Flexing your Remuneration:

Variable Pay at Work

Paul Suff
Peter Reilly

IES Research Networks

Published by:

INSTITUTE FOR EMPLOYMENT STUDIES
Mantell Building
Falmer
Brighton BN1 9RF
UK

Tel. + 44 (0) 1273 686751
Fax + 44 (0) 1273 690430

http://www.employment-studies.co.uk

The Institute for Employment Studies is an independent, apolitical, international centre of research and consultancy in human resource issues. It works closely with employers in the manufacturing, service and public sectors, government departments, agencies, and professional and employee bodies. For 35 years the Institute has been a focus of knowledge and practical experience in employment and training policy, the operation of labour markets and human resource planning and development. IES is a not-for-profit organisation which has over 60 multidisciplinary staff and international associates. IES expertise is available to all organisations through research, consultancy, publications and the Internet.

IES aims to help bring about sustainable improvements in employment policy and human resource management. IES achieves this by increasing the understanding and improving the practice of key decision makers in policy bodies and employing organisations.

Contents

1. Introduction

Variable pay, sometimes referred to as 'pay at risk', is the portion of the remuneration package that has to be earned on each occasion, usually by meeting and exceeding individual, team or organisational performance criteria. As Schuster and Zingheim, (1992) put it: 'variable pay is any form of direct pay not folded into base pay that varies according to performance'. Bonuses, performance-related pay, profit sharing and team rewards all come under the variable pay banner. While the rewards from variable pay schemes can be substantial, employees are forced to shoulder more of the business risks — rewarding the 'upside' and penalising the 'downside' of performance. The relatively large potential rewards make variable pay schemes appealing to some employees, particularly in periods of low inflation when basic pay increases are comparatively small. Companies are particularly attracted to variable pay for senior executives because of both the potential incentive effect and need to be seen to reward only success. Executive remuneration has become a distinct form of reward and will not be discussed here. With respect to the rest of the workforce, employers increasingly see the benefit of variable pay in linking reward to performance and in promoting a common interest between staff and management. It is also attractive to employers because payouts — such as bonuses and profit-sharing payments – tend to be non-consolidated so they do not increase fixed labour costs.

Forms of variable pay have become a significant feature of remuneration practice in the UK over the past 20 years, but they are not a new idea. A 1928 study, for example, estimated that 64 per cent of US firms had introduced bonus and profit-sharing schemes (Balkom and Brossy, 1997). Incentive payments, such as piecework and productivity agreements were widespread in UK manufacturing industry for many years. The rationale for such rewards is the belief that people are motivated to work harder or in a different way in return for financial gain. By linking the reward to the achievement of a specific goal, such as improved productivity, employees' discretionary effort is channelled in that direction. Employees' support for such arrangements will last as long as a positive relationship exists between the expected outcome (the reward) and the performance (effort expended).

2. What is Variable Pay?

2.1 Definitions

> *'Variable pay is defined strictly as pay which does not become a permanent part of base pay.' (Armstrong, 1999)*

Variable pay systems, such as profit sharing, bind overall earnings to variations in corporate performance while incentives like bonuses link rewards to improvements in one or a combination of individual, team, unit or company performance. Under such schemes, employees shoulder an equal share of the risk with the employer; if the target is not achieved there is no payment. Variable pay is often a key component of the total reward package.

> At the Nationwide Building Society, for example, the remuneration mix consists of fixed and variable pay, and benefits. IRS (2004b) reported that the fixed element, which is made up of base pay and salary progression, accounts for 66.8 per cent of the overall spend, while benefits, such as allowances, healthcare and pensions, and variable pay, including bonuses and recognition pay, consume 22 per cent and 11.2 per cent respectively.

2.2 The different forms of variable pay

Variable pay systems are commonly divided into the following three main categories:

1. **Payment-by-results schemes**: such as productivity bonus and sales incentives, where a proportion of the employee's pay is linked directly to the level of output or business outcome.
2. **Performance schemes**: including individual performance-related rewards and team-based pay, where employees are encouraged to meet specific standards or objectives that are not necessarily linked directly to output but help the organisation achieve its overall business goals.
3. **Financial participation schemes:** such as profit sharing paid in cash or shares via some form of equity-based arrangement, where employees are entitled to a share of the organisation's performance or profits.

There is a further differentiation between the various forms of variable pay: employees can, in the main, directly influence the achievement of goals attached to schemes in the first two of these categories, but there tends to be only an indirect link between employees' day-to-day activities and the triggers for awards and payouts from schemes in the third category. Although Lawler (1990) suggests that a clear 'line-of-sight' should exist between what individuals and teams do and what they will get for doing it, the activities of employees have little direct influence on the achievement of corporate profitability for a profit-sharing award, for example. Another distinction is between bonuses paid after performance, which is a reward, and those offered in advance as an incentive. The latter is more popular and more effective, as such arrangements tend to have clear measures and be based on a fixed formula.

The three categories are not clear-cut. As variable pay schemes have become more sophisticated, they also tend to overlap, from one category into another. Fewer bonus schemes now focus exclusively on output, for instance; most cover a range of factors (multi-factor schemes). Although bonus payouts might be triggered by an increase in output, for example, there are likely to be quality and safety objectives attached to prevent greater production coming at the cost of poorer quality products and declining worker safety.

2.2.1 Payment by results

The classic payment-by-results (PBR) scheme is the traditional productivity incentive used in manufacturing industry to raise shopfloor output. Such schemes aim to motivate employees to exert more effort. According to Armstrong (1999), a PBR scheme must meet the following criteria for it to be effective:

- A clear and direct link between effort and reward
- The value of the reward is appropriate for the effort exerted
- Individuals are able to control their level of effort in order to earn the reward
- Rewards closely follow the effort
- Individuals are unable to manipulate the scheme to earn excessive rewards.

Although most PBR schemes are in decline, and have been for many years, some endure. The main ones are: piecework, measured day work and work-measured schemes.

- Piecework — a system where the level of pay is directly proportional to the level of output. As long as the rate is fair, piecework is relatively easy for employers to operate and for employees to understand. A fair rate is hard to achieve though: a rate set too 'low' or 'tight' will force workers to exert too much effort and they will eventually become dissatisfied and less productive; a rate set too 'high' or 'loose' will push up earnings and make the scheme too costly. Piecework is most appropriate in operations that are repetitive and require a largely unskilled workforce.

