Manchester Metropolitan University Business School Working Paper Series

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A Study of the Effects of Pay Reform in the National Health Service

WP01/09

July 2001
ISSN 1471-857X

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Biography

Clare Schofield is a full time MPhil student funded by the Economic and Social Research Council (ESRC). Her research area is human resource management, and her current research interests are pay and performance in the public sector. Prior to joining the Business School she worked in the finance function for the National Health Service both in Management and Cost Accounts. She is a lecturer and teaches on the part time degree in the Department of Business Studies at the university.

Abstract

Agenda for Change was a document, released in February 1999 by the Department of Health, outlining major pay reform in the National Health Service (NHS). A central tenet of reform is flexibility, in terms of job roles and tasks, where existing and traditional demarcation was judged to be a serious inhibitor to a modern health service. According to the current labour Government the NHS pay scheme is too rigid with an incremental pay structure based only on longevity of service. Progression through the pay scales is not currently linked to individual or team performance. This has inhibited new skill acquisition and has restricted employees from assuming extra responsibilities that new technology or modern working practices might demand.

The focus of this research is centred on the way, in which the new pay framework will operate and on what basis staff will be allowed to progress up the pay spines. The guidelines describe modern flexible career paths and continuing professional development as the determining factors for progression and these will be bound in a performance-related pay structure. Researchers in the field of HRM assert that there is a lack of analytical work on the impact of performance-related pay in the public sector and this is particularly acute in relation to the NHS.

This paper will analyse and evaluate the current reward management practices prevalent in the NHS to identify the advantages and disadvantages in terms of performance, motivation and reward. It will also identify and establish if the new pay structure achieves its' "principles and intentions" of increasing flexibility, meeting the needs of patients, achieving a quality workforce with the necessary skills and motivation, consistent with wider national HR strategies.

Key words: National Health Service, reward, performance, pay, human resource management.

1. Introduction

The field of reward management has been of increasing interest to management and human resource management (HRM) researchers in the past decade. This interest has coincided with a trend amongst organisations to align employee performance to organisational strategy. This alignment has led to the introduction of innovative reward structures designed to encourage 'appropriate' behaviour. Although this trend began in the private sector the public sector followed suit and there has been a fundamental shift in the way public sector employees are rewarded. Despite this shift there has been a lack of empirical research in this field to analyse the reasons for change, what changes have taken place and, most important, the effects of these changes (Dowling and Richardson, 1997; Bach, 2000; Hendry *et al.*, 2000).

The lack of research has meant that knowledge in the field is disparate and often conflicting. This has been compounded by the sheer raft of employee policy reforms instigated by the Conservative government during the 1980's and 1990's, which have continued under the current Labour administration. The aims of these policy reforms range from a move to more individualised approach to employee relations, the drive for flexibility and the need to curb spiralling health costs. Grimshaw (2000) stated:

> "Despite the apparent persuasiveness of the discourse around these policy reforms, there is little empirical evidence to support the arguments put forward; where such evidence exists, the difficulties of 'testing' the success of pay policies has generated conflicting results." (p. 944)

This paper seeks to explore the issues surrounding pay reform in the National Health Service (NHS) by initially describing the research context which provides an insight into the policy developments which have driven pay reform. It will state the aims of my research and briefly outline my proposed research methods and then examine details of the government's pay reform strategy. To set my proposed research into context it will explore in some depth the current pay practices in the National Health Service (NHS) focussing on the raft of recent changes and the effect these have had on flexibility. The paper then examines performance-related pay (PRP) in the NHS and sets that within a theoretical framework. Finally the objectives behind the implementation of PRP will be examined because PRP forms the central role in the government's pay reform programme.

2. Research context

During their eighteen years in government the Conservative Party implemented a series of reform initiatives aimed at radically altering employment practices in the NHS. Despite their extensive reform programme “the emerging orthodoxy has been that alterations in employment practices have failed to keep pace with the radical changes in the structure and management of the NHS and that HRM has been neglected". (Bach 1998). Organisations must frequently assess their reward strategy and the decisions they make in this regard will ultimately determine the success or failure of their organisation (Bergman *et al.* 1998). Attempts were made to deal with NHS pay and conditions at local trust level but severe pressure from employee and professional representatives restricted the widespread reforms anticipated. However, it was the current Labour government who have instigated the most fundamental and radical reforms to NHS pay and conditions of service with their proposal 'Agenda for Change - Modernising the NHS Pay System'.

