Undermining or Reframing Collective Bargaining? Variable Pay in Two Sectors Compared

Paul Marginson, James Arrowsmith, Molly Gray

Industrial Relations Research Unit
Warwick Business School
University of Warwick, CV4 7AL
e-mail: Paul.Marginson@wbs.ac.uk
1. Introduction

Two major trends have characterised recent developments in pay setting in the UK: the continued retreat of collective bargaining over pay, and a growing emphasis on systems of variable pay. On the first, the proportion of employees in workplaces employing at least 25 who were covered by collective bargaining fell from 70% to 41% between 1984 and 1998 and had slipped further to 39% by 2004 (Millward et al, 2000; Kersley et al, 2006). As for the second, the proportion of workplaces with individual or group performance-related schemes – including both merit pay and payments-by-results - rose from 20% in 1998 to 32% in 2004, whilst the proportion of workplaces in the trading sector of the economy with profit-related pay, which had risen rapidly in the second half of the 1980s (Millward et al, 2000), remained constant at around 40%, despite the abolition in 2000 of the favourable tax regime for such schemes (Kersley et al, 2006).

The defining features of variable payments systems (VPS) are an explicit attempt to shift to performance-related criteria, whether focused on the individual employee, work group, establishment and/or company as a whole and, as a consequence, increase the proportion of pay which is ‘at risk’. This is a clear contrast to the universalistic, standardised and predictable characteristics of time-based pay. Three types of VPS are conventionally identified: payments-by-results (PBR) including piecework, commission and productivity and sales bonuses, where there is a direct relationship between pay and employees’ output; schemes that encourage employees to work to certain standards, such as merit or performance-related pay based on management appraisal; and profit-related pay schemes, which entitle employees to a share of the company’s performance or profitability. The first type is long established; forms of the second based on appraisal or performance review are more recent, as is the third.

The rise of individual performance and profit-related pay is consistent with the central role accorded to appropriate reward management in the human resource management literature, and in particular by proponents of the ‘new pay’ (e.g. Lawler, 1990). Advocates of ‘new pay’ place emphasis on rewarding individual performance, but additionally contend that pay needs also to be linked to business performance: variable pay should operate at multiple levels. Employees, however, might prefer pay to be based on criteria such as job content and hours worked, reflecting an aversion to risk rooted in the fact that pay is the primary means of livelihood. Yet, as Druker and White (2000: 14) observe, although ‘the ‘new pay’ treats employees as important partners … it is not clear that employees or their representatives are to be partners in determining the pay system itself’. More starkly, one of the major managerial goals for performance pay identified by Kessler and Purcell (1995) is that of attempting to marginalise trade union involvement in pay determination. ‘New’ VPS, in other words, could serve to undermine collective bargaining over pay.

Yet there has been little exploration of the actual relationship between VPS and collective bargaining over pay – whether the former undermines, leaves in place, reconfigures or even strengthens the latter. The available evidence is limited and shows mixed results (Heery, 2000). The paper addresses this gap by drawing on findings from an in-depth study of VPS in companies from two important sectors which continue to engage in collective negotiations over pay; banking and machinery and equipment. Section 2 draws on the available literature to identify the implications for trade unions of ‘new’ VPS, and the managerial objectives underpinning them, the extent to which schemes have become subject to collective negotiation, and the possible relationships between VPS and collective bargaining. The design of the study is outlined in section 3, including the rationale for the choice of the two sectors. Findings from company case studies in the banks and in machinery and equipment
are reported in sections 4 and 5, respectively. Section 6 reviews and compares the findings from the two sectors, identifying some cross-sectoral similarities as well as differences. The final section draws some conclusions.

2. Variable pay, trade unions and collective bargaining

The implications for collective bargaining of the growing emphasis on variable pay systems (VPS) will be shaped by the managerial goals which underpin them, as well as by trade unions’ responses. There will thus be variation by sector and firm-level considerations, as well as according to the type of VPS under consideration. Considering in turn the three types of VPS identified above, traditional PBR systems are intended by management to incentivise employees to increase effort and thereby output. Although the incentive mechanism has long been questioned in terms of its motivational effects, it ‘continues to inform management thinking’ (Druker, 2000: 112). Concerning performance pay, Kessler and Purcell (1995) distinguish three sets of managerial goals. The first is pay flexibility, which is designed to reduce and/or better focus the pay bill and provide for more effective ‘cost control’. Focus, which itself aids cost control, also includes considerations of labour retention and promoting other flexibility objectives, such as task flexibility. The second relates to soft development goals and is concerned with corporate culture and employee motivation. These goals are to be realised through individual, appraisal-based, dialogue with management. Increasing use of performance-management systems has brought a harsher, judgemental element to the process. The third, labelled ‘hard, exclusion goals’, is consciously intended to marginalise trade union involvement in pay setting. Managerial objectives for profit-related pay are also three-fold (Hyman, 2000). One is ‘reward’, which flows from the idea that employees should share in the organisation’s success, with indirect benefits arising from an expected positive effect on employee commitment. The second is ‘cost control’ - since a proportion of employees’ pay is ‘at risk’ labour costs will vary in line with profits. The third concerns ‘communication’ of corporate goals; focusing employees’ attention on profit and other business performance indicators sends a message about business priorities.

Whilst the implications of hard exclusion for collective bargaining are clear, other managerial goals also entail challenges for trade unions. Both traditional PBR and individual performance pay pose concerns of equity between members. Scope for the exercise of managerial discretion under appraisal-based performance pay raises issues of fair treatment and procedural justice. Better targeting of expenditure on pay can place across-the-board settlements, and the principle of the ‘common rule’ which underpins them, in jeopardy. Profit-related pay challenges the associated idea of the ‘rate for the job’ to be paid whatever the circumstances of an individual employer. More generally, Heery (2000) identifies five reasons for trade union opposition to VPS. First they represent a threat to the security and stability of members’ earnings. Second, VPS can have perverse effects; for example, individual performance pay can demotivate some employees and undermine team work. Third, VPS can widen differentials between individuals, between teams and between segments of the workforce in different parts of the business, and also between male and female employees. Fourth, individual-based schemes in particular can be divisive, undermining the capacity of unions to develop collective organisation and goals amongst members. Fifth is the threat to the union’s procedural role as the collective bargaining agent of employees.

These sources of concern have shaped unions’ position towards different forms of VPS. Individual performance or merit pay, because it threatens to combine all five of the above, has been a particular focus of union hostility. A 1994 survey of trade union policy towards
individual performance pay (Heery and Warhurst, 1994 cited in Heery, 2000) found that just over two-thirds of unions were opposed. The grounds for union antagonism are underlined by evidence that firms that have de-recognised trade unions have moved furthest in developing individual performance pay (Brown et al, 1998). In contrast, profit-related pay has attracted comparatively less union hostility; a fear that it may expose a greater proportion of employees’ earnings to risk may be tempered by the view that it promises a return to labour over and above what may be secured through conventional bargaining. Indeed large unionised firms are more likely to have such schemes than their non-union counterparts (Pendleton, 1997). Pendleton suggests that profit-related pay could be complementary to, rather than corrosive of, established pay structures, because its premise is more to do with participation than incentivisation.

Yet, despite principled opposition, ‘in many cases union policy towards payments systems of this kind are marked by ambivalence’ (Heery, 2000: 66). Of the unions in the 1994 survey with a policy opposed to individual performance pay, only a minority were ‘committed to resistance’; the larger number reported that they were ‘prepared to accept’ it. As ‘irredeemable bargainers’ (Crouch, 1982: 117), trade unions can be ‘prepared to accept’ so long as there is the opportunity to jointly regulate schemes with management (Kessler, 1994). Faced with growing emphasis on individual performance pay they have sought to influence the design, functioning and outcomes of such schemes through the processes of collective consultation and negotiation. The effect has been a formalisation of management practice which has limited the exercise of management discretion in various ways and made operation of the schemes more transparent (Heery, 2000). Conversely, insofar as there is union opposition to profit-related pay its source lies in the non-negotiability of such schemes (Baddon et al, 1989).

From management’s perspective, engaging with trade unions over VPS can bring benefits in terms of legitimacy and voice. Trade union ‘voice’ can help identify employees concerns and facilitate the resolution of the well-documented practical problems associated with schemes such as individual performance pay, effectively summarised by Kessler (2001: 213-4). Consultation and negotiation with unions may help reassure employees and legitimate the systems being put in place and their subsequent functioning (Bowey and Thorpe, 1986).

