

North Asian International Research Journal Consortium

North Asian International Research Journal

Of

Multidisciplinary

Chief Editor

Dr. Nisar Hussain Malik



Publisher

Dr. Bilal Ahmad Malik

Associate Editor

Dr. Nagendra Mani Trpathi



Honorary

Dr. Ashak Hussain Malik

NAIRJC JOURNAL PUBLICATION

North Asian
International
Research Journal Consortium



Welcome to NAIRJC

ISSN NO: 2454 - 2326

North Asian International Research Journal is a multidisciplinary research journal, published monthly in English, Hindi, Urdu all research papers submitted to the journal will be double-blind peer reviewed referred by members of the editorial board. Readers will include investigator in Universities, Research Institutes Government and Industry with research interest in the general subjects

Editorial Board

J.Anil Kumar Head Geography University of Thirvanathpuram	Sanjuket Das Head Economics Samplpur University	Adgaonkar Ganesh Dept. of Commerce, B.S.A.U Aruganbad
Kiran Mishra Dept. of English,Ranchi University, Jharkhand	Somanath Reddy Dept. of Social Work, Gulbarga University.	Rajpal Choudhary Dept. Govt. Engg. College Bikaner Rajasthan
R.D. Sharma Head Commerce & Management Jammu University	R.P. Pandday Head Education Dr. C.V.Raman University	Moinuddin Khan Dept. of Botany SinghaniyaUniversity Rajasthan.
Manish Mishra Dept. of Engg, United College Ald.UPTU Lucknow	K.M Bhandarkar Praful Patel College of Education, Gondia	Ravi Kumar Pandey Director, H.I.M.T, Allahabad
Tihar Pandit Dept. of Environmental Science, University of Kashmir.	Simnani Dept. of Political Science, Govt. Degree College Pulwama, University of Kashmir.	Ashok D. Wagh Head PG. Dept. of Accountancy, B.N.N.College, Bhiwandi, Thane, Maharashtra.
Neelam Yaday Head Exam. Mat.K..M .Patel College Thakurli (E), Thane, Maharashtra	Nisar Hussain Dept. of Medicine A.I. Medical College (U.P) Kanpur University	M.C.P. Singh Head Information Technology Dr C.V. Rama University
Ashak Hussain Head Pol-Science G.B, PG College Ald. Kanpur University	Khagendra Nath Sethi Head Dept. of History Sambalpur University.	Rama Singh Dept. of Political Science A.K.D College, Ald.University of Allahabad

Address: - Dr. Ashak Hussain Malik House No. 221 Gangoo, Pulwama, Jammu and Kashmir, India - 192301, Cell: 09086405302, 09906662570, Ph. No: 01933-212815,

Email: nairjc5@gmail.com, info@nairjc.com Website: www.nairjc.com



PERFORMANCE RELATED PAY (PRP) - A CASE BASED ANALYSIS OF AUTO ELECTRIC LTD

LYDIA HARRELL*



*Lecturer in Business and Management, Otago Polytechnic Auckland International Campus, New Zealand

ABSTRACT:

This study deals with analyzing the concept of performance related pay and how it can be used as an effective motivational tool to improve employee's performance and the challenges involved in implementing a performance related pay system in organizations. Performance related pay (PRP) is a type of reward management strategy where an individual's pay is decided based on the perceived contribution of the individual to the organisation or the value the individual employee adds to the organisation at a specified interval of time. (Torrington et al, 2008).

A lot of previous research done on PRP has clearly revealed that it has both attractions and criticisms and it is a very contingent strategy which is very situation specific and works in certain scenarios and fails to improve performance and in worst cases demotivates workers in certain other situations. Performance management and appraisal systems have always been linked to formulating rewards and it has been reported that two thirds of the employers in reward related pay, assessment of an individual's performance and skills level is important for making reward and progression decisions.(CIPD, 2005).

This report will examine the extent to which the introduction and implementation of performance related pay at Auto electric Ltd, will contribute to improving motivation, morale and communication levels within the organisation thereby leading to a high performing culture. It would also cover the different types of performance related pay schemes used in the organisation which deals with the mass production of wheel chairs and other

equipment's for the NHS. Secondly the report analyses the challenges and resistance that the new PRP system will be faced with at Auto Electric and based on the findings come out with recommendations on implementing an effective performance based pay strategies that contribute to enhanced productivity levels at Auto Electric Ltd.