Reward strategies have developed to reflect, or even drive, the desire for “maximum flexibility for individuals” (Cornelius, 1999). Traditional payment structures have proved to be too inflexible for a modernised NHS. However, the proposed abolition of automatic increments will disrupt the NHS at all levels and across all employees. The new pay framework will introduce pay thresholds, related to a job evaluation score, where progression is dependant upon responsibility, competence and satisfactory performance, in effect a national performance appraisal system will be formulated. Performance related pay is not new to the NHS and was first introduced in the nursing profession in the early 1970's (Edmonstone 1996) with differing rates of success. Work by Coates (1996) uncovered the difficulties involved in implementing and using performance appraisal within a trust. Most notable was the difficulty associated with setting measurable and appropriate performance objectives. Research into the culture of an NHS trust by MacKenzie (1995) highlighted important indicators of how NHS employees deal with change. Disturbingly, the employees “did not feel positive about the changes in the organisation” and that has important implications for the management and communication of the proposed radical changes, especially because they go straight to the heart of the employment relationship.

Townley (1991) noted that performance monitoring and appraisal in the NHS, and in the public sector generally, were often implemented in a "cost-cutting environment", rather than to reinforce behavioural norms. Smith (1993) questioned the extent to which the shift to incentive-based pay is still appropriate or strategic for modern organisations. Further, he believes that the rise in the use of incentive-based pay was merely a result of the 1980's boom. It is unclear how a national bureaucratic organisation could implement a dynamic system of performance-related pay and what the effects would be on motivation, morale and retention.

3. Agenda for change

Agenda for Change was a document, released in February 1999 by the Department of Health, outlining major pay reform in the National Health Service (NHS). The catalyst for pay reform was the current Labour Government's election pledge to modernise the NHS, an ambitious ten-year plan. A central tenet of reform is flexibility, in terms of job roles and tasks, signalling that traditional demarcation was judged to be a considerable inhibitor to a modern health service. According to the Government:

> "The current NHS pay system inhibits service modernisation and is widely regarded as unfair. It has failed to keep pace with change in NHS practice and does not recognise that modern forms of health care rely on flexible teams of staff working across traditional skill boundaries." (DOH 1999)

Pay reform in an organisation as large at the NHS, with one million employees, is a logistical and procedural minefield. However, with seventy percent of the entire health budget being spent on pay costs, it is potentially a lucrative area for the Government. It is precisely this issue that makes NHS pay reform such an important area to research. The Government clearly aims to use *Agenda for Change* as an instrumental tool for instigating major culture change in the NHS, with the focus on flexible service provision meeting the needs of patients (who are also tax payers). They describe the current incremental pay structure as "irrelevant to the way the new NHS works" and in its place they need a pay structure which maximises "the personal contribution of individual members of staff working closely together." NHS staff are currently graded and paid dependant upon their profession or job title and length of service. It is felt that the narrow professional demarcation and focus on

status not skills is misplaced. In its place will be a system that pays fairly and equitably for work done, with career progression based on responsibility, competence and satisfactory performance (DOH 2000).

The pay modernisation programme is seeking to determine a national strategy to include core conditions of service to cover all staff, a national job evaluation scheme, new pay spines and a framework for determining pay uplift. The most contentious issue and the central focus of my research is centred around the way the new framework will operate and on what basis staff will be allowed to progress up the pay spines. The guidelines describe modern flexible career paths and continuing professional development as the determining factors for progression and these will be bound in a performance-related pay structure. The guidelines will give a framework for how staff can move up their pay spines as their skills and responsibility grow and satisfactory performance is maintained (DOH 2000)

3.1 Current pay practices in the National Health Service

According to the Government the current NHS pay scheme "has too rigid a structure of increments based only on the calendar." (DOH 2000) Progression through the pay scales is currently not linked to individual or team performance. This has inhibited new skill acquisition and restricted employees from assuming extra responsibility that new technology or modern working practices have demanded. The actual pay rates and pay scales are being completely revised and simplified under *Agenda for Change*. Although the new pay spines will be set nationally, and applied to all NHS employees nationally; there will be scope for adjustments reflecting local market forces or skill shortages. Elliott and Duffus (1996) examined the emphasis on relative pay with other employees in other sectors outside the NHS, often in the private sector.

