Abstract

Performance appraisal and its frequent link to performance related pay is a controversial practice in the management of employee performance. This paper examines performance appraisal from the perspective of four Australian unions covering diverse occupations and industry sectors. Only one union supports the notion of performance related pay. The others find performance appraisal difficult to embrace. Negative experiences and consequent problems lead them to argue that the process is complicated and usually puts workers at a disadvantage. It appears that any change in union attitude depends on their role in the performance appraisal and performance related pay process. Moreover, the imperfect power balance between management and employees means that union participation must be on a genuine basis.

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THE DASH FOR CASH: PERFORMANCE RELATED PAY -  
AN AUSTRALIAN UNION PERSPECTIVE

INTRODUCTION

Events of recent years - globalisation, economic uncertainty, and technological change have placed pressure on organisations constantly to streamline their performance and become more flexible and adaptive. In recognition of these imperatives, the management of employee performance has assumed a high importance.

Many organisations are placing increased emphasis on performance-based remuneration. Performance Appraisal [PA] and its frequent link to Performance Related Pay [PRP] is a controversial practice in the management of employee performance. PA is traditionally viewed as part of human resource management. Research, albeit limited, acknowledges the role of unions in this area. This omission from the industrial relations literature gives only a partial account of the PA process. The purpose of this paper is to provide an Australian union perspective of PA and PRP.

Performance based pay systems have been introduced in a variety of ways in Australian workplaces. They include individual performance appraisal systems with annual increments linked to the results, and group performance related reward schemes. Since the formal introduction of enterprise bargaining in the early 1990s, performance pay arrangements have been included in many federal wage agreements (DEWRSB 2002). Data from the DEWRSB Database provides statistics on the distribution of such clauses in federal certified agreements.

PERFORMANCE RELATED PAY

Australian Context

Since the late nineteenth century, incentive pay schemes such as piecework have existed in many industries including the clothing, mining and building industries. Wright (1991) estimated that by the 1960s around forty-seven per cent of manufacturing and thirty-one of non-manufacturing organisations had adopted such schemes.

Despite these incentive schemes Australian remuneration systems traditionally were heavily weighted toward fixed pay due to the centralised system of wage determination. A number of writers including Schuster & Zingheim (1992) and O’Neill (1995a, 1995b), propose that the contemporary focus on aligning a reward strategy with corporate objectives is essentially different from the traditionally administered ad hoc incentive schemes of the 1960s.

The deregulation and decentralisation of Australian industrial relations environment since the late 1980s encouraged the development of innovative and company specific remuneration options based on performance for reward management. Three National Wage Case decisions altered the way remuneration was managed in Australia: the two tier wage system 1986-88; the Structural Efficiency Principle 1988-91; and the Enterprise Bargaining Principle 1991. The Workplace Relations Act (1996) (WRA) had a significant impact on the unions’ role in the determination of wage and employment conditions and ultimately their role in the workplace. The WRA introduced important new bargaining options for employers interested in improving productivity and adapting the general wages, terms and conditions of employment contained in awards, to the needs of their workplaces - away from collective bargaining with unions, to one with a greater emphasis on agreements negotiated between individuals or non-union collectivities (Callus 1997; Deery et al. 1997 & Mackinnon 1997).

Research on PA and PRP and their impact on Australian unions is somewhat limited (Ferguson & Odgen 1993; Macdonald 1998; Marshall 1998; O’Donnell 1998). Ferguson & Ogden’s (1993) theoretical assessment of an Australian union perspective of PA and PRP suggested an increased union acceptance of
Performance management measuring systems. There is a caveat – acceptance is dependent on the extent of employee participation in the design and implementation of the system.

Marshall’s (1998) and O’Donnell’s (1998) examination of the nature and scope of PRP introduced in Australian federal and state public sectors demonstrated that, despite the growing popularity of PRP, the design and implementation of these schemes has often been poor. Evidence of this is provided by Macdonald (1998) apropos the Australian Public Service and concerns expressed by the Community and Public Sector Services Union.

**International Context**

International research (for example, Kessler & Purcell 1995; Guest & Hoque 1996; Heery 1997a; Brown, Deakin, Hudson, Pratten & Ryan 1998; Gunnigle, Heery 2000; Metcalf, Hansen & Charlwood 2000) reveals that because of perceived negative impacts, unions are resistant to the use of PRP systems. The traditional union arguments against such measures are: work intensification and managerial control; erosion of collectivism; union exclusion and the rise of individual contracts.