Although at first sight variable pay sits uneasily with established practices of collective pay bargaining, the relationship between the two thus seems open to a range of possibilities. Particular types of VPS may indeed have the effect of undermining collective bargaining. But others may sit alongside, and leave unaffected, collective pay bargaining arrangements. There is also scope for reconfiguration of collective bargaining, with for example negotiation occurring of the framework, procedures and distributional outcomes of VPS and over the available financial ‘pot’ for pay increases. The relationship between VPS and collective bargaining is not pre-determined, and the idea of a range of possible scenarios frames the empirical analysis which follows.

3. Research design and methods

The research design is cross-sectoral, comprising comparative sector and company case studies in two sectors: retail banking and machinery and equipment (from within the broader engineering industry). A comparative case study approach, although rarely used in studies of VPS, has been described as crucial to the understanding of developments in pay (Kessler, 1994: 123-4). Systematic comparisons made within and between sectors are likely to best reveal the factors that shape VPS and its interface with trade union activity and collective
bargaining. The cross-sectoral design of the study is consistent with the ‘method of difference’, whilst insofar as multiple company case studies throw light on intra-sector variation the design also embeds the ‘method of agreement’, as elaborated by Djelic (1998).

The two sectors entail a contrast between manufacturing and services, and given the focus of the field research in machinery and equipment, between blue- and white-collar employees. The pertinence of the latter is underlined by the distinction between wage and salary systems which, despite movement towards harmonised remuneration systems in some organisations, remains a significant feature of UK payments systems (Druker, 2000: 107). In terms of markets, machinery and equipment is highly exposed to international competition whereas the important retail segment of banking has remained more sheltered, if subject to some recent international merger and acquisition activity. Profit margins in machinery and equipment are under continuous pressure, whilst banking remains highly profitable. Even so, the deregulation of financial markets and arrival of new modes of delivery for retail banking services have wrought profound changes in the sector, including an intensification of competition within the domestic market (Storey et al, 1999). There are some broad similarities between the two sectors too: both have a well-established trade union presence and collective bargaining coverage above the median for the private sector. The respective figures in 2003 (the most recent available from the LFS at this level of disaggregation) for banking were 33% for union density and 43% for bargaining coverage; for machinery and equipment they were 27% and 30%. They are also, for different reasons, significant sectors for an examination of VPS and its implications for collective bargaining.

In retail banking the profound changes unleashed by financial deregulation and the coming of new telephone and internet technologies have included an overhaul of payments systems in order to incentivise performance rather than to reward long service and experience. The use of both merit (appraisal-based performance) pay and bonus has become increasingly common, and the sector is a pace-setter in terms of the diffusion of VPS. According to a 2004 survey of 35 pay settlements in banking, 80% of organisations used an all-merit approach to determine employee pay increases, compared to 68% in 1997 (IRS, 2004). The use of bonuses is also widespread: the New Earnings Survey (NES) indicates that 30% of employees were in receipt of bonus payments in 2003. According to the Annual Survey of Earnings and Hours (ASHE), which succeeded the NES, bonuses accounted for just over 10% of employees earnings in 2004. The 2004 Workplace Employment Relations Survey (WERS) found that financial services had the highest incidences across all sectors of performance-related pay (which includes merit pay) – found at 82% of workplaces with 10 or more employees – and profit-related bonus – found at 67% (Kersley et al, 2006: 189-93).

In contrast, the significance of machinery and equipment rests not so much on any evidence of widespread diffusion of new forms of variable pay in recent years. Indeed, as with other manufacturing sectors, the most striking recent development in pay for blue-collar workers has been the decline of traditional, output-based payments systems (Druker, 2000: 115). Rather it lies in the workplace bargaining over piecework and PBR bonus systems which had come to characterise engineering a quarter of a century ago (see, for example, Brown, 1973; Lerner et al, 1969). Data from the LFS indicate that these forms of VPS have all but disappeared: in 2004 less than 1 per cent of employees in machinery and equipment were in receipt of traditional PBR bonus. More generally, official figures confirm that the incidence of VPS in machinery and equipment has continued to decline over recent years. The NES indicates that the proportion of manual employees in the sector covered by incentive pay (which includes all forms of variable pay except Inland Revenue approved profit sharing schemes) fell from 26% to 19% between 1994 and 2001. Since 2003, ASHE has combined manual and non-manual workers into a single figure which does not permit comparison: 18%
of all employees were in receipt of variable pay in 2003. The proportion of earnings accounted for by variable pay is modest, at just under 5% for all employees according to ASHE. Findings from the 2004 WERS are not disaggregated within the wider manufacturing sector, where one-quarter of workplaces reported using output-based schemes and 38% to have profit-related pay. Insofar as companies have VPS in place, there is little recent evidence on the extent to which they continue to be a focus of collective bargaining.

The research commenced with a programme of sector-level interviews, undertaken in 2005, with employers association and trade union officials at national and, for machinery and equipment only, regional (West Midlands) levels together with a review of relevant documentation. This phase was designed to identify broad trends and developments in payments systems in the two sectors, and elicit views about these. A set of company case studies followed, six each in banking and machinery and equipment, which were undertaken between late 2005 and the end of 2006. Interviewees included HR managers, remuneration specialists (in banking only) and manufacturing managers (machinery and equipment only), and trade union officials and lay representatives. In the banks, interviews were at company or business level; in machinery and equipment they were at site level and, where appropriate, at the level of the relevant business within the wider group. These interviews followed a standardised semi-structured schedule covering economic and market context, industrial relations and collective bargaining, payments systems, the VPS in place or recently abolished, management objectives in relation to these schemes, the position of trade unions towards VPS and the extent to which schemes are subject to union influence, including collective negotiation. Agreement to access at the several of the companies was conditional on the identity of the organisation being anonymised in subsequent reports on the findings.

Table 1 summarises key features of the case study companies. The six cases in retail banking included three clearing banks (CB1, CB2 and CB3), a direct bank (DB) and two building societies (BS1 and BS2). CB1 is one the ‘big five’ banks which each account for significant UK market share and employment. CB2 is medium-sized and converted from a building society following financial de-regulation. CB3 is a medium-sized, regionally-based bank which has been acquired by a foreign-owned banking group. DB is a subsidiary of a larger banking group and exclusively provides telephone and internet banking. The two building societies provide contrasts in scale and scope of operation: BS1 is large and offers banking services as well as the mortgage and savings facilities traditionally provided by this part of the sector; BS2 is smaller and regionally focused in terms of its branch network, and does not offer a full banking service. Multi-unionism is a feature of two of the clearing banks, although inter-union relations differ. There is rivalry between the two unions organising in CB1. At CB2 the former staff association, which converted to a trade union more than a decade ago, was joined by two further trade unions as a result of the acquisition of the smaller bank. The unions, which organise different segments of the bank’s operation, respect each others’ spheres of influence. CB3 and DB both recognise a single union. Both of the building societies also recognise a single union. A single bargaining unit covers the retail operations of five of the banks, although the two unions at CB1 bargain separately within the single unit; CB2 has two national bargaining units covering different groups of staff.

The six machinery and equipment companies are all part of multinational groups, though the parents of M4, M5 and M6 are rather smaller in the global scale of their operations than the other three. Their economic situation varied, with financial difficulties having been encountered at some point in the past decade at four (M2, M4, M5, M6). Five reported a growth in international competition and/or increased international outsourcing of parts and components; the sixth (M5) foresaw similar pressures arising in the near future. Production typically involved machining, assembly and test, although M6 only undertakes assembly and
test and M5 had comparatively less machining activity as compared to the other four. All six companies belonged to the relevant regional association of the EEF. Three recognised trade unions for white- as well as blue-collar employees (M2, M3 and M4) and the other three for blue-collar employees only. Strong shop steward organisations were in place at the two largest sites (M1 and M2); in three of the other four companies (M4, M5, M6) stewards were either newly elected or senior positions were vacant at the time of fieldwork; full-time officials were routinely involved at three (M3, M4, M6). Collective bargaining arrangements were single table, covering blue- and white-collar employees, in the three companies concerned; in the other three there was a single bargaining unit covering the blue-collar workforce.

4. Findings from banks

Two main types of variable payments system (VPS) are generally found amongst the six banks, as elsewhere in the sector: performance bonuses paid at different levels (individual, team, business/corporate) and merit pay. DB, where there is no merit pay, is an exception. Table 2 summarises key features of both types of scheme at each of the banks. The two types of scheme are examined in turn commencing with performance bonuses; management rationales and union responses are then considered.