> "Relative pay will be a critical determinant of the public sector's ability to attract, retain and motivate appropriate employees. In tight labour markets a deterioration in relative pay is likely to prejudice the attainment of all three of these objectives of the pay structure." (p. 71)

Elliott and Duffus (1996) outlined the major changes to public sector pay from 1970 to 1992. Historically pay review bodies, income policies and wage councils were the primary methods for setting pay levels in the NHS. The Conservative

Government during the 1980's actively sought ways of blurring the boundaries between private and public sector pay, making direct comparisons almost impossible. According to Elliott and Duffus, this makes public sector workers vulnerable because, in the case of the NHS, they are often the sole buyer, "a monopsonist" of certain skills.

There have been several attempts to reform pay and working practices in the NHS over the last twenty years. The most far-reaching of these changes occurred during the 1980's when NHS hospitals became self-governing Trusts. To mirror this, employees were 'encouraged' to move to local trust contracts, thus weakening collective bargaining agreements and strengthening an individualistic approach to pay negotiations. Bach (1998) used case study analysis to examine the difficulties faced by management and employees in making "radical changes in employment practices." This research provided an invaluable insight into possible problems that the latest reforms may encounter, even though Bach was researching in 1995 when local pay was at its height. His findings are poignant for current research because it provides a useful historical context and it highlights the multitude of reforms NHS employees have endured in the recent past. Bach found that despite the intention of local pay to provide more flexibility and autonomy for providers it was severely restricted by the pressures and financial unpredictability of the internal market.

> "Despite this explicit reform programme, managers remained severely circumscribed in pursuing their human resource agenda by developments outside their control." (p. 573)

However, Bach's findings uncovered problems with the plethora of national performance targets, which meant service provision was constantly shifting, along with funds, with employees having to meet altering patient care demands. Further complicating matters was the various interested parties involved in health care management, for example the NHS Executive, the Local Heath Authority and different purchasers. With employment reforms specifically, the interested parties were principally the representative professional bodies and trade unions. Bach expressly stated his concern over the difficulty in harmonising the new national pay structure and retention of individual trust status.

Further work by Bach (2000) examined the effect of public health sector reforms and restructuring on employment practices generally. He stated that there was a "lacuna" concerned with examining the effects of our largest employer, the state. Using Britain for comparative analysis he scrutinised the distortion that the public health sector in Europe, employing 9% of all European Union employees, had on wider employment practices. Public health has a significant impact on public expenditure growth figures as well as unemployment figures. This sets the current pay reforms to be examined into a wider political and economic context. The spiralling costs, for all European nations, of an ageing population and fast paced technological medical innovations mean tight budgetary controls must be exercised on medical expenditure. These factors are further influenced and confused by the adoption of market forces into health care management with a shift from administrative to management driven hospital control. All NHS trusts in Britain have a dedicated team of financial personnel managing operational expenditure with capital programmes designed to ensure maximum return on all assets. Focussing on the effects of pay determination Bach argues that there are few "unequivocal benefits of a shift towards more decentralised bargaining." (p. 932)

The contrasting desire to increase service flexibility and the pressure to drive down employment costs does not sit comfortably with the aims of the current pay reform programme. The decentralisation of pay determination increases management control and has led to a rise in performance related pay, according to Bach. Even so, Sweden has found performance–related pay difficult to implement because of problems encountered with objective setting along with cultural conflicts between merit pay and the health sector. One specific instance from Britain found:

> "Tight budgetary constraints often made it difficult to release sufficient resources to reward good performance adequately, so small merit pay increases were distributed across a sizeable number of staff and accounted for only a small proportion of an individual's pay. Forced distributions were frequently used which frustrated managers who believed they were unfairly denied a higher rating." (p. 933)

A key feature of the literature is change, a feature that has become a permanent characteristic of NHS management, primarily due to political intervention. In this respect Grimshaw (2000) sought to examine the effects and assess the outcome of the introduction of the raft of new policies and procedures, designed to increase pay

flexibility. His findings revealed that there was a lack of robust and adequate assessment of the impact of the various pay policies, particularly in terms of PRP. He noted the apparent disparity between the evidence presented in the research literature professing to test such initiatives and the apparent diversity of findings. This has acute significance for the NHS pay modernisation process because, according to Grimshaw, it is the relative distribution of wages and not the level of public sector pay, that commands attention in studies of public sector pay flexibility.