- Measured day work — a system that guarantees a certain amount of pay as long as a specified level of performance is maintained. The system has an in-built incentive element so that employees are under an obligation to keep output at the required level. Measured day work systems have been largely replaced by high day-rate systems, with additional multi-factor team or factory-wide bonuses.
- Work-measured schemes — a system based on work measurement techniques of time management to determine standard output levels in a specified period or standard times to complete tasks.

A different form of PBR is seen in sales incentive schemes. These can take the form of bonuses (the most popular according to IDS, 2000), commission and non-cash incentives (like extra holidays). An average payout of 20 per cent of base pay has been reported (Thompson and Milsome, 2001). The remuneration of Sales staff typically has a low base pay and a higher variable element. Rates are very market sensitive and tailored to meet specific company needs.

2.2.2 Performance schemes

The majority of bonus schemes fall within this category as even the most basic are no longer tied exclusively to measures of output. For example, those that focused on sales growth alone may have broadened out targets to reduce the mis-selling risk. Team or company-wide schemes, such as multi-factor bonus systems, which generally combine both output and input factors and rely on a set formula to calculate awards are increasingly common examples of performance-based variable pay arrangements. Single-factor schemes, which focus on a specific objective, such as attendance, are also relatively popular.

Asda: All colleague bonus scheme

Introduced in 2000, Asda's all colleague bonus scheme is a single-factor, profit-related bonus plan that operates at a local level. The size of the bonus is determined by store or depot performance against its annual business plan and set profit target. The store's performance must meet a minimum level to trigger a bonus payout. If a store hits its business plan profit target, 90 per cent of the bonus is payable. If it exceeds its plan, the maximum that is payable is 120 per cent. The bonus period runs from January to December, with payment the following February. In 2004, the average payout was £226.73 but staff in the 156 best performing stores received 'superbonus' payments worth £300.

Although most performance schemes focus on improvements that are substantially within the control of employees involved, such as product quality and customer service, some combine such measures with broader organisational objectives, such as profitability, over which staff can exercise very little direct influence. Ideally, profit-related schemes should fall within the scope of the financial participation category, but the distinction is blurred by incentive schemes that are linked to broad business targets, such as profitability, but with payouts determined by individual performance ratings often based on an assessment of what a person achieves and how they achieve it. Some organisations attempt to retain the 'line-of-sight' link in bonus schemes that contain broad financial factors by including a business unit profit target or sales growth.

In financial service companies (like the Royal Bank of Scotland) individual rewards largely determined by hitting business targets may be affected by performance on people management measures. The employee management dimension may reflect the results of upward appraisal or the scores from an attitude survey.

The three main performance-based arrangements are:

- Gainsharing — a multi-factor system based on a specific formula that allows employees to share in any financial gains and efficiency savings made as a result of improved performance. The formula determines how the gains are to be distributed between the company and its workforce. A common performance formula is the difference between selling price and employee costs. This enables the return to the company to be calculated directly.
- Multi-factor schemes — a system based on two or more factors of performance. Multi-factor schemes can operate at a local level, covering specific jobs, teams or departments with targets over which employees can exert some influence, or are company-wide or multi-level arrangements linked to wider business goals. Some firms use the same multi-factor schemes for different employee groups, but tailor the targets to suit specific jobs, functions or units. Multi-factor schemes can also be applied to individual performance (single level), so that the bonus award for each employee is based on their performance against a basket of factors. Another way several factors are used is by using one or two as threshold targets, *ie* these have to be passed before the incentivised targets can be accessed. For example, quality or customer satisfaction levels must be met before performance against output targets can be judged for a bonus.

Companies House: performance bonus scheme

Companies House revised its existing bonus arrangements in 2003. It retained a special review scheme, which rewarded exceptional individual performance and introduced a new performance bonus linked to 49 targets in three areas — customer service, and organisational and departmental performance – plus a productivity element. The new plan pays out annually on two different levels. A specified number of points can be earned for each target, and the total earned determines one payment. A second payment is made if all productivity savings are realised, which can double the amount payable. Individual payments are based on annual earnings. In 2003-04, the bonus payments were between seven per cent and 13 per cent of base salary.

B&Q: Store-team bonus

The store-team bonus was introduced in February 2003, replacing a profit-sharing scheme. Under the new scheme, employees receive a fixed payment of three per cent of salary every six months if company profit targets are met. There is also the potential to earn a further 6.75 per cent linked to store and company performance, plus a lump sum of £250 if customer satisfaction levels improve. Each quarter Gallup interviews 3,000 randomly selected customers and a customer service index (CSI) is compiled for each store. A store league, consisting of five divisions, ranks each one, with the top 20 per cent of outlets in the premier league. Rankings are re-calculated each month according to sales and stock-loss performance. If company profitability is 105 per cent of target, staff in the top performing stores (premier league) will receive the full 6.75 per cent in addition to the guaranteed six per cent annual profit-sharing payment, while staff in a division four outlet will get 2.25 per cent plus the yearly profit-related payment. The maximum variable bonus, including the CSI payment, is around 15 per cent. Under the old profit-sharing scheme, it was 12 per cent.

- Team-based schemes — a system based on the achievement of team targets, and used primarily to reinforce a culture of teamworking and co-operation. Collective targets ensure the link between employees' performance and the bonus is clearly visible. Some employers favour team-based rewards because they believe peer pressure will ensure maximum effort from every group member.

2.2.3 Financial participation

The introduction in 1987 of tax incentives increased the popularity of profit-related pay (PRP) schemes. There were more than 14,500 Inland Revenue approved PRP schemes in 1997. Although the tax relief ended in 2000, profit sharing remains a popular way of motivating employees to increase their involvement in, and encourage closer identification with, the business and its performance. Such arrangements are also seen as a way of retaining staff.

The other main financial participation mechanism is the allocation of shares. Equity schemes also have tax advantages. Some profit-sharing schemes allow staff to choose between a cash award (or immediately selling their equity allocation to release cash) and putting the equity allocation in trust. The latter option means individuals will get the maximum tax benefits and there is also the potential that their allocation might increase in value.

- Profit-sharing — a scheme under which a cash or equity award based on organisational profitability is made to employees.
- Share incentive plan (SIP) — Inland Revenue approved scheme that allows companies to allocate up to £3,000 worth of shares a year to each employee. Employees can also buy up to £1,500 worth of shares a year. Companies can reward employees' financial commitment by giving up to two matching shares for one an employee buys. (SIP is also known as 'all employee share ownership plan' or 'employee share plan').
- Company share option plan (CSOP) — Inland Revenue approved scheme that allows companies to grant up to £30,000 worth of share options each to any number of employees.

