A very short, fairly interesting and reasonably cheap book about

Human Resource Management

Irena Grugulis

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4

Pay and Reward

What people are paid, how they are paid and, crucially, how much they are paid are key aspects of employment. Of course work is about more than money. The British Social Attitudes Survey asks its respondents whether they would work even if they did not need the money and every time this question is asked the majority of people confirm that they would, with 55 per cent of respondents agreeing in 2005 (BSAOnline, 2013). But just because work is about more than pay does not mean that pay is not important. It is. It enables workers to pay their rent, heat their houses, buy food, clothe themselves and their children and fund holidays. The amount a worker is paid will influence where they can live, whether they rent or buy and what sort of property they live in. It will shape hobbies, friendships and their children's prospects. This money may compensate them for giving up their time to their employer or reward them for demonstrating desirable behaviours and reaching specific targets.

This chapter provides an overview of pay. It starts by reviewing the basic ways people are paid – paying the job, paying for time, paying the person and paying for performance – before going on to consider a contentious aspect of HRM – Performance Related Pay (PRP). PRP rewards staff for their performance and was one of the original and distinctive pillars of HRM. In theory it wins widespread support, after all, who wouldn't agree with the proposition that those who contribute more should be rewarded? In practice it is incredibly difficult (some say impossible) to implement. We then go on to consider the people at either end of the pay and reward spectrum – the extremely highly paid and those whose pay is regulated by the National Minimum Wage (NMW) – as well as the gap that still persists between the pay that men receive and that awarded to women.

Pay

Pay can take the form of fixed amounts on the basis of *time* worked with hourly, weekly or monthly rates. Alternatively, employers can fund *performance* either by paying by results through piecework and commission, or by performance related increments to a basic salary. For both of these approaches the amounts involved can vary substantially and it is worth looking at what people in various occupations actually earn, from the high paid to those who earn the least. In 2015 UK MPs were paid a basic salary of £74,000 as well as a generous pension and a series of allowances to enable them to run an office, have houses in both London and their constituencies, and travel between the two. Junior doctors' salaries in the NHS start at £22,636, while consultants' range from £75,249 on first appointment to £101,451 after 19 years' experience, with up to an additional £75,796 available for those who rate a Platinum Clinical Excellence Award. At the other end of the scale ACP were paying their night cleaners £6.73 an hour, McDonald's crew members start at £7,580, call centre workers in Preston were being offered £12,231 plus a possible bonus of up to £4,000 and the AA was advertising call centre work at £16,730 plus an 'attractive' bonus. These are substantial differences in levels of pay, which materially affect workers' lives.

Paying for time and paying the job

The way that hourly, monthly or annual rates are set varies from job to job and employer to employer. Time-based payments are by far the simplest, and the most common, form of payment. Hourly, weekly or monthly rates are set; employers and employees both know the extent of their expected liabilities or income and can plan accordingly, and systems are straightforward to administer and control.

Within this, of course, different jobs attract different levels of pay. A number of elements can account for these variations including the skills and competencies the job holder exercises, their position in the hierarchy, the tasks that they perform and the responsibilities they have. Legacy is also important. Realistically most firms pay jobs particular amounts because they have always paid those jobs those amounts (suitably adjusted for inflation).

Formal processes do exist to rate jobs in terms of one another and the most commonly used are job evaluation schemes (Kessler, 2013). Non-analytic schemes simply rank jobs in relation to each other. Few provide any sort of rationale behind the rankings and raters may exercise their prejudices rather than looking at the substantive content of the jobs. These are rarely used since (unsurprisingly) they provide no defence against employment tribunals. Analytic job evaluation, by contrast, is a highly structured process. It focuses on the *job* rather than the *person,* disaggregates that job into a series of component parts, allocates scores for a range of activities such as personal skills, working conditions, physical capabilities and responsibilities, then adds up these individual

Table 4.1 Job evaluation weighting scheme, National Health Service *Agenda for Change*

