

Discussion about 'Human Resource Management works well in theory but not in practice.'

## **Abstract**

This article focuses on discussing whether "performance-related pay" (PRP) works well in theory but not in practice. Although it was designed in theory as a good motivation to lead people in organizations to go ahead, in order to improve individual and organizational performance, in practice, however, it is not the only motivator, or even an effective motivator—it can positively demotivate. (Armstrong, 1996, p271) PRP is depicted and discussed in this article, which explains how it works in practice and why it does not work well. A case is also introduced into the article to make some more detailed discusses.

## **Keywords**

Performance Related Pay; motivation; appraisal; practice.

## **I. Introduction**

During the late 20th century, human resource management was heralded by a number of writers and academics as a different way of managing the employer- employee relationship. Although HRM has already expanded many branches of theories and the step of development keeps on going ahead, in this essay, we will focus on an important and controversial aspect of Human Resource Management– performance-related pay. PRP emerged in the entrepreneurial 1980s as the answer to motivating people and developing performance-oriented cultures. It was seen as a major lever for change, and the government of the day adopted it with much enthusiasm but little understanding as a means of transforming public sector bodies into businesses. (Armstrong, 1996, p261) This article is divided into several sectors as follows:

First of all, we will assess that it works well in theory, and second, analyse how it works in practice and give some detailed analysis based on case, which would show a clash between the theory and the reality. Finally, we will give out our opinion on if 'Human Resource Management works well in theory but not in practice'.

## II. Performance-Related Pay

### What is performance-related pay?

Performance-related pay (PRP) explicitly links financial rewards to individual, group or corporate performance, or to any combination of these three (Armstrong and Murlis, 1991, p211).

Traditionally, most employees think about pay in terms of base pay, which embodies the values of predictability, security and permanency – none of which are characteristics consistent with the desire to change employee behaviours (Redman and Wilkinson, 2001, p105). Needless to say, this is not really the best way to develop employee behaviours appropriate to the business strategy of the organization. Therefore, many organizations are trying to build a more effective reward system. Today, performance-related pay has become the most widely used one. Controlling labour costs and increasing productivity through the establishment of clearer linkages between pay and performance are considered to be a key human resource management (HRM) component of competitive advantage (H. John Bernardin, 2003, p238).

The single most important objective of PRP is to improve employee performance by:

- Motivating all staff.
- Specifying to all employees the objectives and targets of the business.  
This could help employees to understand what they are working for.
- Supporting a performance orientated culture.
- Emphasising individual performance or teamwork through various schemes.
- Setting objectives and performance standards for employers to meet.  
So they would know exactly the behaviours that the organisation wants.
- Rewarding those whose performance is high.
- Improving recruitment and retention.  
Many employees expect PRP to be part of a well-managed working environment.
- Flexing pay costs in line with company performance.

(Sources: developed from [eCommerce-Now](#) and Armstrong and Murlis, 1991, p211-212)

Theoretically, PRP seems to be an ideal panacea for the improvement of employee performance. Now the question is if it would work in practice as well as in theory.

## Does PRP work well in practice?

Margaret Ellis of Sainsburys recently did six months' full-time research at Oxford University on the relationship between pay and performance. She identified only one piece of reliable research, studied the impact of what they called 'performance-contingent compensation' in the Social Security Administration. Rigorous analysis provided no evidence that it had any significant effect on performance. (Armstrong and Murlis, 1991, p442)

Similar to the whole HRM, PRP has also been doubt about its effectiveness in practice. And this is what we are going to discuss. Let us start with the determinants of effective PRP systems (see Figure 1.1)