Profile of VPS

There are differences in the incidence and nature of bonus schemes, but most schemes are long-standing, having generally been in place for at least 10 years. CB1 has a range of mainly sales-based, individual incentives for customer-facing staff in the branch network and call centres, numbering as many as ‘twenty to thirty’ schemes. At CB2 there are also a number of incentive schemes, the most important of which is the branch bonus in which the bonus pot is generated by team performance but its distribution reflects individual performance. BS2 has different schemes for branch and call centre, and head office staff. These are team-based, although distribution for sales staff also reflects individual performance. None of the three have a corporate performance bonus. CB1, however, has a share incentive scheme which involves allocation of free shares to employees and CB2 had a similar scheme until it was withdrawn in 2005 as an offset against rising pension costs. This former scheme was originally a (profit-related) company performance bonus, which was converted to a share scheme following the ending of the favourable tax regime for profit-related pay in 2000. This was the only recent instance amongst the five cases of a scheme being terminated.

The other three banks have bonus schemes operating at more than one level. CB3 has a general bonus which is linked to both individual performance ratings and company profitability; it also has incentive schemes for sales and for other frontline staff. DB has a corporate performance bonus and, since 2004, several individual sales and service incentive schemes for customer-facing staff. It also has a share scheme for employees with scarce skills and management grades, which covers around 15 per cent of the workforce. Like CB3, DB’s corporate performance bonus is a hybrid, which combines corporate performance targets (relating to both the direct bank subsidiary and the parent group) with individual performance ratings to generate a person-specific payment. BS1 has a corporate bonus, triggered by a combination of business performance indicators, and team-based bonuses, which reward branch or sub-unit performance in terms of sales and quality indicators. In addition, it uses individual incentive payments for sales staff (who may therefore receive three sets of bonus).

Coverage of the schemes varies according to the type of scheme, but all employees are covered by at least one form of scheme in five organisations, whilst coverage of the various
incentive schemes at CB2 extends to 60% of the workforce. Team bonus amounts to little more than 1% of earnings at BS1, but can reach as high as 28% at BS2. Individual incentive schemes pay out 5-6% of earnings at CB1, but as much as 20% at CB2. Average recent payments under the corporate performance bonus schemes have amounted to 12-13% of earnings.

In terms of basic pay systems, five of the banks have an individual appraisal-based element to the pay award. At the three clearing banks, allocation of the total spend, or pay pot (agreed in negotiations with the trade union) is on the basis of a matrix involving position on the relevant scale and performance as assessed by management appraisal. Pay increases can arise from performance-ratings and/or progression through the scale towards target salaries for given roles, which are fixed according to ‘market rates’. Basically, higher performers who are lower paid receive higher proportionate increases than those who are lower performers but have progressed further up the scales. BS1’s scheme adds a salary progression element for ‘below market’ staff to the appraisal increase. There is no progression element to BS2’s merit pay scheme, which solely rests on appraisal-based performance ratings. All but one of the schemes are long-established, dating back to the early and mid 1990s, although at CB1 there have been several subsequent changes to the scheme. BS1’s scheme is more recent, having been introduced in 1999. The proportion of earnings involved is smaller than for bonuses; there is much less dispersion too, with most staff receiving merit awards approximating to RPI. In part this is a product of generally low pay pots, reflecting the link to inflation of the overall paybill increase, but – in the case of CB2, CB3, BS1 and BS2 – it also reflects accommodation of trade union negotiating objectives (see below).

Management: ‘drivers’ of VPS

Given the longevity of the majority of the schemes, ‘hard’ data on the factors lying behind their introduction were limited, though respondents were able to make a case for why they have been sustained. The origins of company performance bonuses were said to lie in the tax regime for profit-related pay, introduced in the 1980s and terminated in 2000. Respondents at CB2 and BS2 (both smaller players in their respective segments) also referred to conforming to sector norms in payments schemes, and BS1 pointed out that alternative benefits like ESOPs were not available in the building society sector. Company-wide performance bonus was seen as useful to compete in the labour market, as well as ‘reward’ employees and underpin the message of competitiveness. The three main objectives of corporate schemes were therefore to reward (enable employees to share in corporate success without increasing basic pensionable pay), to communicate corporate goals, and to retain staff (given other companies offer similar schemes).

The introduction of team-based and individual incentives accompanied the shift in culture from ‘telling’ to ‘selling’ that came in the wake of financial deregulation. Their more recent introduction at DB in 2004 was seen as conforming to sector norms in a more competitive product and labour market context where the influence of the parent group on a range of HR practices was said by union representatives to be growing. They were thus linked both to employee retention, for the best performers, as well as to incentivisation, or work intensification, more generally. The objectives of team and individual bonuses are primarily to incentivise, in support of business targets. They are therefore often introduced and ‘owned’ by the line, not least as they are seen to be self-generating. This leads to a fragmentation and complexity of schemes which can be frustrating for HR and rewards specialists as well as for the trade unions (as the national officer in CB1 remarked, ‘it is difficult to keep track of them... I’d not be surprised if there are other bonuses that we don’t
know about’). The Senior Rewards Manager at BS1, which has some 33 incentive schemes, put this most succinctly:

“It’s a lot easier to put a scheme in than it is to take it out... No matter how many times you say it’s a discretionary scheme, if you have been doing it for a number of years, it becomes custom and practice and therefore people are entitled to think of it as a contractual benefit. So you can’t just stop it. That’s why we often advise people not to put these in.”

Companies are beginning to take a more holistic view of incentives, however, given changes in the nature of sales roles and, perhaps most particularly, following the Financial Services Authority’s ‘Treating Customers fairly’ initiative. CB1, for example, which maintains what it describes as a median industry approach to incentive pay, at around 6-7% of employee earnings, introduced a ‘balanced scorecard’ approach some 5 years ago to emphasise a service as well as sales-driven approach to business generation.

Merit pay schemes were triggered by the termination of the clearing banks’ national pay agreement in 1987 and growing market competition following financial deregulation. The substitution of former service-based, incremental pay schemes with appraisal-based performance pay reflected a context of changing job requirements and a large proportion of long-service staff who employers felt were, in these changed conditions, paid over the market rate. According to a long-serving union official in CB2, they were ‘sold’ to the unions on the basis that performance pay would supplement inflation-linked pay awards for most staff, but perhaps most crucially, unions were on the defensive in a context of mergers and branch rationalisation.

If the original objectives of introducing the schemes were cost control allied to a modest incentive effect from rewarding strong individual performance, more recently merit pay has been seen as underpinning a more rigorous performance management system. This shift has been associated with the growth of individual, team and corporate bonuses as the primary vehicle of incentive pay. By getting employees to focus on things that the organisation needs them to do, communicating that message and developing line managers to support and recognise the work of employees in the desired way, it is the performance management system that motivates and equips employees to higher performance, rather than merit pay itself. This was an important rationale for the introduction of the balanced scorecard at CB1, for example, the new retail director identified it as a core practice in the business strategy of becoming a ‘high performance’ organisation. The Rewards manager at CB3 said that in terms of base pay, where “everybody is doing the same kind of job you really should all be given a similar amount of money... you get the right level of pay for doing the job that you do”, and it should be the bonus that reflects differences in ability. However, a merit element is maintained because “the difficulty that we have culturally is that we need managers to take ownership for their people and their people decisions. So that is one of the drivers for us to do it”. This also helps to explain why companies remain attached to merit pay even though it involves well-recognised difficulties of goal-setting, measurement and commitment of management time and when, typically, the pay dispersion involved is small. Indeed, the limited dispersion of pay outcomes helps to defuse a critique of the process itself.

Trade unions’ position and involvement

1 ‘We are not opposed to performance-related pay. We recognise that remuneration is important to motivating staff. What we do expect is that firms think how remuneration could encourage the wrong sorts of behaviour and act accordingly’ Oliver Page, Director of Major Retail Groups Division of the FSA, speech 16/02.05 “Treating Customers Fairly” (TCF). He recommended setting wider objectives rather than sales volume targets, including the balanced scorecard approach.
The position of the unions over bonuses is ambivalent: they want members to achieve higher earnings, but not to the extent that this represents a dampening effect on pensionable pay and means that a significant proportion of earnings becomes at risk. The unions at CB1 do not believe that the bank’s incentive bonuses have the effect of suppressing the basic pay ‘pot’, partly because they are a relatively low proportion of earnings, but also because they are self-generating and employers still need to compete on basic pay to recruit and retain staff. Employees have a strong interest in maintaining real basic pay, regardless of bonuses, which in any case are often highly differentiated according to business unit, and vary with business priorities. However there are fears that where corporate performance bonuses form a high proportion of earnings, as at BS1, this could have a detrimental effect on pensionable pay in terms of re-directing resources and framing employee expectations as they become accustomed to large lump-sum payments.