INTRODUCTION

Auto Electric Ltd. is a manufacturer of electrically-propelled, battery-driven wheelchairs. It specializes in large scale production and sells mainly to the National Health Service Recently the senior management has launched a special development of manufacturing wheelchairs and hospital equipment's also to individual customers, adapting the product to their individual requirements. They have decided to provide a complete before and after-sales service to their customers, consulting them in the design stages and obtaining feedback about the product's performance which is used to influence the product design. The design team itself, originally includes the owner-manager, but now consisting of two electrical and three mechanical engineers, works closely with the workforce in constantly upgrading the quality of the product. From its small origins 10 years ago the company now employs more than 200 people, forty of whom are responsible for the product's manufacture. These are multiskilled craftsmen and they work in four "cells" of employees, one member of each team being designated as the team leader. Each cell is totally responsible for the construction of a particular model variant (or variants).

Hence the managers at Auto-Electric Ltd decided to introduce performance related pay which measures their employees' performance and fixes a reward structure on the basis of good and effective customer service, innovation in design , competence, contribution and skill. They also measure on the basis of individual, team and organisation performance.

Auto Electric Ltd wanted to change its bureaucratic mass production culture into a high performing, competitive and creative culture where employees are motivated to come out with innovative, efficient and effective work methods that improves customer service and promotes customer loyalty and hence performance has to integrated to the strategic goals of the organisation. Hence in areas of resourcing, recruitment, selection and retention methods employees' consistent effective performance which is measured against a set of performance standards will be always rewarded in line with the values of the organisation. (Pilbeam and Corbridge, 2006)

The concept of performance related pay was originally developed from motivational theories which were referred to as process theories of motivation. The content theories of motivation like the Maslow's Hierarchy of Needs theory and Herzberg's theory stated that individuals have different needs and expectations which has to be fulfilled for them to perform effectively. (Boddy, 2008) The process theories of motivation which focus on how to

motivate people is the origin for the concept of performance related pay. The Vroom's Expectancy theory which brings out a direct relationship between the perceived reward and the level of performance of the individual clearly states that the motivational force of an individual depends on his assumption that this particular level of performance will lead to a particular reward and this is multiplied with the extent to which the individual wants or prefers the particular reward fixed for the level of performance. (Mullins, 2007)

This is linked with the quote by Sandra 'o' Neil about a reward based strategy which states that "A total reward strategy helps to create a work experience that meets the needs of employees and encourages them to contribute extra effort by developing a deal that addresses a broad range of issues by spending reward dollars where they will most effective in addressing worker's shifting values." (Armstrong, 2007, p13.)

However, the measurement of performance is attributed to different types, payment by results which is based on the output, skill based pay which is based on the level of skills and competencies and performance related pay which is measured against a set of performance objectives and standards link to this type of rewards depend on the employee's performance, skill, qualification and competencies.

The usual reward system at Auto Electric Ltd since it is a mass production organisation consists of base pay such as, sick pay, pensions and basic allowance which continues as long as employee's contract and performance within their organization are maintained. Now since the company wants to produce equipments to cater to individual needs and requirements, Auto Electric aims to introduce major performance related pay such as incentives, bonuses, commissions and contribution rewards, which is based on individual's input to the efficient customer service. The top management at Auto Electric Ltd firmly believes that the most important USP for their success is their employees' drive to deliver excellent customer service by communicating effectively by having excellent interpersonal skills where they are ready to listen to the customer's requirements with a lot of patience and deliver the best service quickly and efficiently.

As discussed earlier, performance related pay originated from the process theories of motivation, there is another theory which was proposed by Adams known as the Equity theory which claims that input (performance level) of an individual and the total rewards he gets must be fair and equitable when compared to the input and the total reward package of other workers. If this state of equity exists and workers are convinced of the presence of a fair and equitable reward system, then it contributes to motivation. (Dessler, 2005). There is also another important viewpoint that if there is inequity perceived, if employees feel that they have been rewarded less when compared to their counterparts who are paid more with the same level of performance, then that leads to demotivation

which has an effect on performance. Therefore, according to the Vroom's Expectancy theory and Equity theory, it is proved that employee will be motivated if direct relationships exist between effort, performance and rewards'. (Torrington et al, 2008).

FINDINGS

The system of performance related pay introduced by Auto Electric Ltd states that the workers will be paid a 2% increase in salary and bonus which is lesser when compared with the team leaders who have an increase of 5% in their salary, increase in bonus of 3% and increase of 1% in the allowance. This shows that there is an internal conflict due to the pay differences in the Auto Electric Ltd between the workers and team leaders.