### ■ Determinants of Effective PRP Systems

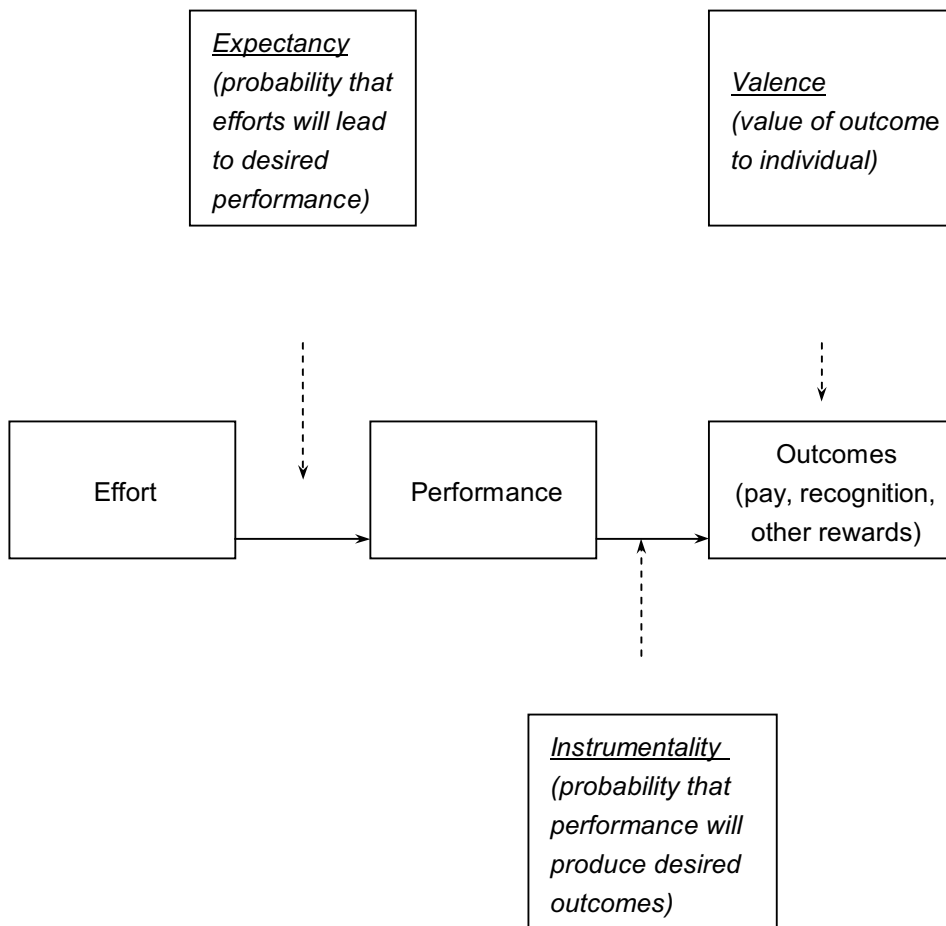
#### Figure 1.1 Determinants of Effective PRP Systems

1. Worker values outcomes (money, prizes).
2. Outcome is valued relative to other rewards.
3. Desired performance must be measurable.
4. Worker must be able to control rate of output.
5. Worker must be capable of increasing output.
6. Worker must believe that capability to increase exists.
7. Worker must believe that increased output will result in receiving a reward.
8. Size of reward must be sufficient to stimulate increased effort.
9. Performance measures must be compatible with strategic goals for short and long term.

(Source: H. John Bernardin, 2003, p240)

To motivate higher performance, the outcome of reward must be valued by employees. And it should be valued highly relative to others. There must be criteria of performance, which reflect the organization's strategic goals, or it would be difficult to link reward to performance. Points 4-6 in Figure 1.1 could be illustrated with Expectancy/Instrumentality theory (see Figure 1.2).

Figure 1.2 Expectancy/Instrumentality Theory



(Source: H. John Bernardin, 2003, p241)

Figure 1.2 shows that motivation is a function of the perception a worker has about the likelihood that more effort will lead to higher performance and that higher performance will lead to valued outcomes like more money (H. John Bernardin, 2003, p240). If an employee thinks the required performance is too high to achieve, or he does not believe that he would really receive the outcomes with the required performance, then the PRP system here cannot work as a motivation.

Successful PRP systems recognize that all the determinants presented in Figure 1.1 are intimately related as well as necessary. But in practice, few organizations could achieve all of these determinants. Many employers do not really know what their employees want as reward, although they usually think they do. Some organizations cannot make their employees believe the linkage between efforts and performance and desired outcomes, due to their ignorance of employees' capability or former delayed even failed reward. The level of performance-based pay may be too low relative to base pay (H. John Bernardin, 2003, p242). And problems in performance measures, which we will discuss soon, would also impact the effectiveness of PRP. All these factors may lead to failures of PRP systems.