Unions generally do not want to be involved in collective bargaining over bonuses, though they do demand consultation and involvement over broader issues of design and monitoring. Partly this is because it would effectively endorse systems to which they remain ideologically (if not practically) opposed, and because they do not want to be identified with such variations in pay: ‘If it is good the company will claim the benefit anyway, but if it is bad the members would say why did you agree to this? It’s a no-win situation for the union’ (union official, BS1). Unions also have difficulty representing members with ‘one voice’, as the workforce becomes polarised between sales-averse long-service staff and younger recruits. Their ‘key objective is to make sure that the bonus schemes are fair and that targets are achievable’ (union official, CB2). Bonuses are also subject to consultation rather than negotiation because the companies view them as local ‘business tools’ which might need to be changed quickly. ‘Our position on bonus schemes is very much that they are discretionary benefits that are subject to change or subject to being withdrawn’ (manager at CB2). Even so, as one senior union official at CB1 put it, often ‘where consultation stops and negotiation starts is a question of degree’. Management is generally open to union influence in order to demonstrate openness and fairness to employees (although on the basis of our interviews reward specialists appear to be more impatient with trade unions than their employee relations colleagues).

Union officials and representatives also shared a dislike in principle of appraisal-based merit pay, but have come to a similar pragmatic acceptance in practice. One factor is a concern with the importance of transparency and consistency in the operation of schemes. Here, the priority might be, according to a union national officer at CB1, to ‘place more regulations around how individual pay is determined. That’s the greatest philosophical divide between us and management.’ There is full information and consultation in each company around the apparatus of merit pay such as the appraisal scheme, matrix formula, market pay data, progression schemes etc, which opens scope for union involvement and influence. Secondly, practical constraints of the overall size of the pay pot limit what the schemes can achieve - they have not been as ‘variable’ as might have been feared. In the early years of most of the schemes, when inflation was running at between 4 and 6%, the application of the matrix could result in some dispersion of individual awards. Schemes ‘probably worked after a fashion’, but as a union rep at CB2 explained, with a typical pay pot of RPI plus 1% ‘if you get RPI of 2.1 and then put 1% on top to 3.1 its very little room to play with’. In most cases, therefore, and given the increase in variable pay in the form of bonuses, the banks have become open to union claims for greater standardisation.

In all but CB1 unions are able to negotiate over the percentage allocations attached to appraisal ratings or across a pay matrix in addition to the broad parameters of the pay pot. In this way a de facto RPI-plus mechanism operates concerning the level of the pay pot, and
unions are also able to secure at least RPI for employees rated good or above in their appraisal – in other words, most of the workforce. The exceptional case, CB1, involves a pay system which has a strong market element but limited discretionary (base) pay as a result. In the earlier matrix system, which was abandoned in 2004, an increasing number of good performers, who found they had moved above market rates on their pay scales, were allocated low (or even no) percentage increases that fell short of RPI. This provoked an industrial dispute in 2005, eventually settled by a compromise agreement with the smaller union. (A similar dispute occurred around the same time with another of the ‘big five’).

If unions’ concerns over bonuses focus on procedural fairness, then, with merit pay there remains a strong substantive dimension too. In a context of low inflation, union pressure has contributed to a degree of standardisation in merit pay arrangements for most employees. As a result, as several management respondents pointed out, merit pay is not seen by employers as a truly variable payments system, in contrast to bonus schemes. Not only is it not variable along a temporal dimension, in that resultant pay awards add to fixed costs and cannot be withdrawn; the criteria for generating the overall ‘pay pot’, negotiated with the unions, operates by a more or less standard ‘inflation plus’ formula. And, crucially, in terms of implementation, most employees receive a pay increase not far off this actual figure. Only those relatively few employees that managers feel able to rate as outstanding or ineffectual receiving a significantly different increase to pay.

5. Findings from machinery and equipment companies

The focus amongst the machinery and equipment companies was on the manual workforce. Only one of the six companies had an element of pay that was appraisal-based, with VPS at the other five taking the form of bonus payments.

Profile of VPS

Five of the companies had a single scheme in operation, whilst one company had two. Three of the schemes had been introduced in the 3 years prior to fieldwork; the longest established had been in place for 11 years. Current schemes had replaced previous VPS at five of the companies (although in M1 and M3 this occurred 9 and 11 years ago, respectively, and reliable data on these previous schemes were not available); one company (M2) had no VPS prior to the introduction of its two current schemes.

The main factors triggering the introduction of the various VPS and the abolition of former schemes were major organisational changes; financial difficulties; and negative features of previous schemes. A change of ownership had resulted in the introduction of the new parent’s group-wide company performance bonus at M1, and the abolition of the former parent’s group-wide bonus at M6. At M4 it was a new senior management team put in place after the company was acquired by venture capital investors which took out the former piecework bonus scheme and introduced the current company performance bonus. At M2, the move to a new site was accompanied by a negotiated overhaul and modernisation of working practices, including the payments system, which included the introduction of the site-performance bonus. M2 was the only case where the introduction of a new scheme was linked to major production reorganisation. Financial difficulties were a significant factor in prompting changes in VPS at M4 and M5. Negative features of former piecework bonus schemes, elaborated below, were also a factor prompting change at the same two companies.

Table 3 summarises key features of the current schemes together with the previous schemes at M4, M5 and M6. VPS at four of the companies took the form of a company performance bonus, akin to profit-related pay (including M2 where the two bonus schemes related to
performance at different levels of the organisation). M1 and M2 both have corporate group schemes which comprise group and divisional performance elements. Bonus payment is linked to profitability and also, with the exception of M2’s group-level element, other indicators such as process efficiency and quality. The schemes at M3 and M4 are site-specific schemes; in both cases the site is a profit-responsible business unit within the wider company, and the bonus is triggered above a minimum profit threshold. The second scheme at M2 is also based on site performance, but in this case the site is a cost centre and a ‘product cost’ measure is used as a proxy for profitability; performance on quality and delivery are also taken account of. M5 has a productivity bonus, which is triggered when factory efficiency exceeds standard times established by work study. At M6, appraisal-based payments were introduced in 2002, but have only been paid in the two years since when financial margins generated a pay pot which exceeded that required to meet a general cost-of-living increase. Of the three previous schemes, two – at M4 and M5 – were piecework bonus schemes; the third was a group-wide company performance bonus (M6).

A feature of the schemes is their inclusiveness. The coverage of the company performance bonuses extends across all employees, white- as well as blue-collar (although senior managers come under separate schemes in some cases). Arrangements for appraisal-based payments also cover all employees at M6. M5’s productivity bonus extends across the blue-collar workforce, but not to the (non-unionised) white-collar staff. In contrast, the coverage of the two former piecework bonus schemes was confined to the direct production workforce.

Bonus payments are a mixture of earnings-related and flat rate amongst the five companies concerned. At M2, the corporate group-wide scheme is earnings-related whereas the site scheme is flat rate. At M3 the scheme has an earnings-related and a flat rate element.

Appraisal-based payments at M6 are earnings-related. In all but one of the six companies the quantitative significance of VPS is modest, accounting for at most 10% of earnings if all performance targets are achieved (M1). The exception is M5, where the (flat-rate) productivity bonus accounts for 20-30% of earnings depending on grade. M5 is also the only one of the six companies where introduction of the current scheme was accompanied by a (negotiated) reduction in basic rates. In the other five companies, current VPS were introduced in place of earlier schemes or on top of existing pay systems (although at M4 this is a focus of tension between management and the union – see below).

Management: ‘drivers’ of VPS

Management objectives driving company performance bonus include, variously, ‘reward’, ‘communication’, ‘equity’ ‘incentive’ and ‘transactions costs minimisation’. A reward objective was reflected in statements from managers that ‘employees should share in the success of the company’ and by implication have an element of pay that is ‘at risk’, or in a recognition that ‘all staff contribute to [company] performance’. This might also be seen as part of managerial attempts to break down traditional ‘them and us’ attitudes amongst the workforce. The schemes were viewed as an important part of communicating messages about business goals. Managers at both M3 and M4, for example, talked in terms of focusing employees’ attention on company profitability and not ‘volume going out of the door’. The discretionary nature of these schemes, whose parameters and targets can be changed in the light of changing business objectives, was underlined by managers at some of the companies. ‘The issues could change from year to year – its not the same every year, it depends on what we want to drive.’ (manager at M1).

