
TEAM WORKING AND PAY

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TEAM WORKING AND PAY

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Executive Summary

Purpose of report

This report examines the evidence and issues related to team working and team pay with particular reference to white-collar employees. It aims to inform organisational decision-making in these two areas.

The report knits together three strands of information: published sources on team working and team pay; an analysis of IES and other survey data that has included questions on team working and team pay, and interviews with a small number of employers who have established a link between team working and pay.

Report findings

A number of pressures suggest that an increasing number of employers may be orienting towards team working and by implication team based pay systems. The key factors identified are: the flattening of organisational structures, the resultant need for greater task and skill flexibility, and changes in business imperatives which are emphasising better quality, and cost reductions. Team working as a means to reduce absenteeism and turnover through enriching jobs is very much a secondary factor.

The report identifies a number of different types of team. These can be broadly categorised as either permanent or temporary teams depending on their purposes and structure. Temporary teams include project teams, start-up teams and problem solving teams, and are often cross-functional in nature. Permanent teams are more likely to be organised around a core business process (*ie* customer delivery) or function (*ie* marketing). Evidence of teams organised on a product market or geographic basis were also found.

Despite the variety of teams several common features of teams are revealed: a maximum size of 12 to 15 people, a high level of task and skill interdependence and measurable outputs.

The type of team often determines the choice of payment scheme. For example, temporary teams are more likely to have bonus arrangements whereas permanent teams may have skill or competence based systems.

Team working but little team pay

Formal team working is still in its early days across most organisations. A recent IES survey found that around 40 per cent of organisations had introduced formal initiatives to encourage team working and that these tended to be organisation wide rather than for one specific occupational group.

Although there is increasing interest in team working most of those firms adopting this approach were still using individual or organisation wide pay schemes (such as merit pay or profit-sharing). Only ten per cent of those with formal team working initiatives supported this with team bonuses or skill based pay (two of the more common forms of pay associated with team working).

The study finds that most employers are modifying their individual performance pay systems in the context of team working. These schemes were building in behavioural competences associated with team working as a means of balancing with more traditional output based objectives.

Implications

The study suggests that the rarity of team pay approaches in team working environments may be explained by two reasons. Firstly, organisations are seeking to develop and embed these working practices some time before they consider linking them to pay and from this perspective there may be a 'lag' in the introduction of appropriate pay systems. The second interpretation is that this gap between work systems and pay systems is more to do with the *ad hoc* nature of UK management in the pay area. In other words pay, far from being used in a strategic way (as HRM theory suggests), is being managed in a highly reactive fashion.

Employer issues

Employers considering the introduction of team pay need to undertake an audit of their organisation, to assess the readiness for such a step. The report takes employers through a number of questions that can be used to conduct such a review (*eg* are the outputs to be rewarded the result of team or individual efforts? Are team measures linked to business strategy?).

The study suggests that one of the potential future constraints to the real gains to be made from greater team working and team pay is management style. A traditional command and control type style is likely to be inappropriate in a team working environment and this implies that organisations may need to concentrate on the selection and development of appropriate managers for these roles.

1. Objectives and Methodology

1.1 Introduction

The focus of IES research on pay systems has, until now, been concentrated on the operation and effectiveness of *individual* based performance pay schemes linked to an appraisal system. This focus has reflected one of the key thrusts of new developments in pay policies during the 1980s and 1990s and IES has examined, in depth, the effectiveness of this particular pay approach (Thompson, 1992; Bevan and Thompson, 1992; Thompson, 1993).

This and other research (Cannell and Wood, 1992; Kessler and Purcell, 1992; Kessler, 1994; OECD, 1993; Marsden and Richardson, 1993; LGMB, 1992) have concentrated on individual appraisal based performance based pay systems for white-collar employees and managerial and professional staff. The extent to which employers have been adopting team related approaches for white-collar employees has not received as much attention. However, a number of developments are leading to an increased interest in team based pay approaches for these employees.

The need to reduce costs, improve quality and productivity, increase labour flexibility whilst combating turnover and absenteeism, have all played their part in focusing employers' attention on the virtues of team working. The management journals and proponents of the 'future organisation', identify team working as a crucial element in future competitive success. Much of the literature on non-hierarchical and flatter organisations explicitly and implicitly asserts the importance of teams.

In the words of two experts on team working: *'most models of the so called organisation of the future that we have heard about ... are premised on teams surpassing individuals as the primary unit of performance'* (Katzenbach and Smith, 1992).

Earlier IES research (Thompson, 1992) found that one of the problems experienced by organisations operating individual performance pay schemes was their potentially negative effect on collaborative working arrangements and their promulgation of overly competitive behaviours among employees. Furthermore, an IES paper for the Royal College of Nursing (Thompson and Buchan, 1992) advised against the introduction of individual based performance pay for nursing staff on the basis that their

work was highly interdependent and necessitated a high degree of co-operation. Individual based schemes were seen to be inappropriate because they could potentially undermine team working.

Thus, some of the pressure towards team based performance pay approaches could be seen to stem from employers' experiences of the difficulties and failures of their own individual based schemes. This, along with the trend towards greater team working in organisations, suggests that employers should be increasingly orienting towards rewarding people on this basis and for white-collar employees in particular.

These organisational changes raise a number of questions for pay systems and reward management. How are organisations realigning their pay systems with the realities of team working and team based cultures? What do employers mean when they talk about teams and team rewards? What issues do organisations face if considering linking pay to team working? How extensive is team working and team based pay and what are the future trends? What do employers need to be aware of when thinking of team pay? These and other questions are addressed in the following report.

1.2 What do we mean by team pay?

A wealth of literature exists on the use of group based incentive schemes for workers in the manufacturing sector. For example, a scheme introduced in the coal mining industry in the 1980s was observed to have a significant impact on group output and productivity (Richardson and Wood, 1989) and a recent 'gainsharing' scheme operated by Nuclear Electric in the running down of one of its nuclear plants is thought to have been effective (*Personnel Management*, 1993).

However, there have been few studies which have looked at the use of team based performance pay for white-collar employees (particularly in the service sector). It could be argued that performance measures are more difficult to identify for individuals in many white-collar occupations and the nature of work would lend itself to team based incentives. Indeed one review of white-collar productivity measures concluded that: *'white-collar workers are much more dependent upon their co-workers than traditional blue-collar workers. With few exceptions, individual white-collar workers do not produce results valuable to the company. Results are obtained from group — not individual — effort'* (Boyett and Conn, 1988).

1.3 Research approach

The central objective of the study was to identify how employers are linking pay to team performance in *white-collar* jobs and the

effectiveness of such schemes. In practice this consisted of several interlinked objectives:

- To gain an understanding of the main themes in the available literature on team working and team pay for white-collar employees.
- To provide an assessment of the extent and coverage of such pay approaches.
- To identify the key issues related to the linking of pay to team working.