## ■ Performance Appraisal

### □ What is performance appraisal?

Performance appraisal is a formal system of measuring, evaluating, and influencing an employee's job-related attributes, behaviours and outcomes (Wilf H. Ratzburg). A PRP system cannot work without performance measures.

The objective of appraisal is to determine how productive an employee is and/or to determine if an employee's productivity can be improved, and what's more, to motivate employee. Motivational research has recognized the power of recognition as an incentive. Performance appraisals provide employees with recognition for their work efforts. This recognition can have a positive motivational influence on the individual's sense of worth, commitment and belonging (Wilf H. Ratzburg).

### □ Performance appraisal does not work well in practice.

While most organizations report the use of formal systems of performance management and appraisal, the majority of those involved in this activity express considerable dissatisfaction with it (Antonioni, D., 1994, p29-32).

First, the performance appraisal must link to the organization's strategic plans. Many PRP plans have failed because the performance measure that was rewarded was not related to the performance objectives of the entire organization as a whole and to those aspects of performance that were most important to the organization (H. John Bernardin, 2003 p242).

Even when the appraisal is well related to organization's strategy, we still cannot ignore the deficiencies of existing performance appraisal programmes (see Figure 2.1) themselves.

### Figure 2.1 Deficiencies of Performance Appraisal Programmes

#### ➤ No one takes performance management seriously.

In some organizations, employees have little to no involvement in the process, for instance, setting their own objectives, leading the performance discussion and so on. In many cases, both management and employees dread the process.

#### ➤ Performance criteria stimulate individual behaviour rather than what is good for the entire organization.

#### ➤ Performance appraisal programs reinforce a "caste system."

In many firms, there is too much of a gap between middle management and upper management as far as performance rewards go. Such programs, where compensation is tied to appraisals, tend to reinforce established "caste systems".

- Performance appraisal is inconsistently applied.

This relates to the previous point regarding managers not taking the process seriously. Often, if compensation is supposed to be linked to appraisal results, there are no actual distinctions financially among the levels of performance.

- Performance appraisals often amount to little more than one more round of annual form filling.

The performance appraisal process is a source of anxiety for supervisors and subordinates alike.

(Source: Wilf H. Ratzburg)

There are various reasons for these problems, for example, managers' poor performance on appraisal. Despite their widely held belief to the contrary, most managers are not naturally good at conducting performance appraisals (Redman and Wilkinson, 2001, p71). And Longenecker argues that accuracy in performance appraisal is impossible to achieve, since people play social and political games, and they protect their own interests (Wilf H. Ratzburg).

Although the performance appraisal has developed much, all the appraisers are still human beings no matter in upward appraisal or in 360° performance appraisal. So to some extent, distorting effects (see Figure 2.2) are unavoidable.

#### Figure 2.2 Rater Biases

- Halo effects  
A single positive or negative aspect may distort the assessment of others.
- Doppelganger effect  
Appraiser tends to rate an employee who is like him more highly.
- Crony effect  
The relationship between appraiser and appraisee distorts appraisal.
- Veblen effect  
Some people, like Veblen, tend to rate all employees at a same middle score.
- Impression effect  
What the appraisers appraise is not exactly what the employees do, but the impression they give.
- Contrast effect  
When compare the performances of two employees, the appraisers may set one of them as standard. Thus, the standard changes much.

(Source: developed from Redman and Wilkinson, 2001, p72 and Wilf H. Ratzburg)

Because of these subjective problems, some people prefer more objective forms of performance appraisal. But objective-based appraisal also has its own problems. Firstly, measurement is often difficult. Trying to measure all jobs objectively would just simplify measurement by focusing on the short rather than the long term. Secondly, since objectives are set for individual employees or teams under such systems, it can be especially challenging to achieve equitable ratings. Other problems of objective-based performance appraisal include difficulty in achieving a balance between maintenance and innovator objectives, in setting objectives that cover the whole job so that performance does not get skewed to part of it, etc. (Redman and Wilkinson, 2001, p73).