**DATA SUBJECTS & METHOD**

- Four union officials representing white and blue-collar workers across a range of industries, professions and occupations were interviewed to gain their union’s perspective on PA and PRP. The following questions were posed:
  - What is the purpose of PA?
  - How should PRP system be incorporated into PA system?
  - What elements are important to an effective PA and PRP system?
  - Codes for five of the most significant EBAs 2000-2001 were requested from each official. These were located on the OSIRIS Internet web site and analysed in relation to PA and PRP clauses.
  - The primary data obtained from the research interviews and the document analyses of union agreements were complemented by secondary data sources from the Department of Workplace Relations and Small Business’ (DEWRSB) Workplace Database.

**Document Analysis**

Analysis of the agreements reveals that PA and PRP clauses range from mere stipulation of existence to detailed processes and principles of design and implementation of such system. Specific PA and PRP clauses found in two white-collar unions’ agreements suggest that they were not totally opposed to such schemes. Indeed, on the face of it there was evidence of support. Clauses allowed for union involvement and viewed their role to be essential to the effective design and implementation of a fair and just system. This is consistent with Heery’s (1997a) observation that unions’ interest may be compatible with management practices and may positively reinforce them. Moreover, with more organisations becoming increasingly individualised (Deery & Walsh 1999a), and more utilising PA and PRP systems, resistance and lack of cooperation may not be the best alternative.

In contrast, the lack of PA and PRP clauses found in the blue-collar union agreements illustrate their propensity to restrict pay increases to the job classification structure. Indeed, all agreements ensured guaranteed wages, where increases were given at predetermined periods during the life of the agreement. Although there were clauses that aimed to ensure a performance-oriented culture, blue-collar union agreements seem to be mere sentiments and did not concretely link pay to performance.

In sum, it appears there is a mixed union approach to PA and PRP. Two unions seem to have taken a positive approach. In contrast, the lack of any PA and PRP clauses in the other two union agreements may have various root causes: they do not want or allow PA and PRP; unions are not consulted; or it is not an important issue.
PERFORMANCE APPRAISAL

Union Viewpoint

In general, two contrasting views emerged: complete opposition and active support. One white-collar union promoted the concept of PA, recognising it to be ‘smart personnel management’. This view is consistent with a considerable amount of management literature, such as Creelman (1995), Campbell et al (1998), and Longenecker & Fink (1999) who advocate the necessity of PA not only as a mechanism to justify decisions but to create a platform for measurement and means of improving employees’ performance.

On the other hand, two unions [one white, the other blue-collar] were less supportive but conceded that a properly administered PA system may be an effective channel for employee feedback and thus be an asset to organisations. At the other extreme, the remaining blue-collar union believed there was no need for PA. This concurs somewhat to that of Deming (1986) who argued that with many factors operating in the working environment, concentration on individual performance is irrational.

Purpose

The literature suggests that PA has two functions: evaluative and developmental (Allender 1995; Milliman et al 1995; Roberts 1998; Gabris & Ihrke 2001). However, this suggestion differs to the unions’ perspective. It appears that the unions perceive the main focus of PA as evaluative, that is, it is seen as a tool to make decisions on retention, retraction and especially remuneration. This is consistent with Nankervis and Leece’s (1997) survey of HRM specialists in Australia.

Although the theory proposed in the literature sees this purpose as a necessity to justify HRM decisions (Longenecker & Fink 1999), from a union perspective, this evaluative function appears to serve other objectives. One blue-collar union made explicit mention that a PA linked with PRP ‘is a tool to limit pay increases’. This attitude concurs with Macdonald’s (1998) research findings on the Community and Public Service Union (CPSU) experience in the Australian public sector. Indeed, CPSU’s position is similar to this union’s position, whereby it was claimed that the principles underpinning the proposed performance management (PM) scheme in the public sector would create the possibility of salary reductions.

The literature indicates that within PRP systems, which assess differential reward for individuals performing comparable jobs, a division will often occur between employees, and frequently for no apparent reason. In congruence, two unions [white and blue-collar] argued that a PA linked with PRP is a source of unhealthy competition. There was however, a crucial difference between their perspectives. One [blue-collar] argues that competition is the purpose; to ‘divide and conquer’ and to ‘pit person against person, to ultimately benefit the organisations at the expense of employees’; the other believes that it is an end through the means of profit maximization, and remarked that if ‘implementing PA and PRP will ‘boost their bottom line, they will do that’.