These objectives, in turn, determined the approach we adopted in the study. A literature search of on-line bibliographic and other databases was undertaken and relevant material on team based performance pay identified. The main objective of the literature search was to uncover empirical studies of team based pay in practice. In addition the personnel and industrial relations press was scanned in order to identify potential case studies.

The failure to identify suitable organisations to visit from this source¹ led us to undertake a mini-survey of employers who had indicated in an earlier IES study² that they had team based pay. From this survey we had information on different types of performance pay schemes by occupational level for over 800 organisations across the public and private sectors. The occupational data allowed us to select those employers that purported to operate team pay for white-collar staff.

Just under 80 employers were identified as operating team based pay for white-collar workers and these were sent a short questionnaire which elicited further information on their schemes. In addition, we surveyed the IES subscriber organisations (over 65 large employers in the public and private sectors) to identify further potential case studies.

Altogether, we received just under 40 replies. The majority of these employers were operating profit-sharing schemes for organisational sub-units (often numbering several hundred employees) and as these did not meet our definition of team based performance pay they were rejected. This left us with a total of eight potential case study employers. Only three of these eight were able to participate in the study (all in the service sector). The other five felt that their schemes were either too small or too recent in their introduction to be useful for inclusion in the research.

¹ The search was conducted in spring 1993.

² This was a survey of performance management practices undertaken for the Institute of Personnel Management (IPM).

The small number of case studies shows how limited the UK experience is with team pay for white-collar workers. It also underlines the difficulty the study encountered in obtaining empirical evidence on the operation of such pay approaches. These difficulties mean that the report is based more on the themes and issues emerging from the literature than on UK practice.

1.4 Report layout

The report is in several sections. Section 1 (this section) outlines the objectives of, and approach to, the study. Section 2, looks at the different types of teams, the reasons for their growing importance in the organisation and their implications for payment schemes. In Section 3, we map out the use of team pay from available data sources (where it is used, for what groups *etc.*) and examine the main types of team based pay approaches, drawing upon both the limited information available in the UK as well as evidence from our literature search. Finally in Section 4, we draw out the key issues that employers need to consider when thinking of introducing team based pay for white-collar employees.

2. Teams

2.1 Introduction

To understand why employers are orienting towards team pay schemes we need to look at the issue of team working itself. This chapter draws upon the literature on team working and IES research to address several questions:

- Why are employers becoming more interested in team working?
- How do we define a team?
- Are there different types of team?
- How widespread is team working?

2.2 Factors encouraging team working

Our limited interviews, combined with the literature search, pointed to a range of factors that would lead us to anticipate a growth in team working arrangements. These in turn may lead employers to explore means of linking pay to team working.

i) Flatter structures

The drive by many organisations to reduce costs by stripping out managerial layers, may encourage the development of self-managed teams. Such work organisation fits with a line management structure where spans of control are much wider and where managers find it more difficult to monitor and control the tasks of subordinates. One would perhaps expect team based pay incentives to emerge as a means of senior management control over such work organisation and as a means of team members monitoring their own (and each others performance). Current IES research on flatter structures suggests that many employers are indeed considering the wider use of team working arrangements but there is little actual evidence of this in practice (Kettley *et al.*, forthcoming).

ii) Flexibility

In tandem with the need to reduce labour costs, employers are seeking to build further flexibilities within and between work

areas. Our interviews shed some light on this aspect. In an Insurance company, for example, we found that the more 'Tayloristic' approaches to work, in areas such as insurance sales, where an individual is responsible for one part of every sale/claim, is being replaced by work arrangements wherein individuals are responsible for most, or all of the claim. In such circumstances individuals are being organised on a market basis (geographic/product types *etc.*) and this provides the structure for the team. In this way the employer enjoys the benefits of multi-skilling and flexibility. One may expect team based incentives to emerge as a means of focusing on income targets and encouraging team performance. This case also illustrates the importance of different types of work in white-collar employment. In many ways, the insurance sales employee's work is akin to factory employment where the emphasis is on processing materials (*ie* claims forms) into a final product (a completed claim).

iii) Quality

Another pressure towards team working is the drive towards improved quality. Organisations may seek to introduce team working as a means of encouraging information sharing among employees. Increased information sharing is a way of improving customer care and achieving improvements in product quality. Under more conventional work arrangements information sharing may have been contrary to individual interests (*ie* individuals' fear that they may not be associated with performance improvement or that other employees may be recognised or rewarded for their ideas) (Zingheim and Schuster, 1992). However, in competitive markets where quality is a key determinant, employers are keen to encourage information sharing and collaboration at work. So, for example, firms may operate 'suggestion schemes' as well as teams.

iv) Absenteeism/turnover

In service sector jobs (retail, financial services) there is a history of high levels of labour turnover (as high as 60 to 70 per cent in some grades) and absence, both of which are costly to the organisation. Enriching jobs can serve as a means of reducing staff turnover, increasing job satisfaction and lowering absence rates. Team working arrangements allied with multi-skilling policies may be one way of reducing this cost by improving job satisfaction and thereby employees' commitment and motivation at work. This is likely to be a secondary factor in much of the current phase of work restructuring where initiatives such as business process re-engineering (BPR) have been criticised for being technology rather than people focused (Watkins *et al.*, 1993).

v) Lower administrative costs

The administrative burden of team working is likely to be much less than that associated with more individualised approaches. The costs of setting targets, measures and monitoring progress for teams are less onerous than in highly individualised settings. In circumstances where businesses are seeking cost-effective means to manage performance, team working (and team-based pay) can provide an opportunity to lower costs and improve performance.

2.3 Defining a team

The concept of teams and teamwork is not new. In the 1970s, autonomous work groups were advocated as a way of enriching jobs, improving work motivation, reducing absenteeism and improving productivity. However, beyond the more well known examples such as the Volvo plant at Kalmar, team production was not widely adopted at this time.¹ In the 1980s the success of the Japanese manufacturing process led to a renewed interest in team working approaches as this was seen to be an important aspect of the Japanese 'miracle' which many western employers sought to emulate (Dore, 1978).

Although, the idea of teams is not new there are many different types of team. A team has been defined in generic terms as:

'a small number of people with complementary skills who are committed to a common purpose, performance goals, and approach for which they hold themselves mutually accountable' (Katzenbach and Smith, 1992).

This definition contains within it several key criteria that need to be met for teams to be successful. Related to these are also organisational or situational conditions that are seen to be important for team working to be effective. These two interrelated sets of conditions are discussed in more detail below.

