

# **The pros and cons of performance related pay**

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## **Preface**

Performance related pay is merely a means of dynamically adjusting an individual's salary based upon their performance within an organisation, and in addition it's a controversial issue within today's society.

Put simply, there are many pros and cons in relation to performance related pay, therefore it's arguable as to whether performance related pay is effective or detrimental to the overall performance of an organisation. However, in reality, the effectiveness of performance related pay relates to the particular situation in which the scheme is used, and in addition many other factors beside. Basically, the issue of performance related pay is one of great complexity, which combines several different factors into the decision about when it should be used.

## **Performance related pay increases motivation**

In a nutshell, performance related pay increases motivation amongst the workforce, which therefore increases the productivity rate of the individual workers, and as a result leads to targets being met and profits being made.

Basically, performance related pay increases motivation amongst the workforce because people in today's society tend to be self-driven by the greed for that stuff with pictures of the Queen on, and other famous dead people – that's money, money, money!

## **Performance related pay results in lying**

The desire for more money will make people go to extreme lengths to achieve performance, whether it involves lying, cheating, or deception. The reason for this lies solely in our underlying nature or psychology. Therefore, in order for managers to understand the complex issues surrounding performance related pay and how it relates to employees, then it is essential they have a little bit of knowledge and understanding of psychology.

## **Use performance related pay with the System of Profound Knowledge**

This strategy of understanding psychology is comparative to the opinions of W. Edwards Deming. Deming invented a management strategy, which he called the System of Profound Knowledge. Moreover, the System of Profound Knowledge contains four elements: the system, psychology, knowledge and variation. Basically, Deming stated that these four elements are the focal point for successful management techniques, and in addition managers should have a little bit of knowledge relating to each component of the System of Profound Knowledge, in order to provide for an efficient and effective solution to the science of management.

For example, in relation to psychology in the workplace, managers should have the knowledge that everybody is different (variation) and in addition, managers should be aware that differences should be respected because respecting an individual will result in mutual respect between the individual and the manager. Thereby creating a much better working environment (system). Put simply, workers and managers should work on the interconnections that separate them to develop a two-way mutual transitive trusting relationship, in order to facilitate co-operation and interoperability throughout today's chaotic organisations.

## **Co-operation leads to an efficient organisation**

Basically, co-operation and interoperability amongst workers and managers tends to result in improved overall performance, and in addition leads to a more efficient organisation and a better working environment for all those concerned.

## **Performance related pay increases competitiveness**

Although performance related pay achieves results, it also increases competitiveness amongst the workforce and as a result reduces the level of co-operation and interoperability. Basically, because performance related pay is based upon results, or alternatively meeting targets, then workers will be in competition with other workers in order to receive higher salaries or bonuses. As a result, this increase in competitiveness will obviously decrease the level of co-operation and interoperability between workers as each worker is merely covering their own back or looking after number one!

According to W. Edwards Deming, performance related pay has a detrimental effect on organisations due to the promotion of competitiveness amongst workers. Basically, one of Deming's primary goals was to promote co-operation and interoperability, subsequently extinguishing competitiveness.

Another problem with performance related pay is that it tends to delineate common aims and shared strategies within an organisation as each worker is looking after number one - concentrating on increasing their own performance and meeting targets; rather than co-operating and interoperating (looking after the interconnections) within the organisation. As a result, this could have a detrimental effect on an organisation as it's working without vision and direction, much like a blind man crossing a road!

## **Use performance related pay when you do not need co-operation amongst employees**

Performance related pay would work well in situations where there is little need for co-operation and interoperability amongst the workforce, for example, situations that merely involve tasks that can be undertaken with just one person involved. This would therefore provide for high productivity levels amongst the workforce, however, the problem of competitiveness would still exist.

## **Conclusions**

To conclude, performance related pay increases motivation amongst the workforce, which therefore increases the productivity rate of the individual workers, and as a result leads to targets being met and profits being made. Therefore, the day-to-day running of an organisation is both efficient and effective. However, the major drawback of performance related pay is the promotion of competitiveness amongst the workforce.

According to W. Edwards Deming, competitiveness gradually contributes to the death of an organisation. Put simply, Deming believed that co-operation was the key to a successful organisation. In addition Deming also felt that knowledge of an organisation (system), its interconnections, people (psychology) and the variation within a system are the core elements in scientifically managing an organisation. Therefore, Deming devised his own management structure and he named it the System of Profound Knowledge.