	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Communication	5	12	21	32	45	60		
Knowledge, training and experience	16	36	60	88	120	156	196	240
Analytical skills	6	15	27	42	60			
Planning/ organisational skills	6	15	27	42	60			
Physical skills	6	15	27	42	60			
Responsibility – patient care	4	9	15	22	30	39	49	60
Responsibility – policy/service	5	12	21	32	45	60		
Responsibility – finance/physical	5	12	21	32	45	60		
Responsibility – staff	5	12	21	32	45	60		
Responsibility – information	4	9	16	24	34	46		
Responsibility – research and development	5	12	21	32	45	60		
Freedom to act	5	12	21	32	45	60		
Physical effort	3	7	12	18	25			
Mental effort	3	7	12	18	25			
Emotional effort	5	11	18	25				
Working conditions	3	7	12	18	25			

Source: *Managing human resources: human resource management in transition* by Bach, S. and Edwards, M.R. (2013, p.130). Reproduced with permission of Wiley in the format 'Book' via Copyright Clearance Center.

scores in the hope of re-creating the whole job. Scores are generally based on observations of, and conversations with, job holders and the total score is used to allocate occupations to pay grades. Jobs are generally put into a pay band with several increments to allow a small amount of salary progression for experienced workers. Such increments are a form of deferred reward. They operate on the assumption that individuals are not fully competent on starting work so defer the point at which they are paid the full salary for their work until a few years in to their careers.

Table 4.1 shows the NHS's job evaluation weighting scheme (taken from Kessler, 2013). This allocates points for 16 different activities. The activities are not equally weighted. So, for example, communication can earn up to 60 points on the first six parts of the scale, but there are only four levels of reward for emotional effort which is capped at 25 points, as are physical effort, mental effort and working conditions. Only two criteria are assessed across the full eight columns of the scale: responsibility for patient care which can earn up to 60 points, and knowledge, training and experience, by far the most heavily weighted category, with up to 240 points to be gained, four times the next highest item on the scale. There are up to 1,000 points available and pay bands are allocated according to the totals earned, so healthcare assistants' jobs would gain them 161–270 points (with those on Band One earning £14,153–£17,253 and those on Band Two earning £16,110–£19,077) while nurses' work is scored between 326 and 465 points and can earn £21,176–£27,625 on Band Five progressing to £25,528–£34,189 on Band Six (Kessler, 2013).

Clearly job evaluation is not an exact science. Devising the criteria, observing them in action and scoring are all subjective and there are often questions about why one particular activity is deemed to outrank others. When universities went through the Higher Education Role Analysis process one institution chose to award higher scores for administrative staff working in the central functions than for those based in departments, since this university-wide view was felt to be more skilful. As a result, many very senior departmental staff, who undertook highly responsible work, were downgraded.

Job evaluations have been criticised. The points allocated to activities are matters of subjective judgement; points may be awarded in ways that are gendered, racialised or class-based. Jobs can be, and are, performed in very different ways. And it is not clear that de- and re-constructing occupations is the most effective way of capturing the nature of the job. They are probably primarily useful for internal comparisons (although the consultants who design them attempt to make them transferrable between organisations as well). In companies that have strong internal labour markets, like the civil service, these internal comparisons may well be most significant but in most organisations where recruitment is not confined to entry level positions and where workers may be lured away to rival firms on the promise of higher salaries, knowing about and adjusting to market pay rates does matter. Accordingly, most job evaluation systems include the idea of a 'market supplement' so the pay of jobs that are in demand can be upgraded. This is an extremely practical and necessary precaution for most firms and employment tribunals accept it as a legitimate reason for pay differentials, but having such a 'wild card' effectively preserves pay disparities regardless of the way work is evaluated.

Paying for performance

The main alternative to paying for time is paying for performance and this is the aspect of pay that HR writers and practitioners are most interested in. Traditional industrial relations and personnel textbooks would refer to pay as 'compensation', mitigating the unpleasant effects of work for workers. HRM textbooks label it 'reward' and try to devise ways that pay can be used strategically to motivate, encourage commitment and provide incentives. Set time-based rates are inadequate for this so the 'New Pay' (Lawler, 1990) associated with HRM is variable and aims to pay the *person* rather than the *job*.