Beyond this there were differences between the two group-wide performance bonuses and the three site-specific ones. An equity objective was apparent in relation to the three site bonuses, where managers commented that they wanted schemes which were ‘inclusive of all
employees’. The evidence on any incentive objective also differed. Motivating employees through an incentive effect was cited as an objective of the site scheme at M2 (where modifications had been made to the scheme to simultaneously reduce complexity and increase transparency) and at M3, but for the two group-level schemes any link between employee effort and corporate performance, and therefore reward, was seen by managers (and union representatives) to be too remote to have any incentive effect. The desirability of schemes that are ‘simple and straightforward to administer’, in other words which minimise transactions costs, was underlined by managers in the three cases with site bonus. In contrast the group-wide bonus at M1 was acknowledged to be complex in its operation by managers (an observation colourfully confirmed by the trade union representatives).

The objectives which drive M5’s productivity bonus include incentive (‘motivating employees’) and transactions cost minimisation (‘straightforward and not costly to administer’). In addition, given that its introduction involved a reduction in basic pay it also entailed ‘cost control’ and a shift in risk from the company to employees. Additional light is cast on management objectives by disadvantages of the previous piecework bonus schemes at two companies that managers drew attention to. These included inclusiveness, as these schemes only targeted a part of the workforce, ‘communication’, in that the schemes targeted volume only and not the business goals which management now look to target, ‘equity’, as some jobs were known to be good and others poor payers, and ‘transactions costs’, in that the schemes were costly and complex to administer.

Management’s main objective with appraisal-based payments at M6 was to ‘reward’ good individual performance, but only in the context of overall business success. Again, therefore, the collective dimension remained strong even in such an ostensibly individualised scheme.

**Trade unions’ position on and involvement in VPS**

The trade unions in the six companies were not necessarily opposed to VPS. Representatives at four (M1, M2 (referring to site bonus), M3 and M6) saw schemes as providing an additional earnings opportunity for members. In two companies (M2 (referring to site bonus) and M5), unions were supportive of the introduction and continuation of current schemes insofar that by contributing to site performance they also helped ensure viability. There was also scepticism about company performance bonus schemes – expressed by union representatives at M1 and M4 - which were seen as being open to management manipulation, evident for example in the moving of targets on a year-on-year basis. More generally, union representatives articulated a strong preference for schemes based on ‘objective’ criteria, such as economic and other hard indicators, rather than the ‘subjective’ criteria associated with appraisal-based pay. A belief that appraisal-based pay opens up scope for the exercise of favouritism by management (‘the blue-eyed boy syndrome’ as one representative at M1 put it) was widespread. Yet the picture is not quite as clear-cut as this might suggest. At M4 the union had indeed vetoed a management proposal to introduce appraisal-based payments for the manual workforce. But at M6 the union appears not to have opposed the introduction of appraisal-based payments, so long as a cost-of-living settlement took precedence, although it nonetheless had concerns over the consistency of appraisal ratings of different line managers and the scope for managerial discretion under such a scheme. And unions at one company, M2, had been prepared to explore with site management the introduction of an individual appraisal-based scheme in addition to the current company performance bonus schemes. In the event, nothing materialised as the idea was vetoed by corporate management on precedent-setting grounds.

A clear focus on basic, or ‘invariable’, pay was also evident amongst union representatives. As well as securing the best possible basic pay increase, an aspiration of union
representatives at several companies was to convert bonus payments into basic – albeit one that was recognised as probably unrealisable. More concretely the union at M5 had strongly objected to management’s proposal to reduce basic rates at the time the current productivity bonus was introduced, but ultimately agreed given the financial difficulties the company was undergoing and in the light of pilot evidence about the earnings levels that the new bonus would generate. Even so the package was only endorsed by the narrowest of margins in a membership ballot. And at M4 the balance between the increase in basic pay on offer and the amount of the payment possible under the company performance bonus has been a major issue of contention between management and union. In the 2005 bargaining round the union rejected a management offer to raise the level of the cap on the company bonus payment, arguing instead for an increase in basic rates of pay which would meet the rise in the cost of living. The union claim was rejected by management and several days of industrial action followed before the union was forced to concede defeat.

Trade union involvement in VPS ranged from negotiation over the introduction, continuation and abolition of schemes, to influencing parameters of schemes and to what might best be described as informal or tacit understandings about the operation of schemes. It also varied according to type of VPS, and whether schemes are site-specific or group-wide. Company performance bonuses tend to be outside the scope of collective bargaining, although some of their parameters can be subject to union influence. Four of the five company performance bonus schemes were management initiated and implemented, although there was some indication that the union at M3 had been consulted over the introduction of the scheme in 1995. Also at the time of the termination of the favourable tax regime for profit-related pay schemes in 2000, management at M3 consulted the union over whether the scheme should be continued. The union supported continuation. In terms of origin, the exception is the site performance scheme at M2. A framework for the scheme was agreed as part of a negotiated package concluded in 2003 which introduced ‘all inclusive pay’ and abolished overtime payments, introduced a flexible working hours arrangement and reformed a range of other working practices. The actual scheme which was introduced in 2005, however, was one that conformed to a corporate management template for site performance bonus across its UK sites. Local negotiation prompted, and was in turn overtaken by, intervention from corporate level.

The criteria used to determine whether company performance bonus is triggered, and if so the scale of the payment, are management determined for all the company performance bonus schemes. The actual targets or thresholds are changed from year to year, and the mix between the targets can change also, underlining the discretionary nature of these schemes. Managers emphasised that the targets were set so as to be realisable, but also to ‘stretch’ the workforce: ‘[The scheme] is designed to be a stretch – what we’re aiming for when we’re putting together the [scheme] is that there is a good possibility of getting to 90%. To get 100 or beyond that, you’re really having to push for it.’ (manager at M1). At M2 managers were concerned over the failure of the new site performance bonus to pay out over the first four quarters of its operation: ‘It’s massively important that we paid the bonus this month because people were beginning to say “You are never going to pay that” …The fact that [we] paid it was a huge boost because it improved our credibility and the scheme’s credibility.’

Other features of schemes were, however, subject to union influence and even negotiation in some companies. The instances concerned each relate to company performance bonus which is site specific: the two group-wide schemes were both beyond any union influence. The framework agreement at M2 recognised the kind of site performance criteria which would determine whether bonus payments were triggered, and mapped out the coverage of the scheme, the maximum payment that could be triggered and that payments should be flat rate.
The origins of the split between an earnings-related and a flat-rate element in M3’s scheme were said to have resulted from union pressure at the time of its introduction. More recently the union formally tabled a request to further increase the flat-rate element, but this was rejected by management. At M4, the scheme was set up to pay out earnings-related payments, but following the first pay-out the union proposed a switch to flat-rate payments. The change was made following a workforce ballot, which supported the union’s demand.

In formal terms, the introduction and operation of the appraisal-related scheme at M6 was also beyond the scope of collective bargaining. Yet, there is an informal understanding between management and the union that the scheme will only be triggered in years when the pay pot (which is determined by the parent company in the light of financial projections) allows for an increase in earnings in excess of the cost of living. Otherwise only a (negotiated) across the board increase is awarded to the workforce, as had happened in two of the four years since the scheme’s introduction.

In contrast, the introduction of the productivity bonus at M5 and the abolition of the two former piecework bonus schemes were subject to negotiation. Although the standard times for M5’s productivity bonus were determined by work study, the assumption about the level of performance likely to be achieved and the monetary sums this would generate were a central focus of negotiations with the union. The bonus rate is also routinely reviewed as part of the annual wage negotiation at M5. Rates under the former piecework bonus schemes at M4 and M5 were also a focus for negotiation.

6. The two sectors: findings compared and reviewed

Reviewing the findings from the two sectors, there are evident differences but some similarities also emerge. The similarities tend to relate to type and level of VPS effects. Discussion commences by considering the profile of VPS in the two sectors, and the management rationales underlying the use of the various schemes encountered, before addressing the position of trade unions and the extent of union involvement in regulating VPS through negotiation and consultation.

There are sharp differences in the profile of VPS between the two sectors. First, the schemes in machinery and equipment have more recently been introduced or revised than in banking. This reflects internal factors (a need and willingness to resolve the problems of existing schemes, notably piecework) and a greater degree of environmental uncertainty, reflected in more instances of financial difficulty and of changes of ownership or site relocation.

Secondly, and more fundamentally, variable pay looms larger, and operates at more levels, in the payments systems of the banks than the machinery and equipment companies. The banks have schemes operating at variously group, sub-unit, team and individual levels, which comprise both bonus payments and – with one exception – individual merit pay. Just one of the machinery and equipment companies had VPS which operate at more than one level, and the predominant type of VPS was company performance bonus; a merit pay scheme featured at just one company. Amongst these companies individual performance pay was not quite akin to the dog that hadn’t barked, but at best it had whimpered. On the face of it, the message from advocates of the ‘new pay’ (e.g. Lawler, 1990), that variable pay should operate at multiple levels has taken stronger root in banking than in machinery and equipment. Also, comparing the proportion of earnings which bonus payments account for, a greater proportion of pay is ‘at risk’ in the banks than in the machinery and equipment companies where, with one exception, the amounts involved are more modest. There is thus a greater preference for simplicity in machinery and equipment than in banking, in both the
design and scope of VPS: first, in eschewing appraisal-type schemes and preferring - usually one type of - bonus; and secondly in terms of standardisation, with relatively broad and ‘objective’ criteria, inclusive of the non-managerial workforce.