2.3.1 What is a team?

i) Team size

The literature on teams and team working (*eg* Hackman, 1990) suggests that an effective team is unlikely to have more than 15 members. When teams comprise more than this number difficulties soon arise in terms of information sharing, co-

¹ In the last couple of years the Kalmar plant has been closed and production concentrated in Volvo's Gottenburg plant where traditional production line assembly practices are in place.

ordination of work and tasks and agreeing specific and measurable goals. Other problems that can make team working difficult in groups of people as big as 30 to 50 are the types of behaviours that such large numbers can promote. For example, researchers in this area have noted the development 'crowd' or 'herd' behaviours (Katzenbach and Smith, 1992). These make it difficult for open and high trust relations to be built which are seen to be necessary conditions for the successful functioning of teams. A likely outcome for groups of this size is the return to command and control type organising principles which would appear to defeat the purpose of setting-up teams in the first place.

Furthermore, the so called 'line of sight' (Lawler, 1990) between work effort of the group and their rewards becomes fuzzy because large teams lead to difficulties in co-ordination and communication.

ii) Interdependent jobs/tasks

The interdependence of skills and tasks among employees is an important characteristic determining the size of a team. For teams to have meaning, the work must require group efforts rather than mainly individual efforts. Team interdependence has been defined as having the following characteristics (Dyer, 1986):

- employees in the group view themselves as part of a team
- a high level of face-to-face interaction is necessary and expected
- the tasks assigned to employees require close and frequent co-ordination among team members (*eg* in planning, problem solving and decision making).

Other writers on team working have suggested that this interdependence can be further broken down into three broad based generic skills or competences:

- technical or functional expertise
- problem solving and decision-making skills, and
- interpersonal skills.

If these complementary skills exist in a team it is more likely to be successful (Katzenbach and Smith, 1992). Clearly, such skill requirements have implications for the selection and development of team members.

iii) Measurable performance/output

In order for teams to cohere and share a common goal or purpose, specific performance goals are necessary. These objectives should define an output that is a product of teamwork

not the aggregation of individual outputs. Furthermore, these need to be measurable in some way, and team members should understand these measures and their contribution in relation to them. Through defining such team measures, organisations will be in a much better position to recognise achievement and reward teams for their output. In this sense, the inability to define objectives, and the measures used to chart progress against these objectives, is a poor basis for developing team pay approaches. The difficulty, or in some cases failure, to identify appropriate measures is also seen as important in explaining the poor record of individual PRP schemes (Thompson, 1992).

2.4 Types of team

We have outlined the generic characteristics of teams and identified a number of factors that are encouraging employers to orient towards team working. However, there are also a wide variety of teams, and the nature and purpose of a team may raise important implications for the ways in which employers design human resource policies to support and reward teams. We can distinguish two broad categories of team: *permanent* teams and *temporary* teams.

2.4.1 Temporary teams

Temporary teams come together for a short time period to investigate an issue or solve a particular problem. Examples of temporary teams would be a 'start-up' team given the task of opening a new store in a retail chain or launching a new product, a team given the brief of designing a new product, or a team set up to design an appraisal training process. These temporary teams can often be cross-functional in nature (*eg* the team designing a new product might involve people from marketing, design, as well as finance).

Quite often these temporary teams comprise functional or technical experts and tend to be a form more widely used at higher levels in the organisation. They may also involve higher graded staff being led by more junior but specialised staff on particular projects. The key defining characteristics of temporary teams is that they have a finite life with specific short-term objectives and are rarely reinstigated. In businesses such as research, marketing, design and engineering, project teams are the most common form of work structure. These operate for specific periods of time with clear goals and accountabilities and the widespread use of such forms of working give rise to 'matrix' organisational structures.

2.4.2 Permanent teams

There are, in practice, a wide number of types of permanent teams and in this section we consider some of the main ones.

i) Functional teams

Permanent teams are organised around a function, a task or a process. So called 'natural work groups' can be based around functions such as HR, where job descriptions and reporting relationships remain the same but where the group becomes more accountable for its product. This can come about where the concept of internal suppliers gains ground, such as in HR where an internal consultancy model has been seen to develop in some organisations (Bevan, 1994). The implication for these natural work groups is that if an internal purchaser is not happy with the service being offered (on price or quality) they can buy elsewhere (*ie* from an external supplier).

ii) Process teams

The concept of business process re-engineering (BPR), which has attracted considerable interest among both service and manufacturing employers over the last few years, places a strong emphasis on organising teams around business processes or discrete parts of these processes (Hammer and Champy, 1993). The end goal for organisations adopting this approach is for teams to be 'self-managing' or 'autonomous' with bottom line accountabilities and responsibilities for traditional personnel decisions such as recruitment, training, discipline, appraisal and pay determination. However, many BPR experiments have been criticised for failing to fully understand, or plan for the implications these changes have for people (Watkins *et al.*, 1993). From this perspective, many of the sought after gains from BPR may be more difficult to sustain in the longer term.

In firms such as Nissan and Rover, team based production has been in operation for a number of years with teams responsible for a particular part of the assembly process. These teams are rarely self-managing in the sense of controlling most resourcing decisions. However, employees in these teams generally take responsibility for both planning and achieving the work team's objectives. In this process, employees undergo a high level of cross-task training and one objective of such teams is often to create multi-skilled personnel for that particular process area (Jones *et al.*, 1993).

iii) Product market/geographic teams

In the finance sector, teams are increasingly being organised around 'products' or 'geographical markets' or both. National and Provincial and Pearl Assurance have sought to introduce teams organised around their 'core processes' and it is likely that this approach is and will become more widespread among financial services organisations (IDS, 1993). However, it would be wrong to see these teams as leading to a new non-hierarchical organisational structure, and teams in National and Provincial have been reported to: *'map onto the old hierarchical structure, so*

'top directing' teams consist of senior managers while routine 'implementation teams' mainly consist of clerical staff' (IDS, 1993).

Each of the above type of team is not necessarily mutually exclusive and it is possible that process and product market teams may be one and the same.

2.5 How widespread is team working?

It can be seen that there is a wide range of teams and that the conditions that favour team working arrangements point to a potential increase in the number of employers using this approach to work organisation. But how widespread is team working in the UK and what does this suggest about the future growth of team pay arrangements?

By far the largest and most regular survey is the New Earnings Survey (NES) which has been collecting details from employers on the pay of individual employees since the 1970s. Although it has a large sample size and a high response rate it is less helpful in providing information on changes in pay determination and performance related pay. For example, the wide range of performance related payment systems are covered under the one sub-category: 'Incentive Payments' which consists of 'piecework bonuses (including profit-sharing) commission, productivity and other payments'. This may mean that employers are not including merit pay where the pay award is consolidated into basic pay, thereby understating the incidence of merit pay. More importantly, for our purposes it is impossible to separate out incentives based on group performance.