> "Pay flexibility in relation to organisational flexibility involves the use of pay to strengthen the links between pay and performance, or to match pay with the operational requirements of the organisation, and, it is argued, thereby generate higher quality goods and services and overall efficiency improvements." (p. 947)

Grimshaw argued that flexible pay practices harmonise flexible working practices, such as those that the Government is keen to encourage in the NHS. However, he warns against the abandonment of traditional grading structures because of their effect on the external labour market wage classifications. Also he questions whether the adoption of new technological working practices actually erode hierarchical structures.

3.2 Performance-related pay in the National Health Service: research to date.

Many researchers in the field of HRM concede that there is a lack of analytical literature on the impact of performance-related pay in the public sector. In an attempt to address this apparent gap in the literature Marsden and Richardson (1994) conducted research on the Inland Revenue, concentrating specifically on the motivational impact of PRP. It is useful to draw parallels of experience between the NHS and other public bodies in the implementation of radical schemes so that lessons learned can be benefited from, and costly mistakes avoided, protecting the public purse. Marsden and Richardson found that in terms of motivation the employees stated that the PRP scheme had little impact. Most worrying was the perception of managers who carried out performance appraisals whose perception of the scheme, in terms of having a positive impact on employee motivation, was very sceptical. A large percentage, 79%, stated that performance pay had no impact on their employee's willingness to go 'beyond contract'. To use an objective measure to

examine their findings they used two 'strands'. The first was Lawler's (1971) *expectancy theory* and the second was Latham and Locke's (1991) *goal-setting theory*. Expectancy theory "stresses the importance of a series of links between behaviour and the rewards accruing to that behaviour." (p. 253). Marsden and Richardson concluded that:

> "…the links between the appraisal system and the revenue's Performance Pay scheme in practice seem, to a degree, to have alienated many staff. They may well have helped to degrade a system, which, for other purposes, was entirely suitable." (p. 255)

In contrast, goal-setting theory involves a framework including issues surrounding clarity in objective setting and feedback during appraisals. If employees have clearly defined and achievable objectives set they are more likely to improve their performance. The employees at the Inland Revenue perceived that they were already working to the "appropriate standard" which indicated failure in the PRP system or simply that the management "had not been able to convince their staff to the contrary."

Performance-related pay has already been implemented for certain employment groups in the NHS, notably managers. Research by Dowling and Richardson (1997) noted it was only "modestly successful." They note that there has been a lack of empirical evidence to gauge the success or failure of PRP initiatives in the NHS so conclusions cannot be drawn, or lessons learned, for the future. The introduction of PRP for management staff was in 1986, extended further in 1989 to cover staff on senior management pay scales. Dowling and Richardson describe a PRP scheme mirrored by Kessler and Purcell's (1992) three dimensions, namely the setting of performance objectives for the year ahead, the assessment of those objectives and the linking of those to a pay award. This research concentrated on managers' perceptions of the effect PRP had on their motivation and working patterns. Dissatisfaction centred round the objective setting process and the link to rewards, which was often negligible. The most poignant finding from the research was the perception of fairness, linked to the assessment of objectives and the subsequent impact on motivation. Despite the problem with linking performance assessment to pay it is seen as an essential element of PRP because:

> "…in the absence of a formal system of PRP, a significant number of assessors might not take seriously their obligation to set out and subsequently monitor their subordinates' objectives. In this sense, the pay link may be organisationally necessary for the whole system to operate." (p. 362)

Research focussing on performance appraisal in an NHS trust was conducted by Redman *et al.* (2000). They described a corporate PRP model with organisational goals being cascaded down the hierarchy in the form of individual objectives. However, only a quarter of the staff were included in the scheme, despite it being a specific management objective to increase the number of staff included. This signified an undercurrent of management scepticism and a lack of commitment to the PRP process. This manifested itself in several ways including the customising of official appraisal documentation to "capture the nature of their roles." It was universally felt that there was a lack of central control of the PRP process by the personnel function. This research centred on the specific culture of the NHS being a "colleague culture" where it was not seen to be appropriate to rock the boat. Their analysis of the appraisal process focussed on four key areas: management control, employee motivation, training and development and rewards. In terms of management control their findings indicated that the PRP process inherently cemented management authority and control over employees. There were examples of management abuse of the appraisal process, which is particularly problematic and difficult to detect. Motivation was linked to the 'Hawthorne effect' where the appraisal was an opportunity to have some quality time with their line manager. Much of the appraisal rhetoric was unitaristic and seemed alien to a predominantly pluralistic environment. In terms of training and development there was little evidence to support a finding that it took centre stage, in fact it did not feature at all in twelve percent of respondent's appraisals. This is further compounded by fears over the cost of training in a very fiscal environment. Finally, the link to rewards signalled problems, especially in terms of the appraisal process absorbing a huge amount of resources, not mirrored in the financial outcome for the employee. This issue cannot be helped by the piecemeal approach to PRP on the whole in this particular trust. Richardson *et al.* concluded that until the fundamental problems associated with PRP including uneven managerial commitment, continuity between appraisals, the link with PRP and teamwork, and the appropriate nature of the scheme as a whole the future looked problematical.