This targets one of management's key dilemmas: that hiring someone to do a job does not guarantee that the job gets done, nor that it gets done in the way that management would like it done. So, rather than rewarding employees simply for turning up, as time-based payment systems do, variable payment systems separate out elements of work that are particularly vital to the employer (selling more cars, photocopiers or widgets; securing high customer satisfaction ratings; dealing with a high volume of work in a limited timescale) and allocates all or part of pay to these activities.

Such variations in pay have a long history. F.W. Taylor famously made piecework an integral part of Scientific Management so that workers would have an incentive to put effort in to their task (Taylor, 1949). Piecework is still widely used today. Fruit pickers may get paid for picking a specified weight of fruit, newspaper boys and girls are paid for each paper they deliver and home workers are paid for every porcelain model they paint. In general this type of payment is associated with low pay. Dutton and colleagues' (2008) study of hotel room attendants notes that the two hotels which paid piecework offered rates of £1.77 per room, with a target of cleaning 16 rooms in a five-hour shift and £2.47 per room with a target of 12 rooms in a six-hour shift. Since messy rooms could and did take longer to clean it is hardly surprising that many cleaners reported earning less than the minimum wage.

Other forms of variable pay supplement basic pay, rather than replacing it. These include merit awards, based on jobholders demonstrating a number of pre-set soft skills or behaviours; profit sharing schemes which distribute parts of a firm's profit to its workers in the form of cash or shares (generally encouraged by the tax officials and structured in tax efficient ways); and commission which links earnings to the number and type of items sold. But the area of pay which has attracted most attention from proponents of HRM is PRP. PRP schemes set a series of work-related targets for workers to achieve then rate their performance and pay out bonuses against those targets. It is a deliberate attempt to use the payment system to change behaviours, encouraging and rewarding ones the organisation is particularly interested in.

KFC, the fast food chain, has a PRP system for all staff with monthly targets and bonuses focused entirely on sales. Workers in restaurants which exceeded their sales targets received a £20 bonus (for achieving 105 per cent of sales, rising to £25 and £30 for 110 and 115 per cent, while team leaders received £10, £15 and £20 and there was a general team bonus of £5). Certificates celebrating performance were also given to outlets exceeding sales targets. Because awards were tied to sales the system was self-funding. In the first month of operation 26 per cent of staff were awarded bonuses, with 14 per cent of staff winning awards in the second month (IDS, 2013)

The principle of PRP schemes is simple: people who perform well are rewarded. It is a principle that most workers agree with. However, the practice is rarely as straightforward and most PRP schemes fail, or at least fail to produce the results their designers hoped for. There are a number of reasons for this and here we focus on five of the most significant: work is complicated and pay schemes can distort behaviour; performance criteria are difficult to devise; variable pay schemes are complicated and costly to administer; pay is not a motivator; and varying pay raises issues of equity.

The first problem, that *work is complicated and pay schemes can distort behaviour*, can be illustrated by taking the example of a primary school teacher. Most work involves a whole range of different tasks. Primary schools in Britain are currently assessed and put in league tables based on how well children perform in national tests (SATs) at two stages – Year two (ages six to seven) and Year six (ages ten to eleven) – so it would seem reasonable to award PRP based on scores in these tests. This data is publicly available, it is very easy to interpret and, since the tests are taken in May, class teachers will have had nearly nine months of teaching to help influence pupils' scores.

However, if teachers then (rationally) sought to win their bonuses, the system could create problems. Lessons would need to focus on the tests and rational teachers could neglect children who are comfortably at, above, or significantly below the appropriate level to concentrate their efforts on the ones just below, who have the potential to improve. Class time could be used for regular practice papers, with extra-curricular distractions firmly discouraged (even assuming that our teacher had any energy left to plan these). Not an attractive classroom, and we have not even started to express concerns about fraud (particularly in Year two when teachers mark their own class's SATs papers). Of course in reality our unfortunate class teacher is likely to be trying to achieve *both* the educational ideal of engaging children, supporting their social and emotional development *and* maximising the school's SATs performance.