The employee's perception is that they are not recognized for their performance as they feel their performance should be proportional to their efforts and not for the level they belong in the organizational hierarchy. Many organizations have adopted this performance related pay and they find it hard in relating and measuring performance of an individual in line with the team. Also they feel it challenging to assess the performance due to the standard objectives followed for various jobs in the company. (Cited in Pilbeam, S and Corbridge M., 2006,). Workers are demotivated at Auto Electric Ltd due to the structure of the performance related pay scheme and the management does not realize that this structure is reducing the morale of the workers which may in turn affect the performance of the employees and the strategic objectives of business.

Theoretically it is stated that performance related pay leads to improvement in performance. But in practice, the success or failure of a PRP scheme depends on the situation it is applied to (Mullins, 2007). The effectiveness of a PRP scheme is very difficult to measure as it includes a series of attributes such as performance, morale, job satisfaction and organizational commitment (Goss, 1994 cited in Pilbeam, S and Corbridge M., 2006). At Auto Electric, many of the employees thought that performance related pay was applied unfairly in practice and employees disagreed with the fact that bonuses were paid for the achievement of objective measurable targets.

The above issues brought out by the employees at Auto Electric suggest that the PRP scheme adopted by the company has failed to motivate them, the reason being the inappropriate application of the scheme which led to lack of employee trust and equity. (CIPD, 2006). Thus in order to ensure the effective functioning of the PRP scheme, the management at Auto Electric needs to restructure its reward strategies and communicate using inspirational appeals so that employees feel and believe, they are rewarded fairly for their efforts

RECOMMENDATIONS

It is important for the management at Auto Electric Ltd to understand that in practice performance related pay has a lot of challenges as opposed to the theoretical viewpoint. Hence it might be useful to examine opportunities that contribute to success in performance related pay schemes. Like other organisation's performance related pay packages Auto Electric Ltd employees have been experiencing the same conflicts and ambiguities. To become an effective rewarding strategy Auto Electric Ltd needs to analyse some successful cases where the PRP has worked successfully which is considered necessary for the effective functioning of Auto Electric's performance related pay scheme.

A well reputed food company went through the same difficulties but it has found ways of rewarding and retaining their hard working employee's in order to stay ahead of the competitors. Earlier Auto Electric Ltd consolidated its performance related pay based on bonuses, contribution and commission. This has caused their other employees to perceive that they had been rewarded unfairly. (CIPD, 2010).

Auto Electric Ltd managers should be willing to develop the skills and knowledge to measure and judge the performance of their employees. Manager's decisions are more important in performance management and appraisal. Auto Electric Ltd should introduce more incentives and reward packages which would increase and encourage the performance of their employees to achieve the set objectives.

Benefits of PRP to Auto Electric

Auto Electric Ltd has witnessed a lot of advantages and benefits of implementing Performance Related Pay. The first is that the introduction of performance related pay will allow Auto Electric Ltd to retain their top performing staff, as it will allow them to increase incentives /bonuses for specific high performing employees to retain in the organization with commitment. Secondly it helped in recruiting and selecting good performers as the performance related bonuses and target based incentives attract people who are willing to perform effectively.

The PRP system clarifies the job roles and duties of employees and hence each employee is very clear of the tasks he is expected to perform and the performance standards he is expected to meet. It has encouraged a culture where skills like goal setting, framing constructive feedback and mentoring and coaching skills. (Bratton and Gold, 2008).Performance Related Pay has improved communication between top management and lower management levels at Auto Electric Ltd and has definitely contributed to increase individual and corporate performance. Moreover, by stimulating performance conscious culture through putting a performance message

into their pay package it has help improved performance of the organisation. Performance related Pay has brought advantages like it has helped reinforce the control of top management and identify developmental objectives and also reinforce the individual employee employer relationship at the expense of the collective performance and reward individuals without need to promote them. (Torrington, 2002)

Challenges of implementing PRP

Any change will be subjected to resistance and Performance Related Pay has always faced the criticism of being very task oriented and hence there may be a lot of problems which will result in lack of trust between managers and employees if not applied with great caution. The individual employees in the public sector are always sceptical about performance related pay hence they feel it is very difficult to undertake fair and objective appraisals of performance and hence this leads to inequity which can cause demotivation and lack of commitment. PRP systems were also found to discourage creative thinking as it refrains to the set standards and formulated job descriptions and it also difficult to ensure that each line manager at Auto Electric follows a uniform approach to rating subordinates. (Torrington et al, 2008).The management of Auto Electric found that PRP systems invariably increased the pay bill and hence keeping in mind these disadvantages will have to thoroughly evaluate their reward packages towards its effectiveness. This change also affected teamwork and team motivation, as it was found to undermine team performance as it was based on individual performance.