2.3 Design choices

There are number of different ways of setting up a variable pay scheme. The key choices are described below:

- **Coverage** — is to be an inclusive scheme covering all employees or exclusively designed for certain groups?
- **Focus** — is it to be a scheme based on the performance of individuals (*eg* through individual performance related pay or PBR) or teams?

Barclays Group: Performance incentive plan (PIP)

Also introduced in 2000, the PIP covers all employees except the executive committee and staff in the company's investment banking division. A bonus pool is generated each year if the bank meets or exceeds its annual targets for economic profit (EP) — the bank's total capital assets multiplied by the net return on investment, minus the costs of capital. The bonus pool for most employees is made up of 25 per cent performance against EP and 75 per cent for the performance of their own business unit. EP targets are described as stretching, and staff are expected to do more to earn their bonus each year. Individual payments are determined by employee performance ratings against the achievement of personal objectives, and can range from zero to 50 per cent of salary. Typical payments for junior staff are between seven per cent and 15 per cent, and for senior staff they are between 20 per cent and 35 per cent.

- **Uniformity of design** - are there different schemes for different business units or functions or a single mechanism for all employees involved?
- **Type of reward** – is it to be an incentive or recognition scheme, *ie* are you trying to encourage performance change through the use of a financial carrot or offer a post hoc recognition of staff contribution?
- **Type of performance measures** – is it to be a focused scheme based on single performance factor or based on a number of factors?
  Are they a mix of individual and team-based measures, a mix of short- and long-term performance targets?
- **Form of review** – is the scheme to be based on some form of managerial assessment of performance (*eg* through an appraisal) or automatic in the sense that performance against targets is obvious (*eg* productivity or sales)?
- **Type of measures** - are these to be soft (*eg* behavioural) or hard (*eg* output-based)? The former will need managerial assessment.
  Are the measures against an absolute standard or relative, *eg*:
  - Comparing one team against another (eg shift or operational teams) doing the same job but at different times or in different places but in the same business unit?
  - Comparing one team against other teams in other business units in a multi-company group?
  - Comparing one team against an external benchmark, *eg* a national standard of performance?

3. Why Introduce Variable Pay?

3.1 Overview

In their 1992 book, Schuster and Zingheim give pride of place to variable pay. It is the 'centrepiece' of the new approach to reward. This is because it 'facilitates employee-organisation partnership by linking the fortunes of both parties'. Their emphasis is on the linkage between reward and business strategy, a key element in 'new reward' thinking (Reilly, 2003). Variable pay achieves this by reflecting a common purpose for the organisation. However, as recent UK research has shown, organisations have other objectives to be met through this form of remuneration.

A survey of 365 organisations by the Work Foundation (2003) found the following five common reasons and aims for introducing a bonus plan:

IDS (2003) found that performance criteria for bonus schemes covers a wide range of factors, including:

- productivity and output
- quality
- safety
- financial performance/profits
- cost management
- sales

Table 3.1: Why did your organisation introduce its bonus scheme(s)?

Objective	%
Improve business performance	67
Create a direct link between employee and corporate performance	60
To recognise and reward achievement	58
To help motivate staff	56
To focus employees on specific objectives	50

- customer service/satisfaction
- attendance
- HR-related measures (*eg*. training and development or employee morale)
- project work targets
- teamworking
- individual performance.

Some of these factors reflect the higher level goals listed earlier, but some are more specific aims of a cultural or people management kind.

> An example of variable-pay targets relating to people management measures is to be found at Great Eastern Hotel. There, managers have employee development targets to meet. At DeVere Belton Woods Hotel the team managers' bonus is linked to results of the employee opinion survey, as well as completion of the induction and departmental training programme within the allotted time (IDS, 2003).
>
> RBS managers also have a proportion of their bonus related to a measure of employee engagement.

3.1.1 Cost control and flexibility

The increasingly competitive business environment has made it essential that organisations control their costs. One of the biggest costs to an organisation is its expenditure on labour, so controlling the size of the annual pay budget is an important goal of many reward strategies. General, across-the-board uplifts in base pay increase fixed labour costs year-on-year without changes in employment levels. Awards made under variable pay systems do not increase fixed labour costs, as they tend to be non-consolidated payments.

Variable, non-consolidated awards are especially important in an era of low inflation because fairly large rises in total pay can be accommodated without incurring substantial additional fixed costs. Performance-linked bonuses, for example, can significantly boost earnings and therefore help maintain motivation and commitment during a period of relatively low inflation, when it is difficult to differentiate between individual levels of performance in base pay terms.

> The balance between base-pay increases and variable pay awards is illustrated by recent awards at First Direct, the telephone banking subsidiary of HSBC. IRS (2004a) reports that staff received a three per cent basic increase in pay from April 2004, but that bonus payments, which are based on a combination of personal and corporate performance, were worth up to 16 per cent of salary.

And because variable pay is non-consolidated, it also has cost-containment advantages over some other performance-linked rewards. There is evidence that the motivational impact of individual performance-related pay declines over time and, because most merit pay awards are consolidated into basic salaries, pay levels do not decline in conjunction with performance. This means that merit pay arrangements can ratchet-up fixed costs without performance benefits. Non-consolidated performance-linked payments, such as bonuses paid as a percentage of base salary, are often attached to merit pay schemes. The rationale for this is that, not only are fixed costs controlled, but also individual performance improvement can be improved. In addition, employees can be incentivised to enhance their performance with a potentially large one-off payment.

Variable pay systems are also more closely related to employers' ability to pay, allowing the pay bill to adjust more quickly to changing economic circumstances. As Abosch (1998) points out:

> *'Variable pay allows the organisation to shift increased compensation from the fixed-cost to the variable-cost category, paying out only when the money is there to allow a layout.' (Abosch, 1998)*

Variable pay therefore provides the necessary flexibility in the overall remuneration mix, allowing payouts to be scaled up or down depending on business circumstances as well as reward different levels of contribution and performance.

One manufacturing company uses a form of PBR in its warehouse area. For employees this represents 40 per cent of pay – a significant proportion. From the employer's view, the benefit is that costs are held down and more closely related to activity. When output is down, so is the pay bill.

Flexibility can also relate to changing labour market conditions: organisations can more easily increase or decrease the variable element of remuneration, compared with base pay. If there is a lot of competition for labour additional potential earnings can be made available. If the labour market is slack, variable pay can be reduced.