PRP distorts behaviour since people focus on securing the proffered reward. This is, after all, the reason why PRP schemes are established, but securing the reward may require behaviours that distort and damage the job overall. A vivid example of this kind of perverse incentive stems from China under Chairman Mao. In order to combat an invasion of rats a provincial government offered a bounty for rats' tails to all citizens. The population responded enthusiastically and brought in rats' tails, and more rats' tails, and even more rats' tails but, although the government was now paying out significant amounts in rewards, the numbers of rats continued to rise. It turned out that the enterprising populace, realising that rats' tails had become a marketable commodity, had set up rat farms. Fans of Terry Pratchett's fantasy novels will be delighted to learn that the ever-astute Patrician, Lord Vetinari, had a solution to this. Learning of an infestation of rats in *Guards! Guards!* he responded, 'tax the rat farms' (Pratchett, 1989).

Few jobs are so straightforward that they can be totally encapsulated in a small number of simple performance criteria. Even sales work, ostensibly one of the most straightforward to assess and where commission-based payments have a long history, can be distorted. Inappropriate high pressure sales by banks resulted in the pensions mis-selling crisis of the 1990s and the payment protection insurance scandal of the 2010s. In both instances the financial institutions involved were fined heavily and required to make restitution.

Given this, it might seem that what is needed are better performance indicators. But, this brings us to the second issue, *performance criteria are difficult to devise*. According to the SMART acronym so widely used in the practitioner literature, criteria need to be specific, measurable, achievable, realistic and tangible. To be realistic objectives need to be straightforward to assess. But they also need to be meaningful to the organisation, equitable to the workers and have some resilience against attempts to 'game' the system. Since not everything that is important is measurable, and not everything that is measurable is important, this is a challenge. If you don't believe just how challenging it can be, try writing performance targets for a specific occupation, following the SMART acronym. Then swap your targets with an enterprising colleague and see if they can maximise their bonus payments. You will be amazed at the results. Set targets of arrests and police officers will enthusiastically book people for the most minor offences, sales staff can put pressure on customers to reach targets, workers can lie about performance and doctors dispense or withhold drugs with abandon. A target cannot take context or individual circumstances into account and criteria which seem perfectly sensible on the HR manager's desk or in a government department can have a devastating effect on the ground. Small wonder then that Cox (2000) dismisses all forms of performance related pay as unworkable.

The third issue is that *variable pay systems are complicated and expensive to administer*. Cox's (2005) study of small firms reveals just how costly and time consuming such systems could be. Consultants advised on implementation and were often called in repeatedly to check errors and remedy omissions; senior management time was taken up in extensive negotiations beforehand and dealing with problems once implemented; supervisors were required to sign off performance and attendance, sometimes on a daily basis, as well as conduct appraisals; payroll staff numbers were increased and were taken up with processing the various performance sheets and dealing with queries. This was a costly exercise and, since the dramatic increases in workload often left supervisors with little space to actually check on performance, and computerised records of factory output and employee productivity could not be aligned, there were no checks on workers' self-reports.

The fourth stumbling block is that *pay is not a motivator*. There is evidence that low pay actively *demotivates*, and some researchers extrapolated from this to argue that high pay, or differently structured pay, would motivate. But it is not clear that this necessarily follows. Indeed Herzberg (1993), in his classic text *Motivation to Work,* differentiates between 'motivators' and 'hygiene' factors, with pay clearly classified as a 'hygiene' factor. Hygiene factors are important, and need to be got right, because they can have significant demotivating effects, but they do not motivate. A nice example of this is heating. If you were working in an office in the middle of winter with freezing temperatures outside and the heating failed you would be likely to be demotivated and probably much too cold to work. It would certainly prompt complaints. But a heating system that worked perfectly would not have the opposite effect. After all, no-one ever felt motivated to work that extra bit harder because the temperature in their office was just right. When hygiene factors work well, they are not noticed. Herzberg argues that this is the case with pay. A badly designed payment system can result in a great deal of discontent. A well designed payment system may be an asset to an organisation, but it will not, of itself, motivate staff.

