Accounting, Remuneration and Employee Motivation in the New Organisation

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Abstract—The paper draws upon two detailed case studies of global manufacturing companies to examine the role of accounting in redesigned remuneration systems which are emerging as organisations delayer their structures, change their production methods and move to team-based systems of work and reward. In this way, changes in the content and application of accounting measures are framed within new approaches to rewarding and motivating employees that have been stimulated by efforts to develop alternative, 'leaner' manufacturing practices. The focus is principally upon the remuneration of shopfloor employees, but we also consider the implications of team-based reward systems for managerial staff. We argue that despite the recent complementing of financial with non-financial forms of reward (e.g. skill acquisition, improvements to health and safety), and an emphasis upon peer pressure from team members in addition to individual incentives as a source of motivation, the language and calculations of accounting remain central and pervasive in developing, justifying and mobilising support for the new reward system.

1. Introduction

Accounting researchers have increasingly been concerned to locate the development of accounting practice within wider management and organisational contexts. Changes in management practice are deemed relevant to understanding changes in the design and use of accounting systems. Recently, researchers (e.g. Drucker, 1988; Coulson-Thomas and Brown, 1989; Kanter, 1990; Ezzamel *et al.*, 1995) have pointed to a number of significant changes in management practice precipitated by *inter alia* the globalisation of competition, the deregulation of public utilities, the significant innovations in production and information technologies, and the expansion and increased efficiency of capital markets. These shifts, it has been argued, have promoted a number of changes in management practice, including: (i) downsizing as the number of employees is significantly reduced; (ii) delayering the organisational hierarchy; (iii) multiskilling the labour force; (iv) shifting work practices towards teamwork; and (v) introducing employee empowerment programmes.

Accounting research that has paid attention to these changes has two clearly identifiable strands. The first has been concerned to document shifts in accounting practice that are deemed congruent with the needs of contemporary organisations (e.g. Innes and Mitchel, 1989; Coates and Longden, 1989; Bromwich and Bhimani, 1994). The second strand has taken a more critical stance as it has sought to contextualise and problematise any observed 'new' accounting practices (e.g. Miller and O'Leary, 1993).

One of the key issues identified, but not pursued, by both strands is the emergence of new reward structures. The intention of this paper is to contribute to the second of these strands by focusing upon the comparatively neglected area of employee remuneration. In doing so, we locate efforts to devise new systems of motivation and remuneration in the context of initiatives designed to increase work flexibility and teamworking.

Academic interest in the area of employee remuneration spans many disciplines including economics, finance, psychology, HRM and accounting (see Gomez-Mejia, 1994). As our empirical material will demonstrate, the traditional monetary focus in shopfloor remuneration schemes is increasingly being de-emphasised in comparison to non-financial elements (e.g. training, health and safety and the prospect of greater job security). A greater appreciation of these emerging reward systems (with their financial and non-financial elements) calls for an inter-disciplinary examination.

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While this paper focuses upon accounting issues in the broadest sense, it draws upon diverse literatures in order to enrich our understanding of the complexities of employee remuneration and motivation.

The paper explores a number of interrelated issues: (i) how accounting language and measurements are rhetorically deployed by management to discredit old production and reward systems and create the space for alternative systems in which greater flexibility and teamworking is expected; (ii) the extent to which accounting as a calculative technology is involved in the design and implementation of new reward structures; and (iii) the kind of non-accounting initiatives or schemes, if any, that are being developed by management to buttress accounting-based reward systems.

The empirical material used in this paper is drawn from company documents and intensive field studies in six UK manufacturing companies. More than 110 semi-structured interviews held with senior and middle managers were conducted over the period 1993–1995, each lasting on average one and a half hours. In the following analysis, we focus primarily upon two of the six case studies. The choice of these two case studies is deliberate for two reasons. First, in both cases we gained exceptionally good access and were able to engage in very intensive interviewing of staff; we also returned to each site on a number of occasions and interviewed a small selection of managers (two or three in each company) more than once, and this enabled us to document contemporary accounts of unfolding organisational dynamics. Second, the two cases are fairly large companies with enough sub-units that exhibited some variations but also similarities in their practices.

