

THINKPIECE - PRESENTATION OF IDEAS, OPINIONS, DISCUSSION & FACTS

Initiation of performance-related pay systems at Mkombozi

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INTRODUCTION:

Mkombozi is currently undergoing a number of organisational transitions, including the creation of a benefits and payments system in our Human Resources (HR) program which rewards individual performance. Specifically, throughout July and August 2006, Mkombozi's Director and HR Manager renegotiated the contracts of all staff members, bearing in mind performance-related criteria. This was an initial step in the (current and ongoing) piloting of a new HR system from August 2006 to January 2007. In general, the overall aim of the new performance-related pay system is to build staff professionalism, to create motivation, and to enable staff's sense of progression "upward" through the organisation. Importantly, the new pay system addresses the fact that, previously, there were few opportunities to promote or reward staff who demonstrate leadership and effectiveness and that staff were thus "stagnating" in their jobs, and in some cases ultimately leaving Mkombozi for other opportunities. This new system also contributes to Mkombozi's systematic and ongoing efforts to build a cohort of "specialised staff" rather than an employee body comprised of "skill generalists". The present "think piece" is a reflection by the Director and HR Manager on the relevance and usefulness of this new performance-related pay system at Mkombozi to date.

THE CHANGE CONTEXT:

When the Board of Management developed the new HR pay system, they categorised 3 staffing levels (management, operations and support), each with a technical and a non-technical sub-level. Notably, the 3 staffing levels are further divided among 5 "grades" (i.e. from A to E, where E is lowest and A is highest). A staff member can thus move upwards through the grades (gaining a higher salary at each grade) and upwards through the staffing levels. Promotion is determined by the extent to which the staff member achieves the personal development goals that they have set for themselves. In effect, Mkombozi is working towards an ideal situation where all staff members are "Grade A" in their respective levels - thereby contributing a "specialist" skill-set to the Mkombozi employee body.

In parallel with this change in the HR pay systems, Mkombozi is moving from a "departmental" approach (whereby each department is fragmented from the others within the organisation) to a team-based style of working (whereby any given staff member may be a member of multiple teams). The difference between a "group" and "team" is that a team has a specific, well defined purpose that is unique to the them. Moreover, a team is marked by both individual and team products. Johnson & Johnson (2006) explain that "for a real team to exist there must be a compelling team purpose that is distinctive and specific to the small group and that requires its members to roll up their sleeves and accomplish something beyond individual end products" (p. 534).

Teams promote positive relationships, social support among members, greater psychological health, self-esteem and social competencies (Johnson & Johnson, 2006, p. 545), but there is an important proviso. There will be times when teams are not appropriate for the task in hand. Teams do not replace departments or small groups. Rather teams are relatively small groupings that are peopled by those with the most appropriate and necessary skills. Their mission, goals and tasks are carefully planned.

The best teams invest a tremendous amount of time and effort exploring, shaping and agreeing on a purpose that belongs to them both collectively and individually. This purposive activity continues through throughout the life of a team (Johnson & Johnson, 2006, p. 550).

Mkombozi believes that "team-based" working will resolve many of the challenges we face as an organisation moving to an integrated phase of development - in a *group*, members discuss, decide and delegate, whereas in a *team*, members discuss, decide and *perform real work together*. This is why Mkombozi is currently moving from an individualistic mode of operation to one where the primary grouping of people is in "teams".

DISTRIBUTION OF REWARD:

Mkombozi has essentially adopted an “equity” view of reward distribution which is “in essence, an individual incentive plan aimed at motivating each group member to compete to be the most productive group member” (Johnson & Johnson, 2006, p. 114). The principle is that, in a just distribution, benefits are distributed among individuals in proportion to their contributions. The underlying assumption is that productivity will increase when benefits (e.g. bonuses, salaries, advancement, grades, etcetera) are contingent upon performance (Johnson & Johnson, 2006, p. 114). Certainly, that was Mkombozi’s motivation in adopting performance-related pay systems. However, projecting into the future, I fear that this new HR system may create some conflict with the new team-based mode of working. Due to the focus on *individual* success, the equity view of distributing rewards can create competition which in turn diminishes group productivity (Johnson & Johnson, 2006, p. 114). I can foresee a situation where group members compete to out-perform each other, and where motivation to contribute to the group’s efforts becomes extrinsic (i.e. to gain benefits) rather than intrinsic (i.e. to contribute to the group’s well-being).