3.1.2 Business strategy

> *'The only significant purpose of a reward strategy is to facilitate the attainment of organisational objectives and to support organisational strategy.' (Greene, 1995)*

Rewards play a significant role in helping organisations achieve their goals because they can focus employee attention on what matters and can help to change behaviour. Incentives, such as bonuses, focus attention on what needs to be done to receive an additional payment.

Getting employees to focus on what is vital in terms of business success can be achieved through variable pay schemes. For example, profitable sales are key rather than simply sales volume (Corkerton and Bevan, 1998).

Such arrangements usually have a short-term time frame and tend to be based on specific 'line-of-sight' financial and operational measures, with frequent payouts ranging from one month to one year.

The store-team bonus scheme operated by DIY retailer B&Q is based on levels of customer service and shrinkage (stock wastage and theft) and provides a clear 'line of sight' between what staff do, how they behave on a day-to-day basis and a store's financial performance. As reward manager Will Astill explains:

'[Staff] can increase profits by cutting costs, such as shrinkage, as well as increasing sales. And [staff] might be able to encourage a customer to buy something, but if they don't have a good experience they won't come back.' (Work Foundation, 2003)

Longer-term incentives — which typically involve the allocation of shares that can either be cashed in or, to enjoy the full tax benefits, be placed in trust for at least three years — tend to be linked to broader organisational aims, such as improving employee commitment and loyalty or, in executive schemes, to long-term business performance.

Tesco's 'shares in success' scheme awards staff with at least one year's service with free shares most years. They can choose to either keep their allocation and place it in trust to mature for three years or cash it in. In 2003, 75,000 Tesco employees shared £38 million worth of shares. The value of the shares, which were worth 184 pence when allocated, increased by 31 per cent over the three-year period. According reward manager Richard Sullivan, Tesco's share schemes help to retain and motivate staff:

'The key rationale for our share schemes is to offer all employees a real share in the business and to increase their commitment as stakeholders in the company.' (IRS, 2001)

3.2 Cultural change

Some organisations use variable pay to effect cultural change. Research suggests that generating a more performance-orientated culture was a key feature of the interest in early individual performance-related pay schemes (Kessler, 2000). Public sector organisations are currently trying to use variable pay in this way: to move from a culture of simply turning up to work to engaging in its success.

Getting a better understanding of business may be a help in this regard. So, schemes that describe the nature of effective performance and emphasise the link to business success may be chosen precisely with this educational point in mind. The examples given earlier of a shift from individual to team focus, from revenue to profit, show how variable pay schemes can we used to re-orientate people to new business goals or, as likely, to responding to existing goals in the proper manner.

3.3 Recruitment and retention

Offering variable pay as part of a remuneration package to attract staff may be done for offensive or defensive reasons. Taking the latter, if bonuses or profit sharing is the norm for that sector, occupation or salary level, then employers are bound to offer the same so that they will not be at a disadvantage. Clearly, if it is not usual in these circumstances, an organisation offering something more may gain competitive advantage. The benefit from the employer's view is that this extra element may, if properly designed, be funded from extra income. In some circumstances, affordability might drive the proportion of variable pay in the package and its nature. Many dot com companies could not afford high wages and so offered shares linked to business performance instead.

If the reasoning behind the variable pay scheme is to emphasise inclusivity – we are all part of a common organisation – then the possibility of extra cash or shares may also have a symbolic value. It may form part of the employer's brand, a signal to the market of what the organisation stands for. The Tesco example, given above, and the Royal Mail illustration (below) might be seen in this light.

Royal Mail's corporate bonus scheme

The Royal Mail's 'share in success' scheme is, at the time of writing, set to deliver a bonus of between £800 and £1,000 if the company's profit exceeds £400 million in the financial year to end March 2005.

A company spokesperson described the scheme as being 'part of making Royal Mail a great place to work and recognising the hard work everyone is doing to turn round the company' (reported in the Guardian, 8 November, 2004).

Critics have complained that though revenue targets may be met, service quality targets have been missed.

With respect to retention, variable pay can put more money into the hands of the best performers, something that is increasingly important as organisations compete for the most talented individuals. Highly differentiated performance-related pay schemes can do so by giving bigger bonuses to the top performers and smaller (or no extra money) to the average or merely 'good' performers. Companies can find a twin benefit in such an approach: the best get more money and a signal that their contribution is recognised and valued. Channelling the highest payments towards the best performers in this way helps to retain the most effective people.

3.4 The broad thrust of benefits

We have already highlighted the main practical organisational benefits for implementing variable pay schemes: cost control and flexibility, and the increasing need to integrate rewards more coherently with business strategy and for recruitment / retention and cultural-change reasons. In a broad sense, there is a distinction in the objectives behind variable pay schemes. According to Hyman and Mason (1995), employers may have idealistic (promoting equality) and instrumental (improving employee performance) reasons for introducing financial participation schemes. The John Lewis Partnership, where all equity is held in trust for the benefit of permanent staff, provides an example of the first approach. Variable pay schemes, such as bonuses, that pay out relatively quickly following the achievement of targets, tend to focus employees' efforts on specific instrumental benefits, such as improving attendance, customer service, quality and safety.

The gainsharing scheme operating at BP Grangemouth, for example, is designed to encourage key measures within the employees' performance contract and to reward them for achievement of those objectives (IDS, 2003).

Nisar (2003) says the key business objectives relating to the introduction of bonus arrangements are, in fact, made up of a mix of instrumental and idealistic reasons and include measures to:

- support stakeholder ideals by allowing employees to share in the success of the business.
- encourage change within the organisation.
- create the desired workplace culture by, for example, rewarding teamwork and good attendance.
- influence the wider market by creating a good reputation among prospective employees and customers.

Leadbetter (1997) has outlined six main organisational benefits from profit-sharing schemes:

1. Co-operation — financial participation creates a common interest between workers, employers and shareholders, which reduces conflict and 'us and them' attitudes.
2. Productivity — giving employees a stake in the business helps to raise productivity, improve quality and promote a culture of continuous improvement.

3. Patience — employees are more knowledgeable about the company and tend to be more patient than external shareholders, so there is less short-termism.
4. Loyalty — employees are more committed and there is less labour turnover and absenteeism.
5. Flexibility — employees understand the need for rewards that match the ups and downs of company performance.
6. Risk taking — employees understand the nature of the risks taken by owners of capital and how markets work.