Given these difficulties, we need to draw upon other surveys in order to assess the extent and coverage of team pay. The Workplace Industrial Relations Survey (WIRS) of 1990 included questions on performance related pay. This is a nationally representative survey of all establishments with 25 or more employees. Around 2,000 workplaces are covered and the response rate is consistently high (over 80 per cent). It found that over three-quarters of workplaces had some form of incentive pay scheme. Turning to team pay, the survey reports information on 'group payment by results' (PBR), finding that such payments were made in only 12 per cent of workplaces. These tended to be most prevalent among manual employees (in around 15 per cent of workplaces). Private sector manufacturing had the highest incidence of these types of scheme whilst the public sector had the lowest.

A survey conducted by IES for the IPM study on performance management, which was biased more towards larger employers, found that 'Team Bonus' payments were most common for manual workers (27 per cent) compared to white-collar employees (11 per cent). This broadly reflects another survey conducted jointly by IPM and NEDO (again more skewed towards larger employers) which found 'Group Payment by Results' pay systems applied to just over 23 per cent of 'process/ancillary/craft' employees.

The various surveys reported reveal how the use of team based pay remains quite limited and where it does operate it tends to be mostly used for manual employees (see Figure 2.1).

Figure 2.1 Performance related pay by occupational group

Per cent of establishments/organisations using specified forms of performance related pay for at least some of the occupational group in question

Occupational group	Category of performance related pay					
	IPBR or merit pay*	GBPR** or plant/enterprise bonus	Any incentive pay			
The 1990 WIRSab						
Unskilled manual	19	13	28			
Semi-skilled manual	28	21	34			
Skilled manual	34	19	47			
Clerical/admin/secretarial	34	7	38			
Supervisors	37	7	42			
Junior technical/professional	36	7	40			
Senior technical/professional	37	7	40			
Middle/senior managers	46	11	51			
The 1991 IPM/NEDO survey	IPBR	GPBR	Plant/enterprise bonus	Merit pay	Financial participation	
Process/craft/ancillary	21	23	12	21	21	
Clerical/admin/secretarial	^d	3	6	46	28	
Managerial and professional	^d	8	6	59	35	
Directors and executives	^d	5	5	51	43	
The 1991 IMP performance management study	Individual bonus	Team bonus	Appraisal related performance pay	Merit pay no appraisal	Profit sharing	Share options
Manual	24	27	7	10	18	7
Non-managerial white-collar	20	11	31	22	22	8
Other managers	28	9	44	22	28	12
Senior managers	36	6	54	20	41	36

^a Percentages of establishments

^b Occupational groups with less than five employees at the establishment are excluded

^c Percentages of organisations

^d Not reports

* Individual payment by results

** Group payment by results

Column and row percentages may add up to more than 100 owing to the rounding of decimal places

Source: *Employment Gazette*

Figure 2.2 Use of team working initiative for different occupational groups

Occupational Groups	%	No.
Managers and professionals	39	146
Clerical and administrative	38	143
Other non-manual	33	126
Manual	39	145

(Base 379)

Source: IES Survey, 1994

A recent survey carried out by IES under its Co-operative Research Programme is able to shed more light on this question. The survey of around 400 organisations in the private sector found that around 40 per cent of organisations had introduced formal initiatives to promote team working.¹ These team working initiatives tended to encompass a cross section of occupational groups rather than being concentrated in manual or managerial jobs (see Figure 2.2). Found primarily in the financial services and manufacturing sectors, these initiatives were also more likely to coexist with other policies such as reducing layers of management and culture change initiatives. This may suggest that team working may form part of a broader HR or organisational strategy. It can be seen that there is some evidence of a move towards the wider use of team working among private sector organisations. The question that then arises is: are these organisations supporting such work systems with team based pay approaches?

The survey can help us explore these issues since information was also gathered on the different types of pay system in place for various groups of staff. Our analysis shows that only ten per cent of these organisations with team working initiatives had team bonuses or skill based pay in place. These organisations were more likely to be operating a merit pay or organisation wide profit-sharing approach.

Indeed, telephone follow-up of the organisations in the survey, reported to be operating team pay systems for white-collar employees, found that they were mostly business unit based profit-sharing schemes (where the business unit comprised several hundred people). This size of team does not conform to the principles underlying teamwork outlined earlier, and underlines the difficulty in coming to an agreed definition of what we mean when we talk about a team and team pay.

¹ The questionnaire did not include a definition of teamwork or elaborate on different types of teams.

2.6 Implications

What do these various sources of data tell us about developments in team working and in particular the relationship between team working and team pay? On the basis of the information presented in this chapter it is possible to develop two potential interpretations:

- a 'lag' effect
- lack of strategic planning in the pay area.

2.6.1 The 'lag' effect

Change in organisations' work systems and the human resource policies supporting them, are rarely co-ordinated. It is often the case that new work methods or processes are introduced without other systems being changed at the same time. This more incremental or 'softly, softly' approach to change management may be in evidence in relation to team working and team pay. Employers could be putting in place team working arrangements, but be waiting for these to become embedded and accepted by managers and employees before beginning to consider a link to pay.

If this is the case we are likely to find an increasing number of employers toying with the idea of linking pay to team working. We may also find that some of these are questioning the need or appropriateness of such a link for all groups involved in team working. Further research would need to examine the reasons why employers have decided not to establish a formal link between team outputs and pay.

2.6.2 Lack of strategic planning

One of the major criticisms of UK employers' approaches to pay is their failure to adopt a strategic perspective on pay and rewards. A central theme in the writings on HRM is that pay can and should be used more as a strategic tool by employers (Beer *et al.*, 1985; Fombrun, Tichy and Devanna, 1984; Lawler, 1990).

In this context, pay can be used to facilitate both changes in work organisation as well as to support changes already introduced. A review of UK employers' reward strategies concluded that this dimension was passing many organisation by and that UK employers' stance regarding pay is fundamentally *ad hoc* (Smith, 1992). This *ad hoc* approach to pay systems is also clearly demonstrated in employers' wider use of individual performance pay schemes (Thompson, 1992).

The implications of a predominantly *ad hoc* stance on pay in relation to changing working arrangements is that work systems will become fundamentally non-aligned with the pay systems in the organisation. Such developments will lead to the build up of

considerable pressure within organisation which may 'leak' in the form of higher labour turnover, poor morale or higher absence.

2.7 Summary

Employers are increasingly orienting towards team working and by implication team based pay. The most important factors encouraging wider team working arrangements are: the flattening of organisational structures, flexibility, and quality.

There are a range of different types of team but they tend to have common features. These are: a maximum size of 12 to 15 people, a high level of task and skill interdependence, and measurable outputs.