Performance appraisal with so many problems in practice could not help the performance-related pay to work well in practice.

■ Does PRP always improve performance?

It has not been proved that PRP guarantees better motivation. And actually, many researches on motivation have suggested that people expecting to receive a reward for completing a task simply do not perform as well as those who expect nothing (Kohn, A., 2000). Let us look at some core opinions of these researches:

□ Pay is not a permanent motivator

Studies over many years have found that behaviour modification programs are rarely successful at producing lasting changes in attitudes or even behaviour. At best, PRP incentives motivate employees to temporarily alter their behaviour. Once the reward is taken away, employees will revert back to their old patterns of behaviour (H. John Bernardin, 2003, p354).

□ Rewards punish

Surprisingly enough, a rewarding system is not much different from a punishing system; not receiving a reward has a similar effect to being punished (H. John Bernardin, 2003, P354). Rewards and punishments are just two sides of the same coin -- and the coin doesn't buy very much (Kohn, A., 1999).

□ Rewards disrupt relationships

The competition for awards may frays relationships, not only between employees (this may lead to worse co-operation with colleagues in future work), but also between employers and employees (when employees are not satisfied with the rewards they received or not received).

□ Rewards ignore reasons

An old Jewish fable may be helpful in explaining this.

It seems that bigots were eager to rid their town of a Jewish man who had opened a tailor shop on Main Street, so they sent a group of rowdies to harass the tailor.

Each day, the ruffians would show up to jeer. The situation was grim, but the tailor was ingenious. One day when the hoodlums arrived, he gave each one of them, a dime for their efforts. Delighted, they shouted their insults and moved on. The next day they returned to shout, expecting their dime. But the tailor said he could only afford a nickel and proceeded to hand a nickel to each of them. Well, they were a bit disappointed, but a nickel after all is a nickel, so they took it, did their jeering, and left.

The next day, they returned once again and the tailor said he had only a penny for them and held out his hand. Indignant, the young toughs sneered and proclaimed that they would certainly not spend their time jeering at him for a measly penny. So they didn't. And all was well for the tailor (Deci, E.L. and Flaste, R., 1996, p26).

The young toughs were sent to harass the tailor. However, when they received the money from tailor, they forgot the reason why they jeered and went there just for 'rewards'. Employees may be motivated temporarily by the rewards, as those toughs. But the emphasis of their work has shifted from 'excelling at their jobs to excelling at the incentive-winning game' (H. John Bernardin, 2003, p355). Therefore, they work without thinking about the objective of their own jobs and the organization's business strategy. What they want is just getting most rewards with least work. Obviously, this is not really good for organizations.

□ Rewards discourage risk taking

As is shown above, rewards make employees ignore reasons. Consequently, performance-related pay also discourages employees to take a risk of losing rewards. They would work in a safest way and never try to be creative so that they can secure their rewards. This is short-termism, a major contributor to poor performance and hardly the behaviour we want in the innovative, flexible and responsive organizations of the 1990s (Armstrong and Murlis, 1991, p442).

□ Rewards undermine interest

Rewards deliver employees a message that work is boring, and you would not like to do the work unless you can get rewards. Study after study has shown that intrinsic interest in a task – the sense that something is worth doing for its own sake – typically declines when someone is given only external reasons for doing it (Armstrong and Murlis, 1991, p442). The more employees are interested in the work itself, the better they are likely to perform.

As Kohn argues, PRP incentives do not motivate employees to improve their performance, 'they motivate [them] to get rewards' (H. John Bernardin, 2003, p240).



## ■ Case analysis

In a controversial move in the UK education sector, the Department for Education has insisted that teachers' pay must be linked to performance as part of its plans to "modernise" public sector services - including workplace reform.

In 2002, the government introduced a performance-related bonus scheme in order to boost teachers' pay and help retain staff. Experienced teachers can apply for a one-off bonus of £2,000. Currently, almost all teachers who apply for the performance pay get it. They can only apply after they have taught for six years.

However, researchers from the Institute of Education in London found little evidence to suggest the payments had improved exam results or attracted more people into teaching. (see case 1 in appendix)

In this case, we can see that performance-related pay for teachers did not work as well as expected.