CONCLUSION:

Thus it can be summarized that performance related pay is not an universal construct which can be uniformly applied in various scenarios but is very situation specific and has to be adapted and modified according to the needs of the situation. Many organizations have adopted different types of performance related pay schemes, and most of them are still not convinced of its contribution towards effective performance. The benefits and challenges of performance related pay discussed in the report suggests that it does not work in all organizations. If the performance related pay is structured and implemented fairly, it would eventually lead to favorable organizational outcomes such as improved performance, reduced absenteeism and staff turnover, increase in job satisfaction and organizational commitment.

REFERENCES AND BIBLIOGRAPHY

- ❖ Armstrong, M. and Stephens, T. (2005) *Employee Reward Management and Practice*. Kogan Page Limited. London.
- ❖ Beardwell, I. Holden, L. & Claydon, T. (2004) *Human Resource Management :A Contemporary Approach*. 4th edn. England.: Pearson Education Limited.
- ❖ Bratton, J. and Gold, J. (2008) *Human Resource Management, Theory and practice*, 2nd edn, Palgrave: Macmillan
- ❖ Boddy, D (2008) *Introduction to Management*, 5th edn. London FT: Prentice Hall
- ❖ Caldwell, R. & Storey, J. (2007) *Human Resources Management*, London: Thomson Learning.
- ❖ Corbridge, M. and Pilbeam, S. (2006) *People Resourcing. “ Contemporary HRM in Practice”*. Pearson Educational Limited. Essex
- ❖ Dessler, G. (2007) *Human Resource Management*. 10th edn. London : Prentice Hall
- ❖ Edwards, T. & Rees, C. (2006) *IHRM: Globalization, National Systems and Multinational Companies*, England: Prentice Hall.
- ❖ Kossek, E. & Lobel, S. (1996) *Managing Diversity: Human Resource strategies for transforming the workplace*, Oxford: Blackwell publishers
- ❖ Mullins, L, (2007) *Management and Organisational Behaviour*,4th edn, London FT: Prentice Hall.
- ❖ Miller,C. (2010) Reward Manager at Kent County Council, http://www.cipd.co.uk/podcasts/_articles/_rewardpodcast2010.htm
- ❖ Reich,M (201 0) Vice president of HR at KFC UK; http://www.cipd.co.uk/podcasts/_articles/_rewardpodcast2010.htm
- ❖ <http://www.cipd.co.uk/hr-resources/factsheets/performance-related-pay.aspx>
- ❖ <http://www.cipd.co.uk/hr-resources/factsheets/bonuses-incentives.aspx>
- ❖ Sparrow, P., Brewster, C., & Harris, H. (2004) *Globalizing Human Resource Management*, London: Routledge.
- ❖ Torrington, D Hall, L. and Taylor, S. (2002) *Human Resource Management*. UK :Pearson Education

ABOUT THE AUTHOR:

LYDIA HARRELL

**Designation: Lecturer in Business and Management, Otago Polytechnic Auckland International Campus,
New Zealand**

Lydia Harrell has 6 years of successful tertiary education experience both in U.K and New Zealand. Lydia is currently doing her PHD at the Faculty of Education, Auckland University of Technology, New Zealand with full scholarship from the faculty. She is the winner of the Faculty of Culture and Society Strategic Doctoral Scholarship (Education) for consecutively two years (2014 & 2015). She has pursued a Masters in International Business and Human Resource Management from Leicester Business School, U.K. She has been involved in teaching business and management courses to undergraduate level students and masters entry level international (South American, Chinese, European, Indian and African) students in various international higher education institutes in London, U.K. She went on to do an English Language teaching qualification (Cambridge CELTA) to cater to the language needs of the international students and improve her teaching methods.

Research interests: Her research interests include Emotional Intelligence, Educational Psychology, Organisational Psychology, Educational Discourse and Pedagogy.

Teaching Experience: Organisational Behaviour, Principles of Leadership, Human Resource Management, Principles of Management, Professional and Personal Skills for Managers, Strategic Management, Change management and Business Communication

Publish Research Article

Dear Sir/Mam,

We invite unpublished Research Paper, Summary of Research Project, Theses, Books and Book Review for publication.

**Address:- Dr. Ashak Hussain Malik House No-221, Gangoo Pulwama - 192301
Jammu & Kashmir, India**

Cell: 09086405302, 09906662570,

Ph No: 01933212815

Email: nairjc5@gmail.com, info@nairjc.com

Website: www.nairjc.com