Similarities across the two sectors, according to type and level of VPS, become evident when reviewing the relevance of the various managerial objectives for introducing and operating different types of VPS, identified in section 2. Incentive goals were muted for company-wide performance schemes and for merit pay, but more apparent for localised bonuses in both sectors – those that operate at factory and individual (the former piecework schemes) level in machinery and equipment, and at branch, team and individual levels in banking. Cost control objectives were identified by management respondents in respect of individual merit pay in the banks, and of company performance bonuses in both sectors. Soft development goals were in evidence concerning merit pay, but in the banks have been increasingly overlaid as schemes have become closely tied in to performance management systems which deliver ‘hard’ as well as ‘soft’ messages. The importance of company performance bonuses in communicating business and corporate objectives was underlined by managers in both sectors; at a micro-level merit pay systems in the bank were also seen as enabling management to drive home business messages. The idea that employees should be rewarded by sharing in the business success of companies was prominent in the rationale advanced by managers in both sectors for company performance bonuses. Hard, union exclusion goals were not immediately apparent in any of the companies. This is not to say that an effect, if not a stated managerial objective, of some VPS might be union marginalisation, a point which is returned to below.

Consistent with findings from other studies (Heery, 2000) there was clear evidence of union dislike of the principles and premises of individual merit pay, whether couched in the conference resolutions adopted by finance sector unions calling for standardised pay settlements or in the hostility towards merit pay found amongst local union organisations in some, but not all, of the machinery and equipment companies. It was also reflected in the preference for schemes based on ‘objective’ rather than ‘subjective’ criteria which was widely expressed by union representatives in machinery and equipment. Yet the findings also clearly demonstrate that trade unions are not necessarily opposed to VPS. Insofar as schemes offer additional earnings opportunities for members (mentioned by representatives in both sectors), offer the opportunity to engage more closely with members (in securing procedural justice in the merit pay schemes found in the banks), or hold the promise of contributing to site performance and thereby improving site viability and employment security (cited at two companies in machinery and equipment), unions can see advantages flowing from VPS. Overall, this pragmatic accommodation is more apparent in machinery and equipment, where schemes are less individualised, the proportion of earnings exposed to variable pay is lower and unions in several companies have been able to secure their preference for flat-rate payments. The banking unions, though also well-organised and with relatively high membership density, have to contend with variable pay at different levels and in the context of highly decentralised and incentivised performance management systems. This lends a greater degree of complexity in responding both to procedural issues (e.g. the targets associated with multiple bonus schemes) and substantive outcomes (e.g. the issue of ‘above market’ staff receiving below-inflation pay awards despite being rated highly in appraisal).

Across the two sectors, a shared priority for union negotiators is to maximise increases in basic pay. Where there are merit pay arrangements, as in all but one of the banks, this translates into pressure to ensure that the ratings accorded to the great majority of staff who are deemed to be average performers or better are translated into pay increases which at least match the cost of living. In the case of bonuses, most of the schemes in both sectors were
viewed by union representatives, as well as managers, as having been introduced ‘on top of’ basic pay. It was only in those cases (at one company in each sector) where the scale of the bonus is such that it is seen by the union as potentially or actually threatening the magnitude of any increase in basic pay that union concerns crystallise and tensions with management can arise. The comparatively modest level of bonus payments in the machinery and equipment companies might also be interpreted as reflecting a combination of tight margins and management concerns to meet union expectations over basic pay settlements. In the banks, higher levels of profitability mean that higher levels of bonus payment are affordable, whilst still meeting union expectations over basic pay.

Union involvement in regulating VPS through consultation and negotiation varies markedly between different types, and also levels, of VPS. Key dimensions of merit pay schemes, including the size of the overall pay pot and its distribution between rating bands, are the focus of negotiation in the banks. In addition, at four of the five banks concerned there is a tacit understanding at the least that the outcome will deliver increases which at least match inflation for the great majority of the workforce. The sole machinery and equipment company with merit pay is also characterised by a tacit understanding between management and union that is not dissimilar in its aim. The effect amongst the banks, as section 4 underlined, is that this form of variable pay has become pretty standardised. The exception which confirms the rule was the bank where the threatened imposition of distinctly non-standardised pay outcomes provoked industrial action and a subsequent compromise involving a move towards standardisation. In addition, the mechanisms and functioning of merit pay schemes in the banks are the subject of extensive consultation with unions. Confirming the pragmatism of unions in the face of developments that are ideologically unappealing (Heery, 2000; Kessler, 1994), the introduction and spread of merit pay in the banks would seem to have prompted a reconfiguration of collective pay bargaining around the new parameters which these schemes introduce.

In contrast, bonus payments are less commonly the focus of negotiation or even consultation. Indeed unions in several of the banks were ambivalent about becoming involved in negotiation should the opportunity arise. The extent to which bonus schemes are negotiated varies according to the level at which the bonus operates, and also between the sectors. In both sectors, insofar as there was any negotiation over bonus schemes it occurred over those that were more local in nature. This was the case for team and individual bonuses which accounted for a significant proportion of earnings for certain groups of staff in two of the banks. In machinery and equipment, the principle of the site-specific company performance bonus at one of the companies had been negotiated; the factor productivity bonus at a second company and the former piecework scheme at this and another company were also a focus for negotiation. In the latter instances too, bonus payments tended to represent a significant proportion of earnings, helping to explain why unions were able to bring them within the ambit of collective bargaining.

Elsewhere amongst the banks, management provided information about company bonus schemes and consulted over aspects of these. In machinery and equipment, consultation over aspects of schemes – and union influence in shaping a few of their parameters – was evident for those company performance bonuses which were site-specific. Consultation and union influence over supra-site performance bonuses, relating to group and divisional performance, were, however, conspicuous by their absence. More generally, the discretionary nature of these company performance bonuses, site-specific and supra-site, was underlined by managers in both sectors. Their effect is to establish a management-determined element of pay that is largely beyond the scope of collective bargaining, and which in line with prescription about ‘at risk’ earnings can expand in prosperous times and contract when
circumstances become straightened. It is in respect of company performance bonus that signs of a union marginalisation, if not exclusion, agenda on the part of management can be detected. This is most apparent where, in a context of tight margins, tensions between management and union over the respective emphasis to be given to increasing basic pay and funding the bonus spill over into industrial conflict, as occurred at one of the machinery and equipment companies.

7. Conclusions

The spread of new forms of variable pay has been shown to have variable implications for collective bargaining. These implications are shaped by the nature of VPS schemes, the level at which they operate and by sector. The study’s findings demonstrate that, variably and even simultaneously: collective bargaining can embrace VPS alongside established conventions for negotiating increases in basic pay; collective bargaining can be reconfigured in the face of challenges posed by particular forms of VPS for trade unions and their members; and that management can successfully place some forms of VPS beyond the scope of collective bargaining, thereby loosening its purchase on overall earnings. Although unions can block management proposals to introduce VPS, as happened at one of the machinery and equipment companies, their more general impact is in moderating schemes through negotiation and consultation.

- Individual merit pay, which has been widely viewed as challenging union values and objectives and hence the focus of ‘in principle’ union opposition (Heery, 2000), potentially presents the most significant threat to traditional collective bargaining arrangements based on a collective ‘rate for the job’. Yet appraisal-based pay is effectively absent in the machinery and equipment cases, and in most of the banks unions in practice have proven able to redraw the lines of collective negotiation, around the size of the available pay pot and its concrete distribution. Combined with their ability to secure greater transparency and consistency in the functioning of schemes, a degree of standardisation of outcomes has resulted from this successful reconfiguration of collective bargaining. This does not mean to say that management objectives have been neutered. Individualisation of the process of pay setting, however ritualistic it may appear in substantive terms, serves to reinforce the performance culture to staff and managers alike.