By focusing on two intensive case studies we seek to improve upon previous research which has not explored fully the details and dynamics of remuneration schemes, or related them to the specific contexts of the changing organisation of work. In the first case study, we focus predominantly upon the remuneration of shopfloor workers (as the interview material suggests that performance-related pay schemes were developed exclusively for shopfloor operators). In the second case study, we extend this to consider the position of supervisory and middle managerial staff.

In the next section we provide an overview of recent accounts of change in management practice and explore the link between accounting and reward structures in organisations. This is followed by a presentation of the findings from our two case studies, where we show how emerging forms of employee remuneration and motivation are inextricably embedded in the context of changing management practices. We then discuss the wider implications of our evidence, exploring why and how accounting is implicated in that process, before drawing together our main conclusions.

2. Employee remuneration in the 'new' organisation: an overview

This section provides an overview of the recent accounts of changes in management practice. Having sketched the broader management context in which emerging remuneration schemes are situated, we offer a brief discussion of the link between accounting and remuneration schemes in order to provide a basis for comparison with our findings.

2.1. The changing context of management practice

The changes reported to have taken place in the UK corporate sector include a squeeze on profits caused by intensive local and global competition, an increase in customer orientation under the banner of total quality management (TQM), and moves from a functional to a more process-based logic of organisation commended *inter alia* by business process re-engineering (BPR). Such changes, commentators have argued (e.g. Coulson-Thomas and Brown, 1989; Watson, 1994), have prompted many companies to redesign their strategies, structures and processes in order to: (i) reduce the labour force to make companies leaner and fitter; (ii) delayer over-burdened structures in the quest for simpler and faster information flow; (iii) promote teamwork practices and employee empowerment in order to manage interdependence in new work technology and to release individual initiative; and (iv) emphasise accountability to secure the attainment of corporate mission.

Teamworking has been widely commended as a means of encouraging employees to assume responsibility for identifying and solving problems of poor communication, inappropriate coordination, low motivation and slow responsiveness (e.g. Drucker, 1988; Hammer and Champy, 1992). The dynamics of teamworking are presumed to create strong peer pressure which mitigates the pursuit of selfish, recalcitrant interests. Frequently, such initiatives are presented as a means of employee 'empowerment' not only by 'gurus' (e.g. Hammer and Champy, 1992; Peters, 1992) but also by practising managers (Watson, 1994).

However, the cooperation (active involvement and commitment of employees) is a necessary condition as well as a desired outcome of teamworking (Ezzamel and Willmott, 1998). Empowerment through teamworking can be impeded or subverted by top down pressures associated with, for example: (i) the introduction of tighter physical control procedures; (ii) the development of more extensive standard operating procedures; (iii) a greater investment in accounting and management information systems; and (iv) a greater emphasis on short-termism (Ezzamel et al. 1997). Managers are undoubtedly attracted to the idea of a self-disciplined workforce that cooperates 'automatically' without the cost associated with detailed control.

But at the same time, managers are often anxious about letting go of their supervisory function. This is not just because the very existence and prerogative of managers depends, in part, upon having recalcitrant employees who will work productively only if supervised by others but, more fundamentally, because if left to their own devices, there can be no guarantee that employees will endorse and pursue the priorities established by managers.

2.2. Accounting and remuneration

Numerous researchers have identified accounting as a means of promoting human accountability by linking performance to rewards (e.g. Demski, 1972; Itami, 1975; Loeb and Magat, 1978; Merchant, 1987). In this literature, the received wisdom is rooted in a framework which operates at the level of the individual: performance measures are presumed to quantify the achievements of each individual, to compare actual results against targets, and to determine the requisite rewards or sanctions. Accounting is presented as a neutral set of techniques and practices that are deployed objectively to quantify human performance and then to determine the attendant rewards/sanctions.

