunders, 1998). It is argued that a far most significant contribution that line managers can make to shaping HR policies may lie in communicating their sense of the values and beliefs of employees but there was little evidence in the study that this had been a consideration or had been reflected in the design and implementation of organisational performance-related pay systems.

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