Some of these benefits could be construed as driven by idealistic motives, but all could be said to have an instrumental element to them. Inducing loyalty may be a good thing in itself, and it can also lead to organisational benefits in terms of greater employee engagement. It could be argued that schemes only driven by an idealistic approach are not really forms of variable pay. Certainly, this is true if free shares are issued without any performance criteria.

3.5 Choosing type of scheme

The choice of variable pay system will depend on the main aim of its introduction. Driving up individual rather than team performance will lead to individual performance-related pay rather than team-based pay, or vice versa. One high street retailer, for example, switched between mechanisms as the business demands altered.

Continuous improvement in the quality of the products and services might need a different model than one where a short term hit is required to shift performance. For example, one organisation wanted to use team-based pay to tackle a backlog of orders that were not getting sufficient attention. By contrast, a profit-sharing scheme might be more suitable if the objective is to stimulate employee interest in company business performance and develop a greater sense of loyalty. Developing an increased sense of corporacy might lead to a similar scheme re-design. One company altered its variable pay arrangements to emphasise business unit interdependence instead of independence.

As we have remarked earlier, a long-term focus can be obtained in a share scheme where the shares are put in trust. Allowing immediate disposal of shares will only encourage ways of boosting the share price in the short term.

4. Evidence of success

4.1 Recognition schemes

The best researched variable pay schemes are those with some form of profit sharing involved. For a full review of the evidence refer to IES' report, 'A Share of the Spoils' (Reilly *et al.*, 2001).

In truth, the evidence for the success of profit-sharing schemes is mixed. Some research shows that companies with share schemes outperform those without on their share price or, even more broadly, profit-sharing companies do better than the non-profit sharers on a wide range of business performance measures (including measures of profit, growth and investor returns).

There are, however, dissenting voices who have found no positive link between employee financial participation and profits, or only a limited and confused link. For example, Bryson and Millward reported in 1997 that share ownership had no significant effect on company performance. Poole and Whitfield (1994), looking at several measures of economic performance, found that there is no discernible relation between any financial participation schemes and gross return on capital.

Moreover, some schemes seem to have failed to engage staff, whilst other research claims a positive reaction from companies. Poole and Jenkins (1990) found that only 15 per cent and 17 per cent of employees respectively agreed with the following statements: 'profit-share schemes have successfully increased employees' sense of commitment to the company' and 'profit-share schemes have successfully made employees feel part of the company'. By contrast, Sloan and Jackson (1996) reported that 57 per cent of companies said their profit-sharing schemes matched expectations, while 60 per cent claimed the same for their profit-related pay arrangements.

One has to be careful with such evidence since there is a difference between employee and employer perceptions of success. Self reporting of results by organisations may give the impression of better performance than is really true.

In this debate over the effectiveness of recognition schemes the middle position is that the better performing companies are likely to be those who think more about how to reward employee contribution and link it to business outcomes, which in turn further builds financial success. Viewed from this position, inclusive forms of variable pay may be part of the 'bundle' of people management policies and practices that leads to employee engagement and improved performance. So schemes that recognise employees' contribution when combined with such things as employee involvement in work decisions, appropriate task discretion and the encouragement to train and develop skills are likely to be most effective. See Tamkin *et al.* (2004) for a review of this research.

4.2 Incentive schemes

The evidence that bonuses produce the desired benefits is slightly stronger. The Work Foundation (2003) survey found that more than three quarters (76 per cent) of respondents rated their bonus scheme as either 'very' or 'quite' effective in meeting organisational goals. IDS (2003) reported on bonus schemes in 30 organisations. Most employers were positive about the impact of their bonus arrangements. For example, Marks & Spencer, which operates a store-based arrangement that focuses on sales growth as well as motivating and retaining staff, told IDS that employee feedback on the scheme revealed increased motivation and team spirit. TRW Systems, which uses a gainsharing scheme at its Peterlee site, also says employee motivation and morale have improved, and levels of non-attendance have declined. Note though that these are organisations reporting their own success and companies tend to be effusive about their own schemes. Presumably only those schemes that do work are retained. It does not tell us what type of schemes fail or about the conditions for success.

More helpful is research by Weitzman and Kruse (1990) that suggests that such arrangements are only successful where the culture supports the achievement of its performance targets. Specifically, they found that bonus schemes are more likely to boost productivity where there is also a culture of employee participation and where the payout represents a sizeable share of employees' remuneration.

5. Prevalence of the Variable Pay Schemes

Variable pay has changed significantly from traditional arrangements like piecework, but continues to be a major feature of many reward strategies — yet in a different form. The latest reward management survey from the Chartered Institute of Personnel and Development (CIPD 2004) reveals that almost half (49 per cent) of the 560 employers polled award annual cash bonuses, while four-in-ten offer share schemes. The popularity of variable rewards, for both senior staff and other employees, is linked to a combination of factors, particularly the need to control fixed pay costs and increase pay flexibility, and to integrate rewards more coherently with business strategy.

Over the years, traditional manual PBR schemes have declined amongst manual workers as pure production targets have fallen in the face of the emphasis on timeliness, quality and flexibility. By contrast, the number of white collar PBR schemes have grown, perhaps driven by the expansion of call centres (Thompson and Milsome, 2001).

Although various studies reveal that some forms of variable pay are more popular than others, there is ample evidence that the concept of putting some employee remuneration at risk is one that is gaining support. A study by Towers Perrin (1997) forecast increases in variable pay for all employee groups over the following three years, so that by 2000 it would have made up 26 per cent of senior executives' remuneration; 17 per cent of managers' and professionals'; seven per cent of clerical employees'; and eight per cent of manual employees'. Now Towers Perrin (2004) claim:

> *'Employers around the world have stepped up their use of variable pay in the last two years.'*

Surveys of this kind tend to exaggerate future take-up — it is in their interests to do so. Nevertheless, there is a range of evidence to suggest that companies are increasingly interested in variable pay. As we showed earlier, there is good reason to believe that this interest will be sustained: the business benefits are substantial.

The Work Foundation (2003) found that 77 per cent of the 365 organisations it polled operated a bonus scheme for all or some of their employees. The latest IRS (2004c) annual survey of pay trends shows how some variable pay schemes are gaining in popularity, while others are becoming less common. Of the 297 organisations participating in the IRS survey, 57.9 per cent have a cash bonus scheme in place — the second most popular reward strategy after merit pay; nearly a third (31.6 per cent) use employee share schemes; almost a quarter (24.2 per cent) use incentives payments, such as sales commission; and a similar proportion (23.6 per cent) operate a profit-sharing scheme. Gainsharing, however, is rare with only two per cent of surveyed organisations currently using it.