- Conversely, bonuses are less likely to be subject to collective negotiation. In part, this is because management view them as a discretionary business tool; they want the flexibility to be able to vary bonus criteria and outcomes to reward or incentivise as appropriate. In part also, unions are wary of becoming formally embroiled in the negotiation of bonuses (unless they become a particularly significant component of earnings), chiefly for two reasons. First, the priority is achieving consolidated increases to real basic pay, often in difficult circumstances. Bonuses may be welcomed as additional earnings, provided they do not subvert the first priority, and that they are achievable. Second, bonuses, by their very nature, involve variable sums as well as often variable criteria; anything beyond a reactive mode to members’ concerns might condemn unions to the opprobrium normally reserved for management when bonus earnings come to fall.

- Nonetheless, there is a clear distinction between local sales- or productivity-based bonuses, and those which are linked to company performance. The former are likely to be subject to union involvement, whether by (periodic) negotiation or, at least,
close forms of consultation. This is not just because the impact of these schemes on earnings can be substantial; it is also because, in contrast to profit-related arrangements, there is a mechanistic link between workload and reward outcomes. Whether individual or collective, linked to sales or efficiency measures, local productivity bonuses are at the frontier of the wage-effort bargain, and not something that unions are likely to want to ignore. Management interest in union input lies in the capacity of the union to offer the ‘voice’ and ‘legitimacy’ effects referred to in section 2; this is less relevant to company performance bonuses.

One of the more surprising findings, in both sectors, is the prevalence and significance of company performance bonuses, despite the withdrawal of fiscal incentives in recent years. Superficially, at least, these bonuses may appear complementary to established arrangements for collectively negotiating pay (Pendleton, 1997). Yet their effects might actually be insidious for unions, particularly where they have grown in significance. First, as mentioned above, the further removed the performance aggregate is from the workplace, the less the chances of unions being able to exercise any influence. In the banks, this means that the ‘pay pot’ available for the pensionable-pay award is kept marginally above inflation, even when record-breaking profits are consistently being made. In machinery and equipment, insofar as traditional forms of bonus in manufacturing which were a focal point for workplace negotiation have been in decline (Druker, 2000), the introduction of management determined company performance bonus simultaneously represents a step-wise retreat in the purchase of collective bargaining over overall earnings. Second, they help underpin a unitarist management discourse, based on the communication of common interests around business objectives, in which ‘pain’ might have to be shared, in the guise of work reorganisation and intensification for employees, as well as the fruits of business success.

There are notable differences between the sectors, particularly in terms of the significance of variable pay for earnings and the nature and multiplicity/complexity of the schemes adopted. These can be explained in various ways. Both are highly competitive, but firms in machinery and equipment operate in more internationalised markets, which contributes to lower margins and profits than in the banks. This in turn means that efforts to meet employee concerns over real basic pay, linked to recruitment and retention as well as work motivation, leaves less to play with over variable forms of pay such as bonuses. It also means that the business environment is more unpredictable which, contrary to the prescription of the ‘new pay’ literature, probably represents a less favourable context for VPS because employees’ earnings expectations might be more often frustrated, with attendant consequences for performance. In contrast, banks have been better placed to use bonuses and profit-related schemes to drive their culture-change initiatives and to incentivise and reward staff without adding to fixed costs. The growth of these forms of VPS has also helped contain the overall pay pot, which leaves less scope for dispersion in merit pay schemes. In turn, this enables employers to accommodate trade union concerns over individualisation whilst maintaining the performance-management systems underpinning the schemes intact. There are relevant differences at workplace level, too. Bank branches, for example, are customer-facing service operations where individual employees can influence levels of sales; in machinery and equipment work is more highly integrated and collective, and hidden from customer gaze. This level of accountability and responsiveness means there is more scope and rationale for localised and individualised incentive and reward schemes in the banks. Differences between wage systems, which have traditionally characterised blue-collar work, and white-collar salary systems are salient too. The principle of the ‘rate for the job’ was always more firmly rooted in the former, whereas in the latter it was traditionally mediated by considerations of service and, at times, management preference (Druker, 2000). Management in machinery and
equipment may have been more reluctant to invoke the challenge to this principle that introduction of individual performance pay entails, as well as unions being more prone to resist it, than has been the case in banking. There are differences within the two sectors also, which have to remain beyond the scope of this paper, relating, for example, to ownership differences between the clearing banks and building societies, and to the relative emphasis in production operations on machining or assembly in machinery and equipment.

The overall picture is mixed. In both sectors, unions have largely managed to resist the individualisation of pay outcomes, and the introduction of variable pay has not undermined collective bargaining in the sense of its core focus on delivering inflation-based increases to basic pay. Yet the proportion of employee earnings that is determined without collective bargaining has grown. In terms of union marginalisation, the glass is both half full and half empty.
Acknowledgements

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References


IRS (2004)


Table 1: The case study companies

<table>
<thead>
<tr>
<th>Name</th>
<th>Ownership</th>
<th>Market, economic performance</th>
<th>Employment characteristics</th>
<th>Industrial relations</th>
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<tr>
<td><strong>Banking</strong></td>
<td></td>
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<tr>
<td><strong>CB1</strong></td>
<td>UK ‘high street bank’; some limited overseas operations.</td>
<td>Pre-tax profits &gt; £4.2bn but continued (‘voluntary’) job losses due to branch rationalisation; outsourcing of processing; offshoring of call centres. Cost: income ratio (CIR) 50.8 (2006; 52.8 2005).</td>
<td>Total employment c. 70,000; Retail 35,000 (FTE) in &gt;2000 branches; 63% female.</td>
<td>Two rival unions reflecting merger history. In-house union dominant in membership terms and less co-operative with management. High overall density (c. 75%). Separate bargaining process; in-house union usually does not sign agreement. Single bargaining unit.</td>
</tr>
<tr>
<td><strong>CB2</strong></td>
<td>Ex-mutual that subsequently acquired a bank.</td>
<td>Overall and retail profits approaching £0.5bn. Branch rationalisation strategy. CYR 53.0 (2006; 55.2 2005).</td>
<td>Total employment c. 9000; &gt;250 branches employ 5,500; ??% female</td>
<td>Two compartmentalized (national) bargaining units, with three unions (one mainly managerial staff), reflecting merger history. Branch rationalization most affects in-house union. Overall density 50%.</td>
</tr>
<tr>
<td><strong>CB3</strong></td>
<td>Subsidiary of large foreign group.</td>
<td>Group profits around £2.9bn; UK 0.36bn, an improvement following investment and rationalisation strategy. CYR 62.9 (2006; 68.2 2004).</td>
<td>c. 9000 in around 400 branches; ??% female</td>
<td>One union. Constructive IR despite rationalization context. Density around 55%. Single bargaining unit for UK retail operations (terms and conditions now harmonised from two separate banks).</td>
</tr>
<tr>
<td><strong>DB</strong></td>
<td>Subsidiary of large UK group.</td>
<td>Group profits £11.7bn 2006. No recent data for DB (profit was £33m 2001) Group CYR 51.0</td>
<td>c. 3,400 in two sites (2,500 and 900); ??% female</td>
<td>One union. Constructive IR despite increased competitive pressures. Density &lt; 50%. Single bargaining unit covering subsidiary but different pay rates for the two sites</td>
</tr>
<tr>
<td><strong>BS1</strong></td>
<td>Large mutual.</td>
<td>Profits around £0.5bn. CYR 58.7 2006 (64.1 2004).</td>
<td>Total employment &gt;16,000, with c. 10,000 in 680 branches. 73% female</td>
<td>One union (ex-staff association). Constructive IR with ex-staff association. High overall density (c. 75%). Single bargaining unit.</td>
</tr>
<tr>
<td><strong>BS2</strong></td>
<td>Medium-size/regional mutual.</td>
<td>Profit a record £56.6m 2005, up 8.8% on 2004. (No CYR available)</td>
<td>&gt; 1200, including 550 in 49 branches; ??% female</td>
<td>One union. Low membership but rising with renewed recruitment campaign. Good IR. Single bargaining unit.</td>
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Table 1 continued

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<tr>
<th>Machinery and Equipment</th>
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### Table 2: Profile of variable payments systems in banks and building societies