The potential developmental function of PA was virtually ignored in the participating unions’ view of PA purpose.

Some writers believe that an important goal of PA is to motivate (Darling et al 1997; Nelson 2000); others believe it to be one of control (Deckop et al 1999; Newton & Findlay 2000). The interviews revealed some degree of conformity from the unions - they do not believe motivation to be the major reason why organisations undertake PA and PRP.

However, there was some disparity on whether a key objective of PA is to exert control over employees’ behaviour. For one union the main focus of PA was particularly adversarial:

it is about the power of management over the employees, and not allowing employees to have any bargaining power in order to raise issues or deal with them [blue-collar union]
In contrast, another union [white-collar] regarded the notion of PA as a management control tool as a ‘gloomy view’ of PA systems – but conceded that while it could be motivational it was more about ‘rewarding high achievers’.

**LINKING PAY TO PERFORMANCE: PERFORMANCE RELATED PAY**

Theory suggests that PRP helps to reflect employees’ contribution to the organisation, and provide a clear benchmark to distinguish employees (Martin & Bartol 1998; Segal 2000).

Only one union [white-collar] supported the ideal of reflecting the ‘norm of distributive justice’ (Campbell et al 1998). In contrast, none of the others believed that PRP should be incorporated into the PM system, that is, pay should not be linked to performance.

The notion of PA as a feedback mechanism was accepted and supported, but ‘once it is linked to pay, it gets distorted’ [white-collar union]. This union’s opposition incorporating pay into PA is best understood by exploring the problems that can arise from the design and implementation of PRP.

**Problems associated with PRP**

A fundamental problem with PA and PRP is the debate over its legitimacy and this was reflected in responses. One union [white-collar] argued that PA systems do not take into account an employee’s inability to control certain factors, rendering incentive systems in that environment senseless. Thus, the system, and not the individual, is responsible for a large part of performance variance, making fair and accurate evaluations of employee performance inherently impossible (Waite & Stites 2000). And as Nelson (2000) found, more than ninety percent of a PA system is possibly ineffective.

Harrington (1998) argued that the major problem with PA and PRP is not with the performance planning, evaluation, and reward concept, but with the ineffective way many organisations implement the concept. The issues of ‘nepotism, favouritism and moderation of results and consequential mistrust of the system’ were perceived as a major impediment to the effectiveness of the system.

**Work Intensification**

Through continuous monitoring of employees’ performance, extension of work hours, increased job and income insecurity, employees become disadvantaged (Ferguson & Odgen 1993; Shirom et al 2000). In agreement, one white-collar union in particular, maintained that the increased pressure to perform, could lead to problematic and fraudulent behaviours.

Indeed, they argued that when people are under much pressure to maintain their pay and their jobs, then they develop ‘irrational behaviours, leading to sorting of the system’. The Australian Securities and Investment Commission (ASIC), and their overview of the corporate behaviour of the ANZ Bank, and their incentive-based system is evidence of this sort of behaviour (ASIC 2001).

**Healthy Competition: A Myth?**

From the outset, one blue-collar union denounced the ‘divide and conquer’ scenario created by PA and PRP-motivation at the expense of other workers. This was especially true in a competitive environment where it may create unhealthy competition. In concurring, a white-collar union official argued that in their industry ‘teamwork is predominant, and to establish competition is dysfunctional’. This comment is consistent with international research concerning unions and PRP - PA often discourages collaboration and teamwork.

**DESIGNING AN EFFECTIVE PERFORMANCE APPRAISAL SYSTEM**

The most commonly espoused elements for an effective PA system include: employee participation; greater frequency of appraisals and an appeals mechanism; and a focus on group-based appraisals (Longenecker &
Fink 1999; Marshall 2000). The unions here also perceive these elements to as critical to the design of an effective PA system.

**Employee Participation**

Campbell et al. (1998) suggest that a person’s participation may increase acceptance of results. The unions agree, and believe employee involvement and participation in the design of the PA process to be important. This was seen as central in terms of establishing a common understanding about the nature of the scheme, and to ensure that performance targets are effectively communicated and achievable.

**Frequency and the Existence of an Appeal Process**

The literature states that, ideally, PA should be undertaken at least bi-annually. While the unions recognise that in practice, PA is often undertaken annually, there was consensus of union perspective for greater frequency, with the exception of one blue-collar union who did not want PA in the first place.