Teams can be categorised as either temporary or permanent, depending on their purpose and structure. Temporary teams include project teams, start-up teams or problem solving teams, and are often cross-functional in nature. Permanent teams are more likely to be organised around a core business process (*eg* customer delivery) or a function (*eg* marketing).

A review of survey evidence shows that formal team working is still relatively rare in UK organisations. However, a recent IES survey points to around 40 per cent of employers introducing initiatives to encourage team working. These initiatives tended to be organisation wide rather than for specific occupational groups.

However, only ten per cent of those with formal team working initiatives supported these with team bonuses or skills based pay systems (two of the more common forms of pay associated with team working).

This divergence may be explained by two reasons. Firstly, organisations are seeking to develop and embed these working practices before they consider linking them to pay, which may explain the 'lag' in the introduction of appropriate pay systems. The second interpretation is that this gap between work systems and pay systems is more to do with the *ad hoc* nature of UK management in the pay area.

3. Paying teams

3.1 Introduction

In this section we look at how organisations are paying teams. Our review of the extent and coverage of team pay in the UK found that there are, in practice, few examples of employers who pay teams and that it is extremely rare for white-collar employees to be paid on this basis. With such limitations, the objective of this section is to map out what options are available for those employers who are orienting towards team working and who may be considering recognising team performance through their pay systems. To begin we consider what advantage employers may gain from adopting team pay approaches.

3.2 Advantages of team pay compared to individual pay

Team pay can be seen to enjoy a number of advantages over its better known and more widely used stable-mate, individual merit pay. In addition to reinforcing team working and co-operative behaviours, there are several other advantages to team pay that can accrue to an organisation. On one level the presence of team pay encourages groups (instead of individuals) to improve work systems. A pooling and sharing of information on needed refinements in work practices is more likely to be forthcoming when it is perceived to be in the interests of all concerned. Under an individual merit pay system the employee is more likely to want to ensure ownership of this information and hoard it until maximum personal benefit can be gained. Such behaviour can often lead to counterproductive outcomes for work systems.

Similarly, team pay is more likely to encourage flexibility and the ability of the group to respond to changing business needs and pressures. For example, team members can step into different roles and provide the flexibilities so sought after into today's working environment. Furthermore, a group based incentive may also be more effective in making a link between the individual team member and the wider concerns of both the team and the organisation as a whole. Thus the promulgation of team behaviours can be achieved through a pay system that reinforces such attitudes.

Figure 3.1 Contrasting approaches

Team Pay	Individual Merit Pay
<ul style="list-style-type: none">● Rewards teamwork and co-operation	<ul style="list-style-type: none">● Creates internal competition
<ul style="list-style-type: none">● Encourages group to improve work systems	<ul style="list-style-type: none">● Encourages withholding of information
<ul style="list-style-type: none">● Increases flexibility and ability to respond to changing needs	<ul style="list-style-type: none">● Individuals try to improve system – results in failure
<ul style="list-style-type: none">● Not incorporated in base pay	<ul style="list-style-type: none">● Decreases flexibility
<ul style="list-style-type: none">● Encourages information sharing and communication	<ul style="list-style-type: none">● Incorporated into base salary
<ul style="list-style-type: none">● Focus on wider organisation	<ul style="list-style-type: none">● No focus on wider organisation

A final benefit of team pay approaches is that they generally operate as a non-consolidated bonus (sometimes pensionable, sometimes not) whereas merit pay is usually incorporated into base salary with all the inflexibilities that incurs for paybill management and control. The contrasting advantages and disadvantages of team pay and individual merit pay are illustrated in Figure 3.1.

3.3 Different teams, different approaches

Our discussion of different types of teams and their characteristics pointed to two generic types of team: the temporary team and the permanent team. Each of these has a direct implication for the types of performance pay that can be used.

3.3.1 Pay for temporary teams

Temporary teams which come together for a short duration lend themselves to bonus arrangements which are not added into team members' base pay. In many ways, a temporary team's performance is the easiest to reward. Objectives are usually very clear, often measurable and the time period for performance is understood by all concerned.

For example, start-up teams responsible for opening new business sites or construction teams responsible for design and build projects, have clear deadlines and the various stages of the work can be broken down, measured and set within a time-frame.

Individual salary progression for team members can be determined through a combination of team manager and peer assessment, using a performance management process. The bonus element would be additional to this and paid on

completion of the project or job but would not be consolidated into base salary. The process governing pay progression is likely to run alongside the bonus arrangement.

Our review of developments in the UK did not provide illustrations of temporary team pay although flatter organisational structures suggest that matrix type structures are more likely to develop and thus encourage the greater use of bonuses.

3.3.2 Pay for permanent teams

Bonuses are also an important element in the reward schemes operating for permanent teams. However, what came across most clearly from the few organisations we visited was that their approach to team pay was largely determined by their existing pay systems and the history of pay determination in the organisation. The most common situation encountered was where a company wanted to encourage teamwork behaviour in an individual merit pay environment. In order to achieve this, two broad types of approach tended to be used. The most widely used approach was to introduce 'team working' as an assessment criterion into the appraisal process for the individual. This built a team dimension into the individual pay determination process.

i) Modifying individual merit pay

Amongst the organisations we visited, this was often introduced to tackle the problem of dysfunctional competitive individual behaviours and indicates that an individual merit pay system has been grafted onto natural work groups. The inclusion of 'team behaviours' in the appraisal process was clearly a means of retaining an individualised pay determination process whilst trying to respond to the tensions posed by team working. In other organisations, the team dimension in individual appraisal was seen as a means of modifying behaviours to align with changing business needs. Thus, employers had the flexibility to adjust the weighting attached to team behaviours depending on their business needs. In this sense, employers were using behavioural competencies as a means of supporting changing business objectives.

Thus, team pay for organisations operating an individual performance pay system amounted to rewarding team working behaviours through the individual appraisal process. Typically this assessment continued to be 'top down' in nature with none of the companies using peer assessment. However, when this issue was probed it was clear that some were expecting to introduce peer evaluation in the future. What was clear from these employers was that the individual rather than the team was perceived to be the building block of pay strategy.

ii) Team bonuses

A common approach to team pay in the service sector companies we visited was the adoption of bonus schemes. The teams were usually office based telephone sales teams dependent on co-operation from other team members in achieving sales. These bonus schemes were heavily controlled from the centre with bonus pools often dependent on complex formulae, and allocated through matrix mechanisms (which provided another level of control). As such the employers were able to forecast salary spend on bonuses to the nearest pound. Other bonus methods we came across adopted a 'shares' approach where the pot of shares for distribution was set by the centre and a proportion of these were allocated to teams on the basis of their performance. Once again this approach also afforded considerable control over paybill. However, in addition to such bonuses, team working arrangements can lead to other types of pay schemes. The most important of these approaches is probably skills based pay or competence based pay.

iii) Skills or competence based pay

Skills based or competence based pay is a payment system in which pay progression depends on the acquisition of skills by the employee. The more skills the individual acquires (and uses) the more they can get paid. In areas where team working is practised, a skills based pay system can support or reinforce such working arrangements. For example, we visited an insurance company where teams were being organised along geographic markets as well as claims process lines (*ie* where each individual was expected to handle a large part of the claims process). Here, the organisation was considering introducing a modular skills/knowledge based pay approach which would reward individuals for their ability to develop wider and deeper knowledge of process skills within the team. This was seen to have the benefit of providing flexibility in labour utilisation, reducing claim process times and improving quality through reduced errors.