3.3 An examination of the varying objectives for the implementation of PRP

The development of human resource management and a more strategic approach to managing people at work lead to an upsurge in initiatives designed to harmonise the needs of employers and employees. One of the simplest, although radical, ways of converging these two ideologically divergent groups is through pay. In the early 1990's the focus turned to the link between pay and performance. Kessler and Purcell (1992) examined this issue and stated that:

> "…there is evidence to indicate that, in the development of future approaches to pay, considerable importance is being attached to systems which seek to relate pay to individual performance or, more specifically, attempt to translate and transmit market-based organisational goals into personalised performance objectives or criteria, while at the same time preserving the integrity of coherent grading structures." (p. 16)

Kessler and Purcell highlighted the organisational impact and the effects on the employment relationship of performance-related pay initiates. They stated that there were two prevailing research 'traditions' surrounding pay structures and their subsequent organisational impact. The first related to the contentious issue of management control. By explicitly linking an employee's pay to their performance it strengthens the managers control of the employment relationship. There are characteristics implicit to the relationship between employer and employee concerning levels of effort, the so-called 'wage-effort bargain'. One of these is how does an employer ensure that all employees work productively with their output is stimulated? Conversly, the employees also seek to exert control by varying the level of effort employed and their skills utilised. Coupled with this, according to Kessler and Purcell, managers are also following their own personal agenda that further distorts the payment system causing dissatisfaction and often ultimately failure.

The second research tradition referred to the management decision process underlying the choice of reward structures. This referred in part to the theoretical work on employee motivation, but also to the strategic 'fit' of reward structures to different organisations, dependant upon factors such as sector and market. This tradition has a secondary focus surrounding the issue of implementation with the emphasis on ensuring effectiveness. The objectives for implementing PRP are

nebulous, but include the need or desire to attract and retain high quality employees, facilitate organisational culture change or restructure the role of unions and collective agreements with representative bodies for pay negotiations. However, it was Kessler and Purcell's examination of the application and practice of PRP that highlighted some worrying patterns. Their research sought to examine closely the three dimensions of PRP being the nature of the performance criteria, how performance against such criteria is measured and how assessment is linked to pay.

Problems emerged relating to difficulties in setting performance objectives. Some groups of employees, particularly the highly skilled, had 'softer' objectives set due to the difficulty found in breaking down their roles into neat measurable objectives. This led to divisions among employees and distortions in the pay scheme. The concept of cascading senior management objectives, derived from strategic organisational objectives, proved to be less practical and relevant, for the employees at least, further down the organisational hierarchy. Coupled with this were the difficulties encountered when assessing individual performance against the agreed performance objectives.

The prevalence of the problems with PRP highlighted by Kessler and Purcell (1992) and others (Marsden and Richardson 1994, Dowling and Richardson 1997, Lewis 1998, Redman *et al*. 2000) have been integrated into a debate with the HRM literature about the contribution HRM makes to organisational performance (Guest 1997, Tyson, 1997, Paauwe and Richardson 1997, Lähteenmäki *et al*. 1998, Doorewaard and Meihuizen 2000). At the centre of the debate is the role of rewards, with the most prevalent tool for harnessing employee commitment and sustained performance being PRP. Hendry *et al.* (2000) claimed that successful human resource outcomes are not necessarily congruent with organisational outcomes, making the measurement of HRM on business performance problematical. PRP relies on the assumption that pay is a reward and that employees will increase, or at the very least maintain, their performance in lieu of payment. This assumption is inherently flawed according to Hendry *et al* (2000):

> "Incentives are controlling because they contain the implicit threat of punishment or with holding of the reward. The problem is a complex one, and the reaction to incentives can produce negative behaviour in a number of ways, from the single-minded pursuit of only that which

> delivers rewards, to the subversion of incentives because people resent the perceived attempt to control them." (p. 47)