Moreover, the unions advanced that an appeals process is of utmost importance. A blue-collar union official identified that one of the problems of PA concerns the discrepancy between employers and employees perception of the evaluated performance. This accords with the Campbell et al (1998) observation that employees generally do not agree with their PA and presumably do not accept the evaluation as accurate.

**Group-Based Appraisals**

Changes in organisations have given way to team structures that necessitate a focus on managing performance of team dynamics (Ferris et al 1999; Hendry et al 2000). The unions assert that individualistic PA results are unfair as they ‘fail to allow individuals the opportunities to have their say’. On the other hand, they argue that group-based PAs allows for ‘broader jobs, broader skill bases, investment in people’s capabilities, and responsible teams’.

**Overarching Principles**

The unions identified some overarching principles to ensure effectiveness:

**Consistency**

According to one union [blue-collar] it is important to consider consistency within the company and the culture of the company. Moreover, the PA system needs to be applicable to all in the organisation. Creating these shared values, expectations and beliefs is essential to the success of any PA program (Creelman 1995). This is on the basis that often a PA system only applies to the lower levels of employees, with management exempt from the process. The unions’ believe inconsistency is a source of conflict within the organisation, as it further exacerbates the ‘them and us’ attitude.

One union [white-collar] made an interesting observation concerning consistency – and cited examples of employees in their industry being made redundant while managing directors received a ‘handsome bonus’.

**Transparency**

From their experience, both white and blue-collar unions alike assert that to have an effective PA system, the systems need to be open, transparent, and agreed to in advance. People need to have control over the performance indicators, and there should be a well-documented procedure. However, they also recognise that in practice, this has yet to materialise. This is consistent with Tuckman & Finnerty’s (1998) findings that transparency is absent in the procedures for determining the criteria for individual performance and the measure of reward in pay evaluation. In this context, the unions see a need to build into the PA system collective procedures agreed with unions.
Mutuality
Researchers contend that PRP appears to lack procedural justice and fairness and appropriate voice mechanism at the workplace (Taylor et al 1995; Dulebohn & Martocchio 1998). There is little evidence of any form of bilateral negotiations and there is a general lack of pluralistic decision-making (Deery & Walsh 1999a). Hence, although the unions tend to agree with the two previous principles, a much emphasis has been placed on mutuality. One union [white-collar] maintains that if employers operate on a genuine mutual arrangement with employees, PA could be seen to be effective. By limiting management’s propensity to unilaterally implement and change PA systems, the unions emphasise the necessity of their involvement in the PA process.

System Design: Union Role
The unions agree that unions should have a role in the design of a PA system. One union [white-collar] believed that the union should be consulted in the development, implementation, the review, and the modification of the PA and PRP system. However, from the document analysis and expressed problems of PA and PRP provisions in EBAs, there is no guarantee that in practice PA and PRP will be implemented as prescribed.

Although one blue-collar union’s preference would be to avoid all kinds of PA and PRP, they argued that if the PA system’s introduction was inevitable, their involvement would be necessary to ensure a fair system.

The other white collar union asserted that any system should be put in place by a process of discussion and consultation to ensure: union involvement minimising the often ill-conceived ideas about PA to provide for more credibility; and incorporation of the union’s experience to ensure a more effective PA scheme.

However, conversely to the other participating unions, this union emphasised a somewhat different role for unions in the appraisal process. While the others indicated a detailed role concerning design and implementation of PA and PRP, they maintained that their ‘role is just to steer them in the right direction’. Their focus is on ensuring that there are some principles observed in the way the system is implemented.

To date, little research attention has recognised the need for union involvement in PA and PRP. However, rather interestingly, the findings from this research appear to be consistent with some earlier research findings. For example, in a study undertaken by Heery (1997a), PRP schemes seemed to be less rigorous, less participative and less well managed where unions were absent. Hence, while not conclusive, the evidence does suggest with their experience, unions may exert a beneficial influence on management. Thus, this argument advances that not only may unions be compatible with new management techniques, they may positively reinforce them (Heery 1997a), a conclusion advocated by all the unions participating in this thesis.