The most recent CIPD reward management survey revealed how widespread variable pay is by occupational group (CIPD 2004). It found that in 42 per cent of organisations, at least four-fifths of senior managers receive a variable pay element. Across other occupational groups, this is the case in 34 per cent of organisations for middle and first line managers; 24 per cent for clerical staff; and 15 per cent for manual employees. Public sector participants distort these overall figures, however. Variable pay tends to be used more in the private than the public sector. Stripping the public sector respondents out of the CIPD figures, reveals that 70 per cent of private firms offer variable pay to senior managers and 40 per cent in manufacturing industry do so for manual workers.

6. Problems and Potential Pitfalls

6.1 Motivational theory

Variable pay schemes, such as bonuses, are based on the notion that people will work harder for more money. Yet, long ago McGregor (1960) pointed out that:

> *'The practical logic of incentives is that people want money, and they will work harder to get more of it. Incentive plans do not, however, take account of several other well-demonstrated characteristics of behaviour in the organisational setting: 1. that most people want the approval of their fellow workers and if necessary they will forego increased pay to obtain approval; 2. that no managerial assurances can persuade workers that incentive rates will remain inviolate regardless of how much they produce; 3. that the ingenuity of the average worker is sufficient to outwit any system of control devised by management.'*

McGregor was referring specifically to payment-by-results schemes, but much of his criticism is valid for contemporary variable pay arrangements, especially the argument that intrinsic rewards, such as peer approval, can be more powerful and longer-lasting motivators. Modern variable pay schemes also suffer other problems and potential pitfalls. To a greater or lesser extent, the general condemnation of reward programmes by Kohn (1995) applies to variable pay schemes:

- Rewards punish — Kohn claims that punishment and reward are 'two sides of the same coin'. Rewards are ways of controlling employees because they are contingent on a certain behaviour and are thus likely to be viewed as punitive in the long term. Moreover, people very often do not get the rewards that they were expecting, so they feel punished.
- Rewards rupture relationships — effective teamwork is undermined by rewards that create competition and, therefore, destroy co-operation. Relationships between superiors and subordinates also suffer because employees are likely to hide problems and/or 'curry favour' with the 'incentive dispenser'.
- Rewards discourage risk-taking — creativity suffers because people tend to play safe to make sure of receiving the reward.

'Do this and you'll get that makes people focus on the *that* not the *this*.'

- Rewards ignore reasons — rewards distract employees and organisations from discovering the root causes of problems. Kohn quotes the quality guru Deming and his criticism of performance-pay systems to suggest that no business can regard itself as a 'quality organisation' if it relies on incentives.
- Rewards undermine interest — artificial incentives tend to impair intrinsic motivation. This is because employees will think about what they earn, rather than the job itself.

6.2 Effort bargain

The tenuous link between individual or team performance and profitability is a major disadvantage of variable pay schemes that are linked to such measures. Profit sharing, for instance, is too remote from the actual performance of most employees; or to apply Lawler's concept, the 'line-of-sight' is blurred. IRS (2003) quotes a respondent at healthcare manufacturer Wrafton Laboratories, who said that 'unless there is clarity about how an individual can make a difference to business performance and profit, the cost does not have a matching proportional benefit.' A related problem is that profit-based payments are usually made on an annual basis, so there is no immediate reward for good individual performance. Too large a gap between effort and reward can minimise the effectiveness of many variable pay schemes because of the reluctance to make payments on anything other than an annual basis – for reasons of cautious financial management.

The other major problem with profit-related and other schemes is that external factors outside the control of the workforce, and, occasionally, the organisation itself can adversely affect profits (or any other externally determined measures) irrespective of the work and effort expended by employees. Such schemes, especially when initial payouts are relatively high, raise expectations among staff that they will receive similar amounts if they continue to work as hard and as diligently. A reduction in, or the absence of, a profit share payout one year because of external circumstances or mistakes made by senior management, can seriously damage employee motivation and commitment.

One distribution company found that their incentive scheme fell into disrepute. Employees were not comfortable with the measures and did not trust the data gathering process, but the main problem was that the scheme no longer paid out.

The Work Foundation (2003) reported that the LG Philips Displays plant in Durham has been operating a gainsharing scheme since 1992. Maintaining employee interest in the plan has become harder because payouts have declined over the years due to product changes that mean staff find it more difficult to achieve output levels.

Share-based schemes are also at risk of events outside the control of employees, which may limit their potential to alter staff behaviour and attitudes. Suff (2003) reported on the impact of collapsing share prices in many technology and telecommunications companies and how the 'profits' on the share options given to Marconi employees in the late-1990s were rendered worthless.

Badly designed bonus schemes may also not meet employees' expectations through no fault of their own or lack of effort. Lack of work, a shortage of materials, bad weather or a breakdown in machinery/technology, for example, can scupper employees' achieving a specific target. An evaluation of the trial of a multi-factor, team bonus scheme at HM Customs and Excise revealed a fall in staff morale in teams believing external influences were preventing them meeting their incentive targets (IDS 2003). The same concerns were expressed in the NHS trial of team-based pay (Reilly, *et al.*, 2004).

Another complaint is that the reward is insufficient for the money involved. This is a calculation employees will make both in terms of the strict effort-outcome bargain, but also in terms of the absolute level of reward. If the sum of money is substantial in the employee's own terms then it will more motivational than if a) it appears small, relative to their base pay income or b) the money can more easily be earned in another way (*eg* through overtime).

6.2.1 Fairness

Issues regarding the fairness of variable pay schemes overlap with the effort bargain and the reward on offer. Schemes will be judged unfair if:

- They are open only to a small proportion of employees, such as senior staff
- Rewards are greater for some (often more senior) staff than others
- Targets are skewed towards particular groups
- They do not reflect real performance or they do not reflect differences in performance.

Complaints about scheme inequity may derive from a lack of scheme transparency. The decision-making process may be opaque or it may be that the performance metrics are open to challenge. This is particularly problematic in process-based schemes: where does one bit of the process end and another start? Similarly, where costs and income are internally transferred, on what basis does this happen? It can be a matter of politics, financial management or administrative convenience how this is judged but it may impact on the success of scheme participants.

Poor quality or contested data can destroy the credibility of variable pay arrangements.

Felt unfairness may be reported in schemes that are inclusive but are really designed for a particular group of staff. For example, in a retail environment, performance bonuses may be introduced for shop floor sales assistants, but for reasons of equity are extended to back office staff. Rather than feeling positive because of their inclusion, these employees may feel disgruntled because they have no real involvement in the targets.