By quantifying performance and by applying the reward metric to levels of performance, accounting is perceived to minimise judgement and depersonalise the appraisal process, thereby denying or suppressing potential conflicts over the allocation of resources as it conveys the seemingly objective, quantitative and externally verifiable nature of its calculation (Townley, 1993). Through this sort of exercise, accounting can constitute and promulgate a metaphor of a numerical view of reality (Morgan, 1988) that seemingly transcends the appraisal and reward process.

As Miller (1992) has noted, the adoption of accounting can transform the management of an organisation into a complex of incessant calculations. By providing the means through which human performance can be assessed, accounting promotes a dual action upon the individual as he/she can be both the object of differentiated accounting measures and a potential relay for them:

> 'As object, calculations from a central point can be made of workers, managers, doctors, or teachers in attempts to assess their performance in relation to a specified standard. And as relay, as point of intersection of different forces, individuals can be encouraged or required to evaluate their own activities and those of others through the calculative routines of accountancy' (Miller, 1992: 67).

The ability of accounting to convert human performance into a set of calculations helps make individual performance more visible. Such visibility makes it easier to compare and contrast the performance of one individual against that of another or against a predetermined target. Visibility also makes it possible for managers to assign sanctions and rewards to specific individuals in the form of basic and bonus payments. By targeting rewards to individuals or groups who 'most deserve them', performance related pay (PRP), for example, becomes a mechanism for exercising greater financial control, as it is identified as a way of securing better 'value-for-money' than insensitive, inflexible increases based on the cost of living or some other non-performance related measure (Kessler and Purcell, 1992). By linking up with economic notions of efficiency and economy, accounting is able to map its own terminology upon that of the economic in a manner that endows its own language with the aura of objectivity and rationality (Knights and Collinson, 1987).

However, reward systems are inherently problematical, not least because of the difficulty of anticipating and avoiding their unintended consequences, including consequences which flow from attributing an aura of objectivity to them. As Baker et al. (1988: 597) have observed, the reason why PRP systems are not more extensively used in practice is:

> 'Not that they are ineffective but rather that they are too effective: strong pay-for-performance motivates people to do exactly what they are told to do. Large monetary incentives generate unintended and sometimes counter-productive results because it is difficult to adequately specify exactly what people should do and therefore how their performance should be measured. Moreover, merit pay systems encourage employees to spend effort lobbying about both the specification and application of the system to measure and evaluate output.'

Performance measures (upon which reward may be based) provide the opportunity for employees to 'game the system' by emphasising actual, rather than intended, and short-term, rather than long-term, performance. Moreover, once these measures are in place employees may become resistant to changing them for fear of altering their rewards, and hence they may suppress information on the production process and 'smooth out' periodic performance. Thus, employees may know or suspect from experience that supervisors have their 'own' agendas and associated problems to solve even if they do not have personal axes to grind.

Conversely, managers may not trust employees on the grounds that the latter may, more or less intentionally, subvert the operation of 'objective' or quantitative remuneration systems by disregarding and devaluing activities that are not rendered visible by accounting measures (Baker et al. 1988: 599).

There is now increased recognition that the assessment of performance upon which financial-based rewards are based can be inherently subjective and unhelpful in developing the skills of the appraised (Grint, 1992; Townley, 1993). The introduction of a formal appraisal process renders more explicit, and therefore more vulnerable to criticism and dissent, what is otherwise comparatively veiled and ambiguous. When the attributes of a particular reward scheme become clear, and hence open to attack, the accounting language can be used, both by accountants and non-accountants, in the rite to discredit the old and pave the way for the new scheme (Quaid, 1993).