In a study of General Mills in America, which has used a contemporary form of skills based pay (SBP) for some years, it was observed that SBP *'fits well with process technologies because it provides employees with incentives to learn about the entire production flow. This enables them to respond quickly and effectively to disruptions in the process, regardless of where in the production flow they may be working at that time'* (Ledford, 1991).

However, skills based pay has wider implications for other HR practices and requires considerable investment in training, development and assessment. In some organisations SBP is managed and controlled using assessment centres (Cross, 1992) and it has been found to work best in high-involvement workplaces (Ledford, 1991).

The skills based pay approach tends to be 'supportive' of team working through encouraging interchangeability, flexibility and multi-skilling. It is possible for this to be combined with bonus type systems which can focus and reward teams for the achievement of short-term targets. Thus, in one organisation it would be possible to have both SBP and bonus incentives for team workers. However, it is relatively uncommon for UK employers to operate more than one pay system for their employees, as our survey evidence showed earlier (see Chapter two).

3.3.3 Paying out

Allocating the team based pay award is not a straightforward matter. Employers have a choice in how they would like to pay their teams. There are at least three different methods that can be adopted (Bartol and Hagmann, 1992):

- equal payment to all team members (by percentage or cash)
- differential payments based on individual contribution to team performance
- differential payment based on the ratio of each members base pay to the base pay of the group as a whole.

Each of these methods has its own strengths and weaknesses. The equal payment approach carries with it the risk of 'free-riders'. On the other hand, equal payments may encourage greater co-operation and greater collective effort as everyone knows that the more successful the team the greater their potential payment — thus shirking will be seen to lead to smaller rewards. None of the companies we visited had this approach, perhaps because it conflicts with the emphasis in the wider pay system of pay for individual contribution.

The second approach seeks to address this tension. It relies on individual assessment through an appraisal process so that better performers can be given higher pay. This is the most common approach that we have come across in the UK with many organisations modifying their individual merit pay systems to include a team working dimension. Thus, the danger of undermining team co-operation through individual differentiation can be tempered through invoking team measures in the merit pay process. This is increasingly being facilitated through the development of competences for team working. In a recent IES survey we found that around ten per cent of organisations had developed competence frameworks for cross-functional working. These were mainly for professional and managerial staff. However, there is little evidence to suggest that these approaches have been successful and it is likely that the widely reported problems with individual performance related pay will persist in these modified schemes (Thompson, 1992; Kessler and Purcell, 1993).

The last method is a means of reflecting market rates for the different jobs in the team pay. In this approach the pot is allocated on the basis of the ratio of each individual's base salary to total salary. One of the problems with this method is that it may overemphasise past performance rather than current performance because it is the base salary (*ie* past performance) that is driving the pay allocation method. However, in teams with a wide mix of skills and job levels it may be a pragmatic compromise.

3.3.4 Paying the manager but not the team?

In one organisation we came across an unusual definition of team pay. This service sector employer had 'team leaders' for various of its 'brands' and the financial performance of the teams for which they were responsible gave rise to bonuses. However, instead of the bonus being distributed between team members on some basis, the bonus was awarded only to the manager. On further investigation we found that several of the managers had felt compromised by the pay scheme, which gave them the gains from the effort exerted by employees in the team as a whole who received nothing. Although the employer's rationale was to improve managerial effectiveness and develop skills in managing revenue and costs better, it had also presented managers with a clear dilemma. In some cases this led to the team manager throwing a party for his staff with the bonus and another distributing it equally amongst his team.

3.4 Conclusions

Employers clearly have a choice over how they pay their teams. However, an important determinant of the type of pay that can be delivered is the nature of the team itself. Temporary teams lend themselves almost wholly to team bonuses, although matrix organisations, where project teams are common, may need to combine this with a knowledge or skills based pay progression system. Permanent teams are also open to bonus type arrangements. However, in the white-collar areas that we have information for in the UK, one of the most common ways of addressing the issue of paying teams is to modify the existing individual based merit pay and appraisal system.

Here, the organisation seeks to change behaviours and attitudes through introducing team measures in the individual assessment process. This type of approach tended to be adopted where the 'notion' of team working was being created and where the organisation had created pseudo teams, based on products, areas or even processes, but where team working criteria were clearly not being met (*ie* having ten to 15 members and jobs being highly interdependent). In this sense, employers were seeking to create a 'virtual' team culture among employees. This type of approach

reflects the use of performance pay as a strategic tool for changing the culture of the organisation.

On another level, the idea of team pay that emerges from our review is one that sits within an agenda of reinforcing the business or market units that are emerging in service sector organisations. These are market based, not work organisation based, definitions of teams.

It would appear that the practice of team pay that is emerging in the UK is still firmly rooted in individualised pay systems, and is being shaped by these pay structures. In many ways it is a 'pseudo team pay' where the fiction of 'teams' is being created before the reality of team working actually exists.

4. Implications for Employers

4.1 Introduction

In this section we consider the issues that employers need to think about when seeking to introduce a team pay system. There are several sets of issues that would be of concern to employers asking the extent to which their organisation is ready for team pay approaches. We have arranged these as number of questions that can act as a guide for information gathering and help contribute to an assessment of the readiness of the organisation for team based performance pay.

4.2 Are you ready for team pay?

Team pay, as we have seen in our review of its nature and coverage in the UK, is relatively little used by service sector employers for their white-collar workers. We have also seen how types of team and types of work and organisational setting can influence the type of team pay approach adopted. This suggests that the context in which any pay system is being introduced may be important in determining its effectiveness. Certainly, in our previous work on individual based schemes, contextual issues were identified as being highly important in explaining the success or failure of such schemes, the way they were introduced and their form (Thompson, 1992).

The importance of context in explaining both the form of performance pay introduced and its effectiveness have also been highlighted by a range of other studies (Kessler and Purcell, 1993; OECD, 1993; Bowey *et al.*, 1979). With this we turn to look at the questions and issues that employers need to consider before introducing a team pay approach.