Finally, *varying pay also raises issues of equity*. Pay schemes which fail to differentiate between good and excellent performers, or which unfairly reward poor performers, can cause problems in the workplace. This places a considerable degree of responsibility on line managers, who are often the people required to monitor staff and appraise performance and staff may devote their attention to improving relationships with managers rather than focus on the job. Since firms are concerned that line managers may favour their own staff, or be overly generous in appraisal grades, many PRP schemes limit the number of positive awards they can make, and insist on a forced distribution of workers across all ratings, from unsatisfactory to outstanding. HBOS's system rewarded most workers, but always ensured that 5 per cent would get no increase in pay and a further 20 per cent would receive below inflation (Ellis and Taylor, 2010). It is easy to see why capping the number of outstanding awards is a practical and necessary step for an organisation to take, but, unsurprisingly such a move causes problems in the workplace, and problems with pay are felt particularly deeply.

Just how destructive such systems can be are evident in Microsoft's system of 'stack ranking' appraisals in which every business unit was forced to declare set proportions of their employees as top performers, average and poor. According to one former software developer:

> If you were in a team of ten people, you walked in the first day knowing that, no matter how good everyone was, two people were going to get a great review, seven were going to get mediocre reviews, and one was going to get a terrible review.

Pay, promotions and job security all depended on these ratings so high performing professionals avoided working with others who had good reputations, increasing attention was focused on appeasing supervisors and delivering short-term 'wins', and other internal projects were actively sabotaged. Innovations which staff dreamt up never made it beyond conception or prototypes and Microsoft entered a 'Lost Decade', decisively losing place in technology markets (Eichenwald, 2012).

Such feelings are not restricted to workers. Frans de Waal's zoological studies reveal that animals also object to unequal rewards. One short video, revealing just how annoyed a Capuchin monkey becomes when he receives only cucumber, while his neighbour is rewarded with (eminently more desirable) grapes is well worth watching (it can be seen at www.ted.com/talks/frans_de_waal_do_animals_have_morals.html). This is one extremely annoyed monkey.

Clearly not every PRP scheme is a disaster. Gilman (2013) notes the way schemes have increased output for piecework and commission-based sales and Marsden (2010) has argued that having a PRP system in place actually ensures that line managers complete appraisals and check up on their staff (although elsewhere both have revealed problems with schemes). However problems are widespread. Incentives can secure temporary changes in behaviour but these tend to reflect compliance rather than changes to underlying attitudes. There is no evidence that pay motivates and considerable evidence that low pay or problematic payment systems actually *de*motivate. Incentives, not unnaturally, make workers focus on the incentive rather than the job, workplace relations can be spoiled since colleagues will now be competitors and superiors need to be placated to secure good appraisals. Rewards discourage self-directed behaviour and taking responsibility for the whole job; they also discourage managers from managing (except around the area of pay).

Most performance related pay schemes cover only a small proportion of pay. Arrowsmith and colleagues' (2010) study of variable pay schemes in four countries reveals schemes generally capped at a small proportion of the wage bill (typically between 1 and 4 per cent, with one offering as much as 10 per cent of the wage bill). Another way of putting this into perspective is to check how many workers are eligible to *receive* some sort of performance related pay or payment by results and the answer, again, is a small minority. More than three-quarters of all workers, and 93 per cent of public sector workers, are paid only fixed pay and, while 54 per cent of workplaces report some kind of incentive pay scheme (merit pay, performance related pay, payment by results, profit related pay or share schemes) the majority restrict these to managerial employees: 84 per cent of workplaces which have performance related pay schemes for their managers provide no equivalent incentives for the non-managerial staff (van Wanrooy et al., 2013: 24–25).

Of course, pay does not have to be officially 'flexible' in order to be changed, indeed adjustments to pay (upwards to compensate for the effect of inflation, downwards when an employer is struggling to pay or as an alternative to redundancies) are a regular feature of working life. The 2011 UK Workplace Employment Relations Study was conducted during a private sector recession (the public sector recession followed just after the data had been collected) and, while there had been limited redundancies, pay adjustments were reported by a significant number of respondents with 33 per cent reporting that their pay had been frozen or cut, 29 per cent that the workload had increased (14 per cent had both their workload increased *and* their pay cut) and 19 per cent that access to overtime was restricted. On occasion the recession may have been an excuse for action rather than a spur with 54 per cent of employees located in workplaces that were *not* affected by the recession reporting changes to pay or terms and conditions (van Wanrooy et al., 2013: 8).