Fairness is also a problem in other team-based schemes. Team rewards tend to ignore individual effort and contribution, relying on peer pressure to ensure consistent performance across the group. However, the lack of an acknowledgement of individual performance may demotivate those who thrive on receiving recognition for their own contribution. Research by Roffey Park (Holbeche, 1998), found that given the option employees preferred bonus arrangements that recognised individual achievement over team performance. It is likely, though, that employee preferences will depend upon their work activity and how it is undertaken.

By the same token, too much emphasis on individual contribution may undermine teamwork. Where bonuses payments and profit share allocations are unequal and determined by an assessment of individual performance there is the potential for some to view the process as unfair. Nisar (2003) notes that in the banking industry:

> *'…interbranch differentials in bonus payments tend to create numerous disparities and hence motivational problems.'*

More detail on issues concerning team-based pay can be found in the IES report 'New Reward I' (Reilly, 2004).

6.2.2 Perverse results

Performance targets that are linked reward will encourage employees to pursue the behaviour and actions that trigger the payout often at the expense of other, equally important, business objectives. Hope (2004) reported that a study by the Institute of Customer Service at Aston University Business School, which examined how 22 organisations rewarded and recognised the performance of their customer-facing staff. The majority used performance-related pay, including bonuses, to encourage staff to make as many transactions in a short a time as possible. This was sometimes regardless of customer satisfaction. For example, there was a three-minute customer time limit in one contact centre, which encouraged staff to terminate calls in mid-transaction.

An international company found that its reward system was driving the wrong behaviours in its HR shared services centre. Reward was based on customer metrics: the happier the customer, the bigger the pay out to the service centre staff. This had the effect of staff going overboard helping customers even in violation of their own procedures. For example, payroll adjustments were made manually after payroll deadlines. This meant that subsequent adjustments had to be made involving extra work and risking errors.

Attendance bonuses are popular in some parts of the economy as firms try to reduce persistently high levels of non-attendance. Improving attendance by offering incentives, as the Royal Mail does, for example, should, all things being equal, also improve productivity because more people are at work. But if employees continue to come to work when they are genuinely ill, there is unlikely to be any improvement in their productivity or performance. The term 'presenteeism' has been coined to describe health-related performance loss while working, and which is often the outcome when individuals who are ill still come to work. There is also the possibility that colleagues will become ill.

Unachievable performance targets or targets that move can also create problems as staff will disengage from the process. Failure to achieve targets resulting in low or no bonuses may cause the retention problems the scheme was designed to address. This is particularly true if a market competitor arrives with a pay system that is more reliant on base-pay remuneration. Why would employees stay if that can guarantee their income elsewhere compared with a higher risk in a company that relies more on variable pay?

6.2.3 Self-financing?

One of the main attractions of variable pay to employers is that costs are controlled because they assume that these schemes are largely self-financing. This is not always the case. Administering such arrangements is often time-consuming because of their complexity. Boots the Chemist admits that its 'mystery customer report' bonus scheme, which was introduced in 2002 and focuses on both individual and store performance, cannot only make some employees feel 'under the microscope', but is not necessarily self-financing because undertaking mystery shopper reports and analysing the data is costly.

Variable pay schemes may prove costly for other reasons too. Team-based schemes may hinder the organisational flexibility that can help improve cost-effectiveness. People in cohesive, high-performing and well-rewarded teams may be unwilling to move, and it could be difficult to reassign work between teams or to break up teams in response to developments. The converse may also occur, with employees wanting to transfer to teams receiving the higher rate bonus.

The converse may also happen if payouts are deliberately separated from performance against the task, when time comes to make the payment, the finances may be such that there is no money to disburse. This situation has happened in executive schemes where the gap between performance and reward may be longer than in general schemes.

In gainsharing and other team-based schemes, it may be hard to isolate the gains made from improved employee or group performance and those emanating from investment in new technology, for example. Under such circumstances, the scheme may be, as Armstrong (1999) points out:

> *'…no more than a method of handing out money without measurable return'.*

Brown and Armstrong (1999) describe such an example at food processing plant, which had operated a gainsharing scheme for 20 years:

> *'Payments had steadily increased over the years simply because the payment formula had never been adjusted to take account of the regular improvements in the speed and reliability of the machinery'.*

6.2.4 Litigation

Attendance schemes risk being challenged as discriminatory because they may unfairly deal with the disabled (Reilly *et al*, 2004). There have been cases where schemes have been legally challenged because attendance has formed the basis of deciding whether an individual should share in a team-based payout.

Individual performance-related pay bonuses should be monitored to check that rewards are not discriminatory by gender, ethnicity or disability. If such problems occur, this may be due to flaws in the design or to failures in implementation.

Care also needs to be taken if some groups get some rewards and others do not. Local government is wrestling with this problem with respect to male manual workers getting performance bonuses, not open to females doing equivalent work.

6.2.5 Limited lifespan

Most bonus schemes are initially very effective at focusing employee behaviour on what needs to be achieved to trigger the payout. Armstrong (1999) says that his experience of introducing incentive schemes is for productivity to rise substantially when a scheme is first introduced, but that the level of increase tends to taper off. BP Grangemouth, which — as was noted earlier — operates a gainsharing plan and has done for many years, admits that changes to behaviour were more apparent in earlier versions of the scheme (IDS, 2003). Initially, such arrangements provide employees with a new challenge as they search for ways of improving performance in the selected target areas in order to secure the bonus payment. Ideas for cost savings, for example, will be reasonably easy to identify in the initial stages and payouts are likely to be reasonable high. But, as improvements become harder to find, so the level of payments will fall. Employee expectations based on high initial payouts will not be met, leading to less support and less engagement with the gainsharing scheme.

6.2.6 Summary

Curiously one can conclude that schemes can work too well or not well enough. They work too well if they produce:

- larger payouts than expected for employees (at the cost to the organisation).
- too much attention to the targets causing a 'displacement' effect, *ie* other non-bonusable activities get neglected.
- perverse behaviours from the overall organisational perspective. This happens when the targets are too closely followed and employees react understandably in terms of the scheme's logic.

They do not work well enough where there is:

- a lack of staff engagement in the scheme (*eg* because the reward is insufficient).
- demotivation amongst participants, *eg*. if targets keep being missed.
- a challenge to the design, either because the whole concept is seen as flawed or, less seriously, the particular design is seen as ineffective.