ENTERPRISE AGREEMENTS AND PA/PRP
Nankervis & Leece’s (1997) survey found a reported level of inclusion of PA in enterprise agreements at fourteen percent. The participating unions here expressed strong sentiments concerning the inclusion of PA in enterprise agreements. A white-collar union regarded it important for PA and PRP to be in agreements, as this indicated that it had gone through a genuine bargaining process and not unilaterally implemented by management. All four unions’ fundamental reason for whether PA is formally documented in agreements is based on a perception of either trust or lack of trust with management to implement PA systems fairly.

Union Power and PA and PRP
Brown (2000) argued that there is a case for exercising caution on findings that demonstrate positive or negative outcomes of PRP. Vested interests are always a concern. Hence, in considering a union perspective of PA, and how they would improve PA systems, the effects of PA and PRP on unions, especially union power, needs to be taken into account.
One of the two blue-collar unions argued that union power was about collectivism at the workplace, workplace democracy with processes that deal with issues on a collective and fair manner. Hence, PRP was not seen as a threat to their union power, as it didn’t affect workplace democracy. Another perspective was provided by one of the white-collar unions. They conceded that PRP might be perceived as a threat to union power – nevertheless their opposition to PRP was based on their ‘bad experiences’ with the system. However, one union [blue-collar] maintained that PA is often used as a ‘short-term tool by an organisation to derecognise unions by ensuring people are no longer employed agreements and awards’. This is achieved by bestowing employees with very large up-front pay increase in lieu of certain provisions with guarantees of continual PA, which diminishes with time. This perceived threat of union power, may have a strong impact on this union’s view of PA and PRP. Conversely, the other white-collar union saw no threat, they felt that their union power had not diminished and they had considerable input in the PA system.

This revelation is in stark contrast with the findings of Kessler (1995) and Deery & Walsh (1999b), and Gunnigle et al (2000) that PRP is an invasion of collective relations between unions and employees.

The fundamental discrepancy between management literature and unions’ perspective is that despite all the problems that plague the PA and PRP system, the management literature readily espouses the necessity of PA. This is reflected in the increasing adoption of the process by many organisations. Indeed, some researchers even go as far as saying there is no alternative (Segal 2000). However, the union perspective directly contradicts this observation; they believe there is an alternative. One white-collar union recognises that PA linked to pay may work in theory in ideal situations, but that it is not the best way to recognise and remunerate people. As they see it - increased training, more responsibility, greater job security, recognition and capabilities for self-improvement will lead to higher motivation and real improvements in performance.

CONCLUSION

Writing nearly a decade ago, Ferguson & Odgen (1993) stated that there is increasing union acceptance of PA. The discussions and analyses in this paper suggest this assertion is still to come to fruition. While PA and PRP have the potential to provide some benefit to employees and organisations, negative experiences and consequent problems have reduced this support. More specifically, union opposition is on the basis that PA only has an evaluative function, that is, to link performance to pay.

Unions regard the process as complicated and disadvantageous to workers. However, one unions’ view cannot be ignored. While the general conclusion is that unions are opposed to PA and PRP, one white-collar union embraced the concept of PA and PRP. In many respects, their view is similar to that of the other participating unions, in regard to the problems of PA and PRP, and the factors to minimise these problems. But on the other hand, this union’s support for the managerialistic framework of PA and PRP constitutes a fundamental difference in perspective. It also indicates that while the unions under discussion do not differ significantly to others in the international arena, there is potential for change. This change will be dependent on a union role in the PA and PRP process and the development of ways and instruments to ensure that the theory and practice of PA and PRP is aligned.

In sum, it appears that despite the rhetoric, PA and PRP are problematic. Firstly, while PA can secure union support if it is used as solely an informative feedback mechanism, PRP is the crux of union opposition. Although in principle PRP is simple; the better the level of performance, the higher the pay, it is the unions’ perspective that the problem arises with its operation. Fundamentally, there needs to be congruence between theory and practice of PA and PRP. In this paper, many of the issues raised from the themes are not new revelations; the persistent nature of PA problems is testimonial to this problem. Despite the theory on how PA benefits organisations, in actual practice, the principles of PA are not adhered to. Aligning theory and practice has been, and will continue to be one of the most difficult problems to resolve in the area of management. Other than ensuring that theories are more ‘realistic’, one way to deal with this problem is to ensure that policy makers provide for effective follow up measures to ensure that the provisions are actually put into practice, and not just proposed in policies and agreements. The imperfect power balance between management and employees means that union participation must be on a genuine basis.
REFERENCES