It is easy to see why PRP is such a popular part of HRM. It seems to offer managers the power to ensure not only that work is done, but that it is done in the way the organisation would like, and to the timescale the organisation sets. This however, is an idea that is great in theory and a disaster in practice. Most firms seem to tacitly acknowledge this, offering PRP in limited amounts for small proportions of the workforce.

High pay and executive rewards

One significant feature of pay over the last few decades is the way that it has polarised, with the lowest paid stagnating and the highest paid 'flying' ahead (Kessler, 2013). This is particularly marked in the USA where pay for the bottom 10 per cent of wage-earners has flat-lined since the 1980s, resulting in real term cuts to standards of living (Green, 2006). According to Bebchuck and Fried (2004), in 1991 the average US CEO received 140 times the pay of an average worker and by 2003 this ratio was 500:1. In the UK, executive pay has risen to the extent that the average pay packet for a FTSE-100 CEO is £4.6m a year (Boffey, 2016).

The timing of some of these awards is unfortunate. In 2012 HSBC, the UK's biggest bank, made £13.7 billion in profits (down 6 per cent from the year before). Its chief executive was well rewarded for his contribution, with earnings and bonuses totalling £10 million and 204 staff earned over £1 million each. But those further down the hierarchy were not paid quite so generously for their service with some staff earning as little as £14,000 a year. Nor were profits invested in improving terms and conditions overall. During the year the bank had made 27,000 staff redundant, had reduced the holiday entitlement by two days and was changing the staff pension scheme, effectively reducing members' benefits. Shortly after these announcements it decided to make a further tranche of people redundant, or, as HSBC put it in their press release, staff were 'demised' (Treanor, 2013). Morrisons' CEO Dalton Phillips nearly doubled his remuneration to £2.1m in the year before he was sacked (Boffey, 2016) and Sir Fred Goodwin, CEO of the Royal Bank of Scotland, earned over £4m the year before the bank collapsed then walked away with a pension of over £700,000 a year (Kessler, 2013). Everything that an organisation does sends messages to its staff, customers and shareholders. The generous rewards available to those at the top, apparently without regard to organisational performance, have been extensively criticised and even the corporate head-hunters responsible for the majority of boardroom appointments have protested that pay levels for most senior executives were 'absurdly high' with CEOs themselves 'mediocre' rather than exceptional. It seems likely though that such awards will continue since all also went on to confirm that they would not advise a client to ask for less money, since this sent the wrong signals to the appointing committee (Boffey, 2016).

The explanation for these awards is not exemplary performance or extensive responsibilities but, quite simply, bargaining power (Bebchuck and Fried, 2004). CEOs win such large pay awards because they can, with awards decoupled from performance and contractual payoffs for redundancies or ends of contract. Shareholders have limited power to intervene. It seems that over-inflated executive pay, while deeply unpopular, is with us to stay.

Low pay and the National Minimum Wage

While very few people enjoy the sort of financial rewards secured by the CEOs of large companies, a significant minority at the other end of the pay spectrum count as low paid. There is no single definition of low pay. Some studies propose set amounts based on purchasing power and baskets of commodities, setting levels below which people would struggle to pay rent or buy food and clothing; others suggest that low pay is relative and define it as a proportion of the average wage. One commonly accepted definition, seen in the Council of Europe's standard of decency, is that low pay is two-thirds of average (mean) earnings in an economy (Rubery and Edwards, 2003). In 2005 25 per cent of the US workforce was in low-wage work, together with 22 per cent in the UK, 21 per cent in Germany, 18 per cent in the Netherlands, 13 per cent in France and 8.5 per cent in Denmark (Solow, 2008: 6). The US, UK and German figures are all worryingly high, and vividly demonstrate the pay gap between these workers and the well-paid CEOs.