The purpose of this section is to highlight, for managers responsible for pay decisions, a number of factors which they can use to assess whether their own organisation is ready for team pay. An appraisal of context and circumstances prior to the proposed introduction of team pay can have several advantages. It can provide the employer with insights that can make the design and implementation process more effective. For example, an audit of the culture, or an assessment of the suitability of measurement systems, might influence the speed of introduction. In addition an organisational audit might also point to units or

groups where team pay might be more easily introduced than others. To help organisations think through this, the following questions and issues need to be addressed:

Are the outputs to be rewarded the result of group or individual efforts?

Employers need to identify and understand the extent to which an area where they are considering team incentives is in practice the result of team working. If a high degree of teamwork is not important for the output of the area, and individual effort is more important, then the introduction of team pay may not be appropriate. This issue has been central to much of the debate on appropriate incentive pay for nurses. It has been argued (Thompson and Buchan, 1992) that nursing work is characterised by high levels of interdependency and information sharing and thus is more suited to team based rewards.

Do objective, measurable, reliable and well understood measures exist for team performance?

The issue of clear and reliable measures is important in the operation of all incentive pay schemes. One of the difficulties identified in earlier IES research on individual performance pay systems, was the problem of establishing clear and understood measures that individuals perceived as reflecting their effort. In many cases, the interdependency of work in some of these organisations meant that individual measures were weak or seen to be unfair. This, in turn, led to problems in the operation of the pay scheme.

Identifying appropriate measures for white-collar workers can often be a problem. Many individual performance pay schemes have foundered on this matter because output can often be both intangible and the result of group effort. In addition, there can often be resentment towards measuring white-collar employees' work as it may be regarded by staff as a means of exerting greater management control. Furthermore, in the current climate, staff may fear that the information gathered might then be used to achieve staff reductions and increase pressure for efficiency gains.

A way through this for employers may be to involve the white-collar employees in the development of their own measures. It has been found that involvement increases commitment and can legitimise the measures used (Lefebvre and Lefebvre, 1988). Thus, white-collar groups can start to define what is meant by broad terms such as *'provide high quality and consistent support to sales representatives'* and ask questions about what is meant by quality and how it can be measured. This process of developing measures at work group level has the added advantage of focusing employee minds on their roles.

It may be helpful for organisations to develop a family of measures rather than relying on one or two summary measures of performance. This is because white-collar work can often be complex with multiple dimensions (such as quality, timeliness and cost). Evaluating the success of a piece of work can often be dependent on taking into account a range of measures. For example, something may be provided within budget but may be of poor quality and not meet customer needs.

Are team measures linked to business strategy?

One way of ensuring that an appropriate family of measures is developed and that the wider competitive success of the organisation is included in these group measures is for these to be integrated with or related to the wider business strategy of the organisation. So, for example, if the organisation is competing on a quality basis, the team needs to demonstrate how its family of measures integrates with the wider business concern for quality. Indeed, it has been found that team based pay schemes can be more effective in supporting total quality initiatives than individual incentive schemes (Zingheim and Schuster, 1992).

Do managers have the abilities to co-ordinate and lead teams effectively?

Previous IES research found that one of the main reasons why individual performance pay schemes failed was because managers were ill-equipped to manage people effectively (Thompson, 1993). The poor relationship between employee and manager was often perceived to be at the root of many of the problems of IPRP. Similarly, a more recent IES study found that, under more devolved management structures and processes, line managers often experienced greatest difficulty in the area of people management (Bevan, 1994).

The success of teams is often attributed to the ability of managers to facilitate team working and this relies on good interpersonal skills. In order for an organisation to ensure that team pay supports team working and help performance improvement, managers and team members need to be trained in the appropriate skills and competences for leading teams. Such investment will help towards aligning managers' capabilities with the philosophy of team pay.

Are managers at team operating level and at senior level committed to team pay?

One of the stumbling blocks of any new pay scheme is the commitment that senior managers demonstrate. If they do not believe in the philosophy or practice of team pay and do not agree with its importance in supporting business strategy, the scheme is likely to fail. This was identified as a key source of

failure in IPRP schemes (Thompson, 1992) where sometimes the views of senior managers and the CEO were at odds or where the views of HR and the line were inconsistent.

Do you have a high-trust employee relations climate?

The levels of trust in an organisation are highly important for creating a climate in which employees can best meet the needs of the business, be more committed and achieve higher levels of personal fulfilment (Fox, 1974). Low trust levels can spell failure for most new pay or employment initiatives.

The importance of high trust levels becomes even more important where team working and team pay is part of employer strategy. For teams to prosper, individual team members need to believe that the team pay scheme is not there to exploit them, and that both team members and the organisation are going to gain from collaboration. If the organisational culture is characterised by low trust relations (employers may measure this through attitude survey and focus group techniques) then the organisation may need to consider introducing policies that can help change this culture to align better with the team pay scheme.

It has been argued that new pay schemes themselves can be a key tool for achieving shifts in culture within organisations (Beer *et al.*, 1984) and it may be that the introduction of team pay arrangements might contribute to creating a team based culture. However, it has also been argued that in order for pay schemes to be effective, other HR systems need to be aligned and that an evolutionary rather than revolutionary approach can be more effective (Milkovich, 1992).

How well will team pay fit with the wider reward strategy of the organisation?

A pay scheme that does not fit with wider reward systems is likely to lead to difficulties. For example, a non-competitive base pay structure is likely to bend and twist any incentive pay system out of shape, whereas a competitive one may provide a better basis for its development. Similarly, a reward strategy anchored on a philosophy of individualised rewards may provoke tensions in a team based approach.

It was clear from our review of team pay in the UK that the most common variant is a team behaviours measure built into an individual performance pay system. This was seen as a way of combining the 'notion' of teams with the realities of an individualised pay system. However, we were unable to assess the extent to which this approach has been successful.

Are major technical changes or work organisation changes in the pipeline?

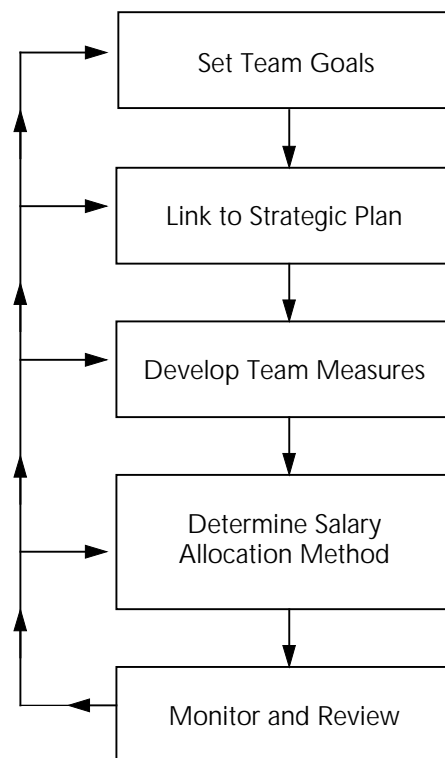
If major changes in technology or work organisation are planned over the next few years, they may affect the measures being used for team pay. This will need to be borne in mind when designing the scheme. Significant changes in the work environment may lead employees to feel that they have little control over their output and this may lead to some weakening in the team pay incentive. This in turn may stimulate some suspicion among staff and lead to the development of lower trust relations which in the long run will undermine the pay scheme.