One of the reasons lies in performance appraisal. Firstly, it is not so easy to measure a teacher's performance. As Professor Dalton said, 'A pupil may have private tuition, help at home, or any number of external influences', so we cannot measure objectively how a teacher's performance impact on the students' exam results. We may use 360° performance appraisal, but as long as humans are engaged in the process, there will be a degree of subjectivity, and rater biases would impact appraisal.

Secondly, 'almost all teachers who apply for the performance pay get it', when rewards are provided to everyone with no difference, they are actually hardly related to performance and consequently cannot motivate. 'They can only apply after they have taught for six years', thus in fact, these rewards work as punishment to those newcomers. And not surprisingly, this punishment could not help much to attract recruits.

Thirdly, in some sense, the rewards result in competition and disrupt relationship and co-operation between teachers. That is why 'the researchers even argue that bonus payments could be counter-productive because teachers were used to working together instead of competing with each other'.

For all these reasons, PRP here cannot be seen as a successful one in practice.

In short, PRP is not appropriate for every organization, and it does not necessarily lead to the expected objectives.

### **III. Conclusion**

As has been discussed, performance related pay system is designed to improve employees' performance. But in practice, PRP is often disappointing due to the realistic difficulties, such as the ineffectiveness of performance appraisal, punishing effect of rewards, and other factors that may result in failure of PRP.

However, we do not mean that it is completely useless. What we want to say is that an organization should not rely on PRP without thoroughly understanding its potential difficulties and limitations.

Employees with intrinsic interest in the work itself would be more likely to achieve higher performance than those who are stimulated by external motivator. And some unexpected 'rewards' may be more effective than incentives to motivate employees' performance development.

At the end of this discussion, from which we can conclude that the conflict between theory and practice is always existing in the reality, and the managers in the organizations should try to momentarily adjust their policies and ways in managing to adapt to changing circumstance.

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## **Appendix**

### **Case 1**

In a controversial move in the UK education sector, the Department for Education has insisted that teachers' pay must be linked to performance as part of its plans to "modernize" public sector services - including workplace reform.

In its 2003 submission to the School Teachers Review Body, the Department for Education said teachers could not expect an above-inflation pay increase in 2004. The department is also considering giving individual schools more power to set pay rates for their staff.

A spokesman for the department said:

" The government is strongly of the view that the priority for this year is not a general increase in pay above the rate of inflation but instead action to promote workforce reform and tackle workload issues."

In 2002, the government introduced a performance-related bonus scheme in order to boost teachers' pay and help retain staff. Experienced teachers can apply for a one-off bonus of £2,000. Currently, almost all teachers who apply for the performance pay get it. They can only apply after they have taught for six years.

### **Study suggests performance related pay is inappropriate for teachers**

However, a recent study has suggested that there is no evidence that paying teachers performance bonuses leads to better exam results or attracts more recruits to the profession.

Researchers from the Institute of Education in London found little evidence to suggest the payments had improved results or attracted more people into teaching.

The study argued that it is difficult to determine the impact of any one teacher on a pupil's progress.

" A pupil may have private tuition, help at home, or any number of external influences. So we may never know objectively whether performance-related pay has positive effects on pupil learning outcomes" said Professor Dalton, a co-author of the study.

The researchers even argue that bonus payments could be counter-productive because teachers were used to working together instead of competing with each other.

The researchers say it is a "difficult if not impossible task" to devise a performance-related pay system for teachers that makes them work harder and more productively, does not need expensive monitoring, encourages teamwork and discourages teaching to the test.

Other countries, including the USA, have paid teachers performance bonuses but the study suggests they provide little convincing evidence for or against performance-related

pay.

Professor Dolton said: "Market theories do not necessarily work in the public sector. A bricklayer may lay more bricks if paid a bonus, but this does not apply to teachers, who are highly motivated professionals already working to maximum capacity."

(Source: Adapted from articles in the Daily Telegraph and Independent, 2002)

available at

[http://www.tutor2u.net/business/people/motivation\\_financial\\_performancepay\\_teachers.asp](http://www.tutor2u.net/business/people/motivation_financial_performancepay_teachers.asp)

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