Managers assume that employee's output must be measured and used as the basis for payment. However, Hendry *et al.* proposed that the measurement of employee's performance is vitiated by the obsession with control and is there fore liable to undermine, rather than contribute to performance. If the environment in which the employees work is de-motivating or not stimulating it is inappropriate to implement PRP because it is inherently unfair because the employees cannot flourish. PRP should only be in place in an environment where the employees are able to improve their skills and gain new knowledge. PRP is often subverted by a lack of clarity over the purpose of a performance orientated rewards scheme, how that scheme is going to contribute to organisational performance whilst also meeting the needs of employees and how organisational objectives can, if possible at all, be formulated into individual objectives. This is then even further complicated by the tenuous link between those performance measures and reward. This raises the important question:

> "…employees may be financially motivated, but are they motivated to do the things which contribute effectively to business strategy?" (p. 53)

4. Research intentions and proposed method

Academics researching reward strategies and policies in the NHS acknowledge that there is a gap in the literature surrounding their effect on performance (Mardsen and Richardon 1994, Dowling and Richardson 1997). Coupled with this is the fact that *Agenda for Change* is a completely new initiative, with some of the details still under negotiation. The proposed study will have three key thrusts: motivation and performance, the concept of flexibility and pay design.

Firstly in terms of motivation and performance it will be necessary to examine the effects, if any, that performance-related pay (PRP) has on motivation and employee performance. Grimshaw (2000) claims that "there is limited evidence of the positive contribution of PRP to productivity." He further draws attention to the detrimental effect on teamwork caused by PRP, which is inherently individualistic. This has significant implications in the NHS because traditional and many new

working practices rely on multi-disciplinary teams. However, the way the new pay structure aims to make individual employees accountable for their own performance. The acquisition of new skills will form the basis of pay and career progression and this will completely erode the hierarchical structure of the organisation on a micro and a macro level. It is also necessary to provide a new insight into the strategic 'fit' of PRP in an organisation as large as the NHS.

The Government places flexibility at the heart of NHS modernisation. This will mean a complete culture change to dismantle the rigid hierarchical structure of the NHS both in terms of job roles but tasks and responsibilities too. Demarcation is inherent in the way tasks are performed with clear delineated roles dictating who is responsible for specific functions. Finally, there is the issue of how the new pay structure will impact on the way employees are managed and perform. Ultimately the objective is to make the NHS more responsive to patient demands whilst also becoming cost efficient. However, as Grimshaw (2000) found, conflict occurred where demand for a responsive organisation, driven by political intervention, was at odds with strict patient activity targets. These are factors that are unique to the NHS and have not adequately been researched.

This research will be conducted using two case study organisations within the NHS, within two different Regional Health Authorities, to allow comparisons between them to be identified and analysed. Case studies will enable me to provide a three dimensional picture which will illustrate relationships, micro-political issues and patterns of influence affecting reward design and strategies. To gauge perceptions of the proposed changes, and their implementation, data will be collected using structured interviews and possibly questionnaires. Structured interviews allow me to meet with identified groups of employees and interview them regarding issues relating to their own experience prior, during and after the transition. Data will be collected from employees, policy implementers and employee representatives. Measuring and quantifying factors related to behaviour change is very difficult using quantitative research methods. Quantitative research conducted by Dowling and Richardson (1997) proved to be inconclusive and at odds with work by other academics examining the effects of pay policies in the public sector. They state themselves that "these different motives imply a plethora of possible consequences

by which PRP might be evaluated, some of them very hard to measure directly." (p.350)

5 Conclusion

This paper has outlined the raft of changes that the NHS has endured over the past two decades and the latest attempt to reform pay specifically under *Agenda for Change*. It has also identified the lack of empirical research and the evident effect that has had on the state of knowledge in this field. The lack of clarity surrounding what affects employee performance has led to the assumption that sophisticated reward structures can result in desired outputs usually linked to organisational objectives. Studies have found that pay may actually be a de-motivator when used to reward performance (Hendry *et al.* 2000). The traditional aims of a payment system are to motivate, attract and retain staff in a fair and equitable way. Reward Management is now perceived to be an important ingredient of business strategy and synonymous with improving efficiency and performance within organisations. "The emphasis has moved from relatively inflexible salary structures to the increasing use of performance related reward systems used to change the culture to one which encourages innovation, enterprise and entrepreneurial spirit" (Armstrong and Murliss 1994). There is a need to conduct more research into pay practices in the NHS and to examine those within a wider comparative national framework.

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