In 1997 the incoming Labour government introduced a National Minimum Wage to the UK, setting a floor below which pay could not legally fall. The initial rate was set prudently low, at £3.60 an hour for workers over 21, about half average wages at the time. This was intended to provide meaningful support for workers, while remaining affordable for businesses, particularly those in cleaning, security and social care where wages are a high proportion of costs. When it was introduced, this rate covered just under 10 per cent of the workforce. The rate has risen every year and in March 2016 was £6.70 for workers over 21, with the rate for under 18s £3.87 and £3.30 for apprentices.

There is a clear moral argument for introducing minimum wage legislation. Employees have less bargaining power than employers, and employees who are paid low wages have considerably less bargaining power. Given such a disparity, some employers can and do force pay rates down below subsistence levels. One example that George Bain, first head of the Low Pay Commission, was fond of quoting was an advert for a security guard offering pay of £1 an hour. The security guard was required to bring their own dog. As Winston Churchill argued when wages councils (Trade Boards) were introduced in 1909:

> where you have what we call sweated trades, you have no organisation, no parity of bargaining, the good employer is undercut by the bad, and the bad employer is undercut by the worst

In order to safeguard workers' interests, and ensure that they and their families are able to survive, governments need to support wage legislation.

Set against this is the problem of whether employers will be able to afford to pay whatever rates are set and whether the existence of minimum wages will damage businesses. Traditionally this was an argument conducted by economists who argued that firms paid workers what they could afford (the rate at the intersection of the supply and demand curves), and that artificially increasing pay would result in unemployment and bankruptcies, since businesses would not be able to afford to employ people. Card and Krueger's (1995) research challenged this. They studied minimum wage legislation in the USA, where decisions are taken at federal level and states with minimum wage legislation may be located next to those with no such regulation. They found that, where rates were set prudently low, employment actually increased. Low-paid workers are more likely to spend their wage increases, boosting the local economy, and people who might otherwise have found it uneconomic to work are tempted back into the labour market. In the UK, where the economy has been extensively and repeatedly studied for the slightest negative impact following the NMW legislation, the only evidence of concern is from the care sector, a labour intensive, low-wage industry, and even this is limited.

On the positive side, over this period about 10 per cent of the workforce have benefitted from the NMW, earning about 20 per cent more than they would have (Deakin and Green, 2009; Kessler, 2013). This has made a significant difference to their standard of living. The beneficiaries have disproportionately been women, ethnic minorities, part-timers, home workers, young workers and lone parents.

Spurred on by the success of the NMW but alarmed by the fact that many people earning at the minimum level could not afford to live and work in most of the UK a *Living Wage Campaign* (www.livingwage.org.uk/about-living-wage) began. Living Wage rates are set independently against the price of a basket of goods and services and represent the cost of living in the UK. In 2016 it was set at £9.40 an hour for London and £8.25 an hour for the rest of the country. Participation is voluntary but according to the campaign's website 45,000 families have already been lifted out of poverty by the scheme and the organisations which have adopted it have reported improvements to work quality as well as reduced absenteeism and turnover. The 2012 London Olympics were the first ever Living Wage Olympics and many high profile employers signed up to the cause. But the scheme is a voluntary one and most employers do not pay living wages. These include the government. In November 2012 when one of the cleaners working in the government offices in Downing Street left a polite note asking the Deputy Prime Minister, Nick Clegg to support the Living Wage Campaign he was rapidly disciplined, had his salary reduced by £400 a month when his overtime was taken away, and was moved to another site by his employers.

Confusingly, the Conservative government was so taken with the term Living Wage that it adopted it in place of the NMW, introducing a new higher rate of £7.20 an hour for workers over 25 on 1 April 2016 (the National Living Wage, NLW). Unfortunately they did not also adopt the Living Wage Campaign principle of setting the rate at the level a worker needed to earn in order to live and the government NLW rate was considerably lower than the voluntary Living Wage (who planned to rename themselves the Real Living Wage). The rise in minimum wage rates was welcome, but this was not a living wage.