7. Criteria for Success

Overcoming all or some of the problems and pitfalls commonly associated with one or all types of variable pay is not easy, but where such schemes are relatively simple and well designed and managed they can motivate employees to improve performance.

The following success criteria may be used to judge the effectiveness of the design, introduction and management of variable pay schemes:

- Clarity of purpose –- what is the scheme attempting to do?
- Alignment –- with the business model so that the scheme sends the right signals to employees about what is important.
- Leadership — senior management commitment to the scheme's principles and intentions.
- Integration –- with other remuneration and HR policies.
- Balance –- the scheme does not succeed at the expense of other important business practices.
- Segmentation — where appropriate, to meet the differing needs of different groups.
- Affordability — payouts are not jeopardised by lack of money.
- Manageability — capable of being delivered (after training) by the current set of managers.
- Involvement –- line managers and employees are party to the scheme's design.
- Suitability — simple, objective and achievable, but stretching, performance targets.
- Trackability – capable of being monitored regarding progress against targets.
- Revisability – subject to evaluation and periodic refreshment.

A scheme that really motivates employees will be one that generates a demand among them for information about individual, team and corporate performance. However, all variable pay schemes have a shelf life, and regular monitoring to ensure they are still achieving their goals is a prerequisite for continuing success.

8. Conclusion

Variable pay is increasingly being used by employers to shift some of the business risk to employees, so they receive a potentially large payment when times are good but only their base salary or a reduced additional payout when times are not so good. It provides firms with flexibility to alter rewards in line with business circumstances. Variable pay is particularly popular among employers because they can reward good performance without incurring additional fixed labour costs. And, by linking payments to the achievement of specific goals, organisations are better able to align remuneration with business strategy.

However, there are a number of potential problems and pitfalls associated with variable pay schemes. Where there is a clear line-of-sight between employees' behaviour and day-to-day activities, and they can directly influence the achievement of performance targets, employees' performance generally improves, at least initially. Where the line-of-sight is blurred and their actions have only an indirect influence on the outcome, a variable pay scheme may have little impact on employees' day-to-day performance. All variable pay schemes have a shelf life, having less and less impact on employee performance. Ones that endure tend to alter significantly over the years, so that employee interest and enthusiasm is maintained and the performance targets continue to reflect business priorities.

9. References

Abosch K S (1998), 'Variable pay: do we have the basics in place?', *Compensation and Benefits Review*, May/June

Armstrong M (1999), *Employee Reward* (2nd edition), IPD, London

Balkom J, Brossy R (1997), 'Executive pay — then, now and ahead', *Directors & Boards*, Fall

Brown D, Armstrong M (1999), *Paying for Contribution*, Kogan Page, London

Bryson A, Millward N (1997), *Employee Involvement May Boost Economic Performance of Small Firms*, Policy Studies Institute

Corkerton S and Bevan S (1998), 'Paying hard to get', *People Management,* August 13

CIPD (2004), *Reward Management 2004*, February

Greene R J (1995), 'Culturally compatible rewards strategies', *ACA Journal*, Autumn

Holbeche L (1998), *Motivating People in Lean Organizations*, Butterworth-Heinemann, Oxford

Hope K (2004), 'Bonuses reward speed over service', *People Management*, 12 August

Hyman R, Mason B (1995), *Managing Employee Involvement and Participation*, Sage, London

IDS (2003), 'Bonus schemes', *IDS Studies* 742, January

IDS (2000),'Rewarding sales staff', *Management Pay Review Research File*, 54

IRS (1998), 'Financial participation', *IRS Management Review,* Vol. 11, October

IRS (2001), 'Evolution of reward at Tesco', *IRS Management Review,* Vol. 22, July

IRS (2003), 'Sharing the spoils: profit-share and bonus schemes', *IRS Employment Review,* Vol. 784, 19 September

IRS (2004a), 'Pay in finance banking on brighter prospects', *IRS Employment Review,* Vol. 804, 23 July

IRS (2004b), 'Choice rewards at Nationwide', *IRS Employment Review,* Vol. 802, 18 June

IRS (2004c), 'The pressure is on: can pay awards stay at three per cent?', *IRS Employment Review,* Vol. 811, 12 November

Kessler I (2000), 'Remuneration Systems', in Bach S and Sisson K (eds.) *Personnel Management in Britain*, 3rd edition, Blackwell, Oxford

Kohn A (1995), 'The case against reward programs', *ACA Journal*, June

Lawler E (1990), *Strategic Pay*, Jossey-Bass, San Francisco

Leadbetter C (1997), *A Piece of the Action: Employee Ownership, Equity Pay and the Rise of the Knowledge Economy*, Demos, London

McGregor D (1960), *The Human Enterprise*, McGraw-Hill, New York

Nisar T M (2003), 'Is it all in the timing? The practice of bonus payments in the UK', *Compensation & Benefits Review*, September/October

Poole M, Jenkins G (1990), *New Forms of Ownership*, Routledge, London

Poole K, Whitfield K (1994), 'Theories and evidence on the growth and distribution of profit sharing and employee shareholding schemes', *Human Systems Management*, Vol. 13, Number 3

Reilly P, Phillipson J, Smith P (2004), 'Cheek by jowl', *People Management*, 30 September

Reilly P (2003) *New Reward 1: Team, Skill, Competency Based Pay,* IES Report, No. 403

Reilly P, Cummings J, Bevan S (2001), *A Share of the Spoils: Employee Financial Participation,* Institute for Employment Studies, Report 373

Schuster J R, Zingheim P (1992), *New Pay: Linking Employee and Organisational Performance*, Lexington Books, New York

Sloan R, Jackson N (1996), *Sharing in Success? Employee and Executive Financial Participation in FTSE100 Companies*, Bacon & Woodrow, London

Suff P (2003), 'Sharing the pain', *IRS Employment Review*, 26 February

Tamkin P, Giles L, Campbell M and Hillage J (2004), Skills Pay: the Contribution of Skills to Business Success, SSDA

Thompson P, Milsome S, (2001), *Reward Determination in the UK*, CIPD

Towers Perrin (1997), *Learning from the Past: Changing for the Future*, London, March

Towers Perrin (2004), *2003-04 Worldwide Total Remuneration*, London, January

Weitzman M, Kruse D (1990), 'Profit sharing and productivity', in Blinder A (ed.), *Paying for Productivity: a Look at the Evidence*, Brookings Institute, Washington DC

Work Foundation (2003), 'Bonus schemes', *Managing Best Practice,* Vol. 110, September