The management’s plan is to rate an individual’s performance with respect to achievement of their personal development plans, the content of which is developed throughout the year by the individual staff member in consultation with their manager. Every November, staff members are formally appraised by the Mkombozi management team in terms of achievement / progress on their personal development plan. To avoid the potential pitfalls of competitiveness (described above), Mkombozi’s management team will have to remain conscious that personal development plans explicitly identify goals for the *individual* that relate to their performance as *team players*. In other words, personal development plans identify goals that build positive social interdependence rather than goals which create competition and destructive group outcomes.

As such, although there is a tension between individual and group outcomes and between intrinsic and extrinsic rewards, this tension is not a necessary contradiction. If input from the individual enables the group to succeed, then the objective of effective teams will be achieved. In fact, this tension can actually be used to create an atmosphere of strong team output if managed properly. People are naturally competitive and eager to please (their boss, colleagues, etcetera), and so, if time and effort is dedicated to developing positive team relationships, then individuals within the team will try their best to be the best, creating an outstanding team that is proud of its individual members.

Obviously, the key factor to be facilitated is “team building”, particularly with respect to appreciating that the individual cannot achieve his / her personal goals if they are at the expense of the group. For instance, if Mkombozi’s Finance Department were to establish a series of procedures which were helpful for their own processes and time management as a finance unit, but which actually made the work of the organisation grind to a halt, then the Finance Department is failing its goals of effectiveness on the whole regardless of the discrete improvements to process and workflow internally.

Additionally, consider that an employee’s personal goals must benefit the team and ideally take the individual staff member above and beyond the minimum standards expected of an employee. For instance, if a staff member identifies time keeping, prompt attendance at meetings or regular response to incoming e-mail messages as a plausible goal, then this behaviour should be the organisational norm. However, achievement of this sort of goal, although important, does not take the staff member along a professional development path that would mark them as a “specialist” who adds value to the wider Mkombozi organisation. Indeed, small achievable goals developed for the good of the whole team are necessary and an important starting place (particularly with setting up a new practice such as this type of performance-related pay system) and should be employed as stepping stones for individuals who have less work experience so they can become a thriving member of the team. And after all, it is from these smaller goals that larger goals can be developed throughout the employees’ contractual agreement period.

One of the main reasons that Mkombozi developed this new performance-related pay system was the problematic, informal “merit system” that existed previously. The informal merit system was not transparent, thus it was actually causing problems in terms of group dynamics and motivation amongst staff. Certain group members were held in prestige by the management and wielded influence or power as a result. They were considered by many of their peers to have been rewarded simply because they held “the management’s ear”. Interestingly, Deutsch’s observation that individuals tend to perpetuate their power and resources even when they are no longer making relatively large contributions to the group’s well-being (Deutsch, 1975, 1979, 1985) was evident in the situation. Additionally, the informal merit system caused a perception that group members who contribute a lot are worth a great deal and those who did not were not worth much. In effect, individuals were becoming depersonalised and those who do not contribute much become alienated from themselves and others (Diesing, 1962). It is our hope that the new performance-related pay system will address these tensions by enabling decision-making about reward distribution in a manner which is transparent to both the individual staff member as well as the wider organisation.

FIRST STEPS IN PILOTING THE NEW HR SYSTEM:

In July and August 2006, contract negotiations were handled by a committee, including the staff member, the HR Manager, the Director and the respective Programme Coordinator. This process enabled input from all concerned and the staff member was given time to prepare their views (either in written form or verbally) prior to the negotiation meeting. Staff members were asked to tell the management team what they perceived their employment grade to be and why; after which followed a frank discussion about whether there was a “fit” between the staff member’s perception and the management’s evaluation. In many cases, both parties selected the same grade and there was little dissonance between the management and the staff member. However, in a minority of cases, significant denial and resistance was voiced by the staff member when the assessment of their grade was not matched by the management. This resistance was particularly difficult to handle, since in almost all cases it reflected wider issues of “stagnation” that the individual was facing in their work.