The gender pay gap

We noted above that women workers disproportionately benefitted from the NMW in the UK. The main reason for this is that women are paid less than men. Indeed women are in a majority in 11 of the 15 lowest paid occupations, while conversely, men are over-represented in 11 of the 15 highest paid occupations (Perfect, 2012). In 1970 the UK passed the Equal Pay Act, making it a legal requirement for employers to pay women and men the same rates for work of equal value. Until that point many employers had set separate, lower, rates for women workers with payscales offering differential pay for skilled, unskilled and women workers, with the lowest rates for women.

Despite the fact that this legislation has existed for nearly half a century there is a still a gap between women's pay and men's. For full-time workers the gap was 13.9 per cent in 2015 and on 9 November the Fawcett Society celebrated Equal Pay Day since that was the point from which women workers would be effectively working for free until the end of the year (http://www.fawcettsociety.org.uk/our-work/campaigns/equal-pay-day-2/). The gap is greatest for part-time work, and stood at 39 per cent in 2012 (Perfect, 2012: 3).

The classical economic arguments are that women workers are paid less because they invest less in their working lives. They may take career breaks or move to part-time work to care for young children or elderly parents. They are less well qualified than men, opt for different subjects in school and college and select different occupations when working. There is some truth in this. Women bear a disproportionate share of household and caring responsibilities (Hochschild and Machung, 2003) and they are more likely to work part-time. However, we should not under-estimate the role of prejudice and discrimination. In higher education today there are more women than men. The gender wage gap is falling (Lindley, 2005) but, as the Fawcett Society point out, at the current rate of progress it will take 50 years to reach equality. And even studies of recent graduates confirm a pay gap (Purcell and Elias, 2004).

Discussion and conclusions

Pay is an important aspect of work. It is, after all, the reason why most people work and it shapes the way workers live. A great deal of academic effort has gone into examining the way that pay is delivered and determined, whether it is assessed by time, or skills, or performance, or responsibilities, or qualifications, or experience, or contribution. As noted above, while time-based payment systems may be unfashionable, they are easily understood, simple to administer and meet demands for equity more readily than many other schemes. They are also by far the most widely used payment systems.

Contingent payment systems, including PRP, have attracted a lot more attention and have a far greater propensity to go wrong. Many of the problems with these systems have been considered above but it is worth stressing the issue of equity here. Systems that are felt to be unfair can create a lot of problems for management. Following the banking crisis of 2008 Ellis and Taylor reported on ordinary bank staff who had been given shares as part of their pay (2010: 806, 807):

> Since the 1990s staff have often taken part of their salary increase in shares or indeed all of it, after all there was a tax incentive to do so. It would not be uncommon for somebody working in the back office who had £3,000 in a bonus to think, 'I'm going to put some of that into shares.' It is not uncommon for somebody working as a teller on

> £15,000 to £18,000, who's been with the company for 15 years, to have built up £20,000 in shares. Most people thought that anyone who didn't buy into these schemes was crazy because it seemed that you were, you know, why wouldn't you? Based on their own experience the share prices had only gone up for a number of years … When the HBOS share price began to go down, nobody believed that it would collapse, it was at £11 and then to go to £9, £8 … Staff couldn't believe that had happened but people did still had a feeling that they trusted their employer. Nobody sold their shares because they all thought that it would go back up. The message we got from senior management on a weekly basis was 'this is a strong bank, today we have held a meeting with our most significant investors, and we have told them, we have told the City, this is a strong bank. We have a strong asset base.' People really watched in disbelief – and I do mean watched, because the share price was on the intranet and they could watch it daily, live, every 15 minutes – as they began to lose their savings. I would need to recalculate but in early May 2009 whatever you had in shares were worth 2 percent of what they were 18 months ago.

Understandably staff felt hurt, angry, shocked and betrayed. Junior staff with no control over bank strategies lost most of their savings in the crisis and many also lost their jobs. The downside of contingent pay schemes, and of pay schemes where bonuses are based on shares, is the risk of price collapse.

In tandem with this, executive pay has soared, often very publicly, to levels that not even executive head-hunters can defend. Given how important equity is within firms this has clear implications for internal dissent. At the other end of the spectrum significant proportions of workers count as low-paid. The NMW has done a great deal to protect UK workers and the introduction of the National Living Wage has raised the rate for workers over 25 but this is not actually a living wage and there is more that could be done.