<table>
<thead>
<tr>
<th>Type of VPS</th>
<th>Coverage</th>
<th>Criteria</th>
<th>Frequency</th>
<th>Quantitative significance (% of earnings)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CB1 Merit pay</td>
<td>All employees</td>
<td>Individual appraisal around Balanced Scorecard (BSC) - matrix removed 2004</td>
<td>Incorporated into monthly salary</td>
<td>Varies. 2006 pay pot = 4% but 3% dedicated towards market and minima uplifts. Leaves 1% available to managers to distribute acc. to performance.</td>
</tr>
<tr>
<td>Bonus</td>
<td>Some ’20 to 30’ schemes covering all employees</td>
<td>Individual sales and BSC</td>
<td>Varies</td>
<td>5-6% for main retail workforce</td>
</tr>
<tr>
<td>Share scheme</td>
<td>All employees</td>
<td>Free shares plus matching</td>
<td>Annually</td>
<td>3% salary (up to max. 3000 shares)</td>
</tr>
<tr>
<td>Flexible benefit</td>
<td>All employees</td>
<td>Allowance to purchase benefits or take as cash</td>
<td>Annually</td>
<td>4%</td>
</tr>
<tr>
<td>CB2 Merit pay</td>
<td>All employees</td>
<td>Appraisal and position in pay range</td>
<td>Incorporated into monthly salary</td>
<td>Varies 0-7% but in practice most get around RPI (at least ‘satisfactory’ rating = at least RPI increase)². 3.5% pay pot.</td>
</tr>
<tr>
<td>Bonus</td>
<td>Customer-facing employees in branches and call-centres (around 60% of non-mgt staff)</td>
<td>Varies: is 20-30 schemes. Branch bonus is generated by team performance but allocated individually</td>
<td>Varies</td>
<td>Varies. Company and union say overall is a median bonus payer.</td>
</tr>
<tr>
<td>CB3 Merit pay</td>
<td>All employees</td>
<td>Appraisal and position in pay range</td>
<td>Incorporated into monthly salary</td>
<td>Varies 0-7% but in practice most get around RPI (at least ‘satisfactory’ rating = at least RPI increase). 95% received a pay increase; 82% at or above RPI. 3.5% pay pot plus range movement of 1%.</td>
</tr>
<tr>
<td>Bonus</td>
<td>All employees. (Separate arrangements apply to business/premier customer IFS centres, which are much more incentivised)</td>
<td>General bonus covers all retail staff. Determined by individual appraisal (BSC) but moderated by company performance (profits)</td>
<td>Banked quarterly but paid at Christmas.</td>
<td>Non mgt 5.5%-14%</td>
</tr>
<tr>
<td></td>
<td>Specialist sales staff: ‘key sellers’</td>
<td>Individual, sales-related, criteria</td>
<td>Varies: some quarterly, some twice a year</td>
<td>Varies by role but average around £1,500</td>
</tr>
<tr>
<td></td>
<td>Non-sales staff: ‘frontline incentive scheme’</td>
<td>Team and individual performance</td>
<td>?</td>
<td>Varies by role but average around £880</td>
</tr>
</tbody>
</table>

² E.g. in 2005 the pay pot was 3.5%. Dispersion for the majority of employees (i.e. those 80-90% rated 2-4) was only between 3.3% and 3.9%
Table 2 continued

<table>
<thead>
<tr>
<th>DB</th>
<th>Bonus</th>
<th>Merit pay</th>
<th>Bonus</th>
<th>DB</th>
<th>Bonus</th>
<th>Merit pay</th>
<th>Bonus</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No merit pay. Two types bonus schemes: Annual bonus and various sales incentives</td>
<td>All employees</td>
<td>Corporate and incentive bonus schemes</td>
<td></td>
<td>Various bonuses for specialist departments (Treasury, Lending Control etc): approx. 2,250 in around 30 schemes</td>
<td></td>
<td>‘Performance Incentive Pay Schemes’ (PIPs)</td>
</tr>
<tr>
<td></td>
<td>Annual bonus linked to co. and individual performance (appraisal moderates fixed % attached to role level)</td>
<td>Individual appraisal</td>
<td>Corporate bonus for all employees (17,000): 4 key performance measures (cost, profit, market-share, income),</td>
<td></td>
<td>Varies: high grade or more specialised likely to less frequent</td>
<td></td>
<td>Team (branch) performance, but distribution also reflects individual performance (more so for sellers). Similar arrangements for the 150 call centre employees</td>
</tr>
<tr>
<td></td>
<td>Annual</td>
<td>Incorporated into monthly salary</td>
<td>Annually</td>
<td></td>
<td>Highly variable between and within schemes (2-60%)</td>
<td></td>
<td>Quarterly</td>
</tr>
<tr>
<td></td>
<td>2005 range 0-25.5%, average = 14%. (Limited dispersion by individual performance in practice, e.g. annual rating index: 1.0= meets targets; difference between 1.3 and 1.4 only around £50. Scheme was revised Jan 2006, at same time as revision to parent co. scheme, to widen dispersion)</td>
<td>Paybill increase of 5.70% of which 3.83% for base pay (rest for salary progression of low paid and some allowances): pay award of 3.5%, 5.25% or 8% according to rating</td>
<td>2005 = 12.8%</td>
<td></td>
<td>3% pay pot but employees with at least ‘good’ rating (95%) gest 2.5%, leaving 0.5% for management discretion</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Incentive bonus. Paid in vouchers.</td>
<td>Monthly or quarterly.</td>
<td>Varies but average 5-10%</td>
<td></td>
<td>Quarterly</td>
<td></td>
<td>Quarterly</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>BS1</td>
<td></td>
<td>Retail bonus (9,500 staff): team</td>
<td></td>
<td>Sellers (mortgage and savings advisers) range 0-7%, on target = 3.5% per quarter (i.e. 14% p.a.); other branch staff 0-5% range with 2.5% OTE (i.e. 10% p.a.)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Incentive bonuses (retail sales specialists, 500): Individual</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Monthly (with part annual)</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Highly variable: 20-100+%, average = £7,000</td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Varies from 2%. Average £50 per quarter. Paid in vouchers</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td>Various bonuses for specialist departments (Treasury, Lending Control etc): approx. 2,250 in around 30 schemes</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Varies: high grade or more specialised likely to less frequent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BS2</td>
<td>Merit pay</td>
<td>All employees</td>
<td>Appraisal (BSC)</td>
<td></td>
<td>Linked to business targets for the 668 head office staff</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Incorporated into monthly salary</td>
<td></td>
<td>Quarterly.</td>
<td></td>
<td>Generally slightly lower than branch PIPs payouts.</td>
</tr>
</tbody>
</table>
Table 3: Profile of variable payments systems in machinery and equipment companies

<table>
<thead>
<tr>
<th>Type of VPS (date introduced)</th>
<th>Coverage</th>
<th>Criteria</th>
<th>Frequency</th>
<th>Distribution</th>
<th>Quantitative significance (% of earnings)</th>
</tr>
</thead>
<tbody>
<tr>
<td>M1 Group performance bonus (1997)</td>
<td>All employees</td>
<td>Group &amp; divisional performance (profit, 6 sigma, quality)</td>
<td>Annual</td>
<td>Earnings-related</td>
<td>10% max. Typically 8-9%</td>
</tr>
<tr>
<td>M2 Group performance bonus (1999)</td>
<td>All employees</td>
<td>Group profitability &amp; business performance (profit, quality, process efficiency)</td>
<td>Annual</td>
<td>Earnings-related</td>
<td>Max 4%. Typically 2-4%</td>
</tr>
<tr>
<td>M3 Company performance bonus (1995)</td>
<td>All employees</td>
<td>Company (site) profitability</td>
<td>Annual</td>
<td>Earnings-related/flat-rate (40:60)</td>
<td>No max: typically 4%</td>
</tr>
<tr>
<td>M4 Company performance bonus (2004)</td>
<td>All employees</td>
<td>Company (site) profitability</td>
<td>Quarterly</td>
<td>Flat-rate</td>
<td>5-6% max: averaged 4%</td>
</tr>
<tr>
<td>Piecework bonus (abolished 2003)</td>
<td>Direct production operatives</td>
<td>Output volume</td>
<td>Weekly</td>
<td>Flat-rate</td>
<td>15% average (amount consolidated)</td>
</tr>
<tr>
<td>M5 Factory bonus (1999)</td>
<td>Blue-collar employees</td>
<td>Factory productivity</td>
<td>Monthly</td>
<td>Flat-rate</td>
<td>20-30%</td>
</tr>
<tr>
<td>Piecework bonus (abolished 1998)</td>
<td>Direct production operatives</td>
<td>Output volume</td>
<td>Monthly</td>
<td>Flat-rate</td>
<td>17% average (not consolidated)</td>
</tr>
<tr>
<td>M6 Appraisal-based (2002)</td>
<td>All employees</td>
<td>Appraisal ratings</td>
<td>Annual, if pay budget permits &gt; RPI increase</td>
<td>Earnings-related</td>
<td>3.0-3.4% for above average performance</td>
</tr>
<tr>
<td>Group performance bonus (abolished 2001)</td>
<td>All employees</td>
<td>Group profitability and other financial targets</td>
<td>Annual</td>
<td>Earnings-related</td>
<td>No data. Infrequently triggered.</td>
</tr>
</tbody>
</table>