Great efforts were made by the management team to avoid conflict or negativity arising in the negotiation meetings, all the while maintaining honesty about perception of an individual staff member’s performance. This was a difficult and emotionally fraught process (particularly after almost 40 job negotiations) and could have been handled more successfully with better preparation from within the management team. At the same time, it should be noted that, in a couple of cases, female staff members took up the challenge laid down to truly negotiate the job package that they felt they deserved. This reflects how staff are becoming more articulate and confident and is an indication of Mkombozi’s successes in helping staff to truly “develop”. The important point, overall, is that there was quite commonly a match between the individual and management perception and rating of performance.

One of the goals of Mkombozi’s new HR system is to ensure that the decisions made about rewarding staff are perceived as “just” by group members (Johnson & Johnson, 2006, p. 115). We are trying to reduce the perception that decisions are made on an ad hoc basis, are influenced by favouritism or that they are not influenced by a staff members’ longer term performance. It is interesting that “before a task is performed, members tend to believe that an *equity* system is fairest, but after a task is completed an *equality* system tends to be viewed as the fairest” (Deutsch, 1979, 1985; Johnson & Johnson, 1983, 2006; Johnson, Johnson, Buckman & Richards, 1986; Wheeler & Ryan, 1973). This is certainly the thinking that took place when we developed the new HR system.

Moving forward, it will be interesting for Mkombozi to assess whether or not staff perceive it as just and if we are able to balance the rewards system between individual needs and the actual needs of the teams in which we are now asking people to work. It may be that if you ask me in a year’s time what has happened, you will find that we have adopted an “an equality system of distributive justice” whereby benefits are distributed to all group members equally. Given that this encourages cooperation among group members and therefore tends to result in mutual esteem, equal status, and mutual respect among members, as well as group loyalty and enjoyable personal relationships among members (Johnson and Johnson, 2006, p. 114-115), it may be what the new system eventually evolves into.

LESSONS LEARNED FROM THE CONTRACT NEGOTIATION PROCESS:

Given that this “think piece” is an opportunity to reflect on the contract negotiation process, the following questions / issues should be considered during the ongoing piloting of Mkombozi’s new performance-related pay system:

- Staff seemed to appreciate the presence of the Director in the contract negotiation sessions, but realistically, it is impossible for the Director to be present at every meeting and still undertake her other contractual work.
- A decision needs to be made about the circumstances under which the Director will attend a meeting and what input s/he has in the session if not able to attend in person. This same issue is relevant for the annual staff appraisals scheduled for November 2006. A trustee has suggested that the Director only attend appraisals where the discussion is around contract renewal and not those that are mid contract. This may be a practical solution.
- During the contract negotiations in July and August the Director tended to take the lead in initiating the discussions and in determining the content focus of the discussions. We had little clarity around the roles of the HR Manager and Programme Coordinator in the process of these meetings and need to clarify that prior to appraisals in November. Ideally, we need to structure these meetings in such a way that the Director takes a “back seat”. In order to be able to achieve this we may need to prepare the Coordinators and HR Manager more systematically to handle the process of the meetings and to enable them to hone in on the key issues where individual staff need to focus their development. In a similar vein, the Management negotiations were facilitated by the Director, a Trustee and the HR Manager. We need to clarify the role and input of each of these actors in this process.
- During these pilot negotiations, we were flexible in how we facilitated each session so that we experienced a range of methodologies. But, with respect to the appraisals coming up in November 2006, we need to reach clarity and agreement on how the process will be facilitated for staff and prepare them accordingly so that they can demonstrate their real achievements and challenges without being negatively affected by a lack of preparation.

CONCLUSION:

The development and piloting of this new performance related pay system has been an important step forward for Mkombozi in developing systems that hold staff accountable for their performance and development. As such, Mkombozi's new performance-related pay system is a potentially positive and constructive means by which we can formalise our organisational imperative to staff that they are responsible to engage in their personal learning and development. However, I also believe that it is important to recognise that a system such as this takes considerable preparation, time and investment to establish, engage, and ultimately run effectively.

Presently, Mkombozi's management team needs to sit together to strategise clear, pragmatic and sensible plans about how the new performance-related pay system can be operationalised over the longer term and what initiatives we require in order to make the system a true opportunity for staff to learn. The logical next steps are to develop individual training plans for staff and to secure the funding / resources required to realise these plans. In order for Mkombozi to effectively make employee salaries contingent on professional development, then it is critical that we also offer the opportunities for staff to undertake such learning.

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