4.3 What are the key steps in team pay?

In order to help organisations think through the main steps towards a team pay structure, after an assessment of readiness has been undertaken, we have outlined five key steps (Figure 4.1).

The first step is for the teams to set their broad goals and objectives — where they want to get to and why. These goals then need to be understood within the context of the business plan (Step 2). Aligning team goals and business objectives should ensure that teams are not pulling in different directions to the way the organisation, as a whole, wishes to go.

Figure 4.1 Key steps in team pay



Source: IES, 1994

The third step is for the teams to develop means which they can use to identify their progress against their chosen goals. These measures are most likely to be multi-dimensional and more akin to a family of measures.

The next decision to be taken is how bonuses/pay are to be distributed to team members. This can often be the most important step, as the salary allocation method is often the process that most affects team members' ideas of fairness, which in turn can impact on their performance.

And lastly, the organisation (usually the HR department) needs regularly to monitor and review the various stages in the team pay process. This will enable changes and improvements to be made that will contribute to a better pay system.

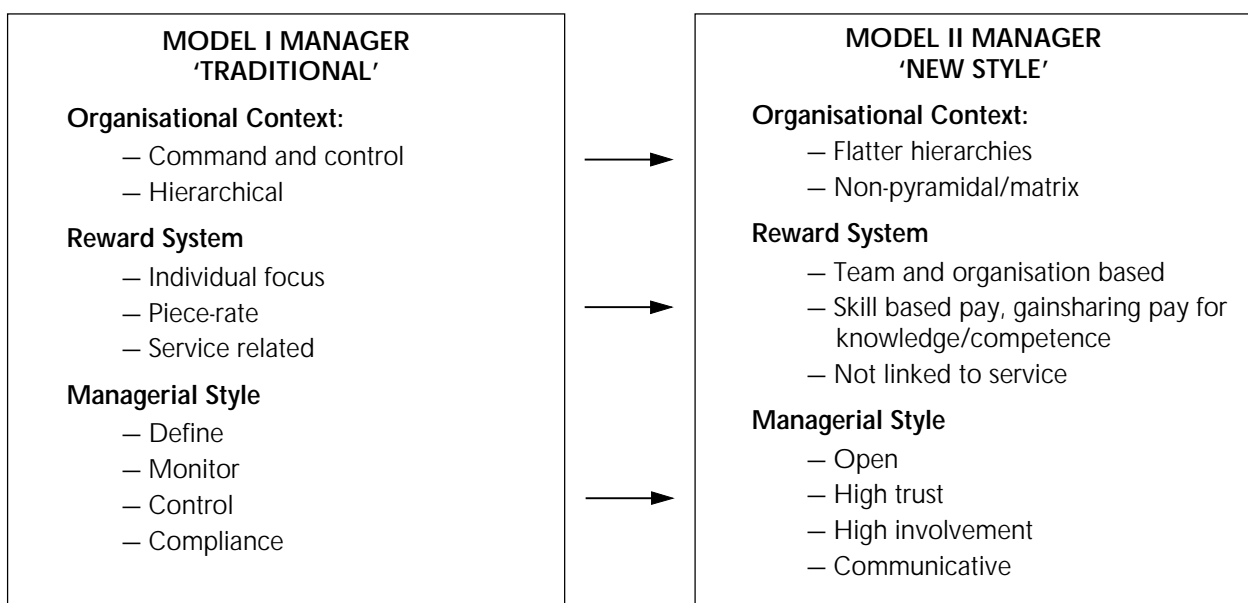
4.4 Implications for managers

Moving towards a team pay approach has a number of implications for managers. The most important aspect relates to the nature or style of management that is required to support and encourage team working and team behaviours.

Under team based incentive pay systems, the types of skills and competences required of managers differ considerably from those of the more traditional individual based reward systems (see Figure 4.2).

Under individualised schemes, managers are required to define tasks or objectives, monitor and control the achievement of these and ultimately enforce compliance. Clearly such systems

Figure 4.2 Changing managerial styles



Source: IES, 1994

determine (and support) a certain managerial style which is contingent on standard command and control type organisational structures.

Team working and team pay demand a different type of managerial style. The emphasis is more likely to be on a style that values interpersonal communication skills, trust, openness and the ability to foster loyalty and commitment. Most importantly, the new-style manager is one that can create and communicate a shared vision of the purpose of the work group and stimulate common knowledge about work, the organisation and fellow employees.

Our review of team pay has shown that this 'new' pay is not very widespread in white-collar areas or in the service sector. One of the reasons for this may be that the dominant managerial style in the UK (driven by command and control imperatives and based on tall hierarchies) is constraining the emergence of the new pay forms.

However, we may also be about to witness a considerable sea change in management culture in many organisations, prompted by the cost reduction policies adopted in recent years, which have questioned the traditional certainties of middle management careers in large organisations.

The removal of layers of such managers may be tackling a constraint to change. The re-shaping of work more along team production lines may also be prompting the emergence of new management styles which are more likely to support team working arrangements and team pay.

The persistence of individual performance pay is due in part to the assumptions, values and beliefs underpinning managerial action and thought. Team working and team pay depend to a large extent on a high trust, high involvement and open management style. These characteristics are not common in managers used to hierarchical environments where monitoring, control and reward/punish behaviours are the norm.

4.5 Conclusions

Team based performance pay is in its infancy for white-collar workers in UK organisations. However, as this report has suggested, a number of factors point to a potential wider introduction of such approaches in the future. Central among these are concerns with quality and productivity, and new forms of work organisation that are placing an emphasis on team working.

Nevertheless, team based pay approaches for white-collar employees are still rare. Organisations have tended to use individual appraisal based pay schemes to inculcate the 'notion'

of teams and team working in the absence of the organisational reality. This modification of individualised structures was the most common form we came across and points to the constraints imposed by existing pay determination institutions and processes on the development of new pay forms (and managerial style).

Indeed, the commitment to individualising the employment relationship and the belief in shaping work attitudes, behaviours and ultimately wider organisational culture, through individual assessment processes, may hinder the wider development of team pay in certain contexts. To what extent such factors will contribute to poorer economic performance in these organisations is still open to question.

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