Thus, potent accounting terminology such as 'costs' and 'benefits' can be deployed to present an old reward system as being economically unsound in the process of articulating a case that renders the development of an alternative system a necessity. Similarly, the same terminology can be applied to promote a particular reward system in preference to alternatives. Through the language of accounting, reward schemes shape the meaning of success and failure. As this occurs, the language of accounting is understood to construct, not reflect, levels of performance. Accounting is seen to objectify the very characteristics of performance which it is assumed to be measuring: 'appraisal systems, then, do not so much *discover* the skills of those appraised as *create* them' (Grint, 1992: 69), emphasis in original.

This problematisation of the role of accounting in the quantification and remuneration of human performance has been given a twist by the emerging, 'new' form of organisation. As modern work technology is increasingly being organised around teamwork, an interesting challenge is how can individuals be appraised and motivated to work in the interest of the group? Such a question may be seen to represent one of the main aspirations of both accounting system designers and managers who are interested in deriving benefits from the flexibility and dynamism of teamworking whilst continuing to ensure that each employee is guided and rewarded by corporate objectives and disciplines.

As will be demonstrated later, such aspirations offer considerable scope for rethinking the relationship between accounting and remuneration. In our empirical analysis we view accounting in a broad sense to embrace a wide range of quantitative measures, including those which measure output. We refer to accounting as a particular kind of language rather than restrict its meaning to specific textbook techniques. In the next section we provide contextualised accounts of reward schemes from our field work.

3. Empirical evidence from two case studies

The details of the two in-depth case studies, Heavy Metal and StitchCo, help us to examine the development of reward structures within the wider context of other changes, in particular teamworking, empowerment and accountability.

3.1. Heavy Metal

Established in the early 1930s, Heavy Metal grew steadily, both through acquisitions and internal expansion, to become a global manufacturer with its turnover increasing by 700-fold 60 years later. In the late 1980s, there was a major restructuring of Group ownership with a foreign company acquiring 60% of the shares and the remainder being held by one major UK company. The Group's products have strong brand names and serve three markets (industrial, agricultural and domestic), being sold in the main to conglomerates and other companies, stockists and merchants.

The UK operation recently embarked on a number of significant changes culminating in the sale of tengential subsidiaries, a much reduced workforce, a flatter hierarchy, and a new production technology. The company also introduced new initiatives, in particular, teamworking, total quality management (TQM) and 'investment in people'. The manufacturing strategy has been to concentrate on a much reduced range of high added-value products supported by major investments in plant and machinery intended to secure the company's future as a world class manufacturer dealing in these markets. It has been ear-marked as the leading 'test' site for innovations in production methods and HRM by the parent group. The plants operate with high speed technology using statistical process control and plant layout designed to improve product flow and reduce material handling.

The old reward scheme

Until a few years ago, Heavy Metal used a scheme which, for shopfloor employees, consisted of a fixed part (67% of average wages) and a variable bonus part based on the production level attained by each operator. The pay structure was, according to the manufacturing director, 'widget per unit driven' and each production manager was entrusted to arrange the flow of production activities so that each operator could achieve high productivity rates:

> 'Managers and supervisors were saying: "Well, I've got to keep producing this because it's paying Fred a lot of money and if I don't, Fred's going to play up"' (management control systems coordinator).

Manufacturing was thus perceived to have been directly driven by machine efficiency and employee demand to maximise wages by raising output. This behaviour was legitimised and given meaning by the bonus system that rewarded higher volume; the bonus was 'levered' so that the more the operator produced the higher was the bonus per unit: 'We put these highly geared schemes in to increase the incentive element' (management control systems coordinator). A numerical view of reality was constructed in which maximisation of production volume was expressly translated into lucrative financial rewards for machine operators. However, our interviewees presented this 'old' reward scheme as a system riddled with serious problems:

> 'There were traditional battles over individual schemes and individual payments and this was on-going' (works director).

According to the finance director, the bonus system fostered a perverse situation where operators 'worked to their level of their piece rate or bonus system as they wanted, not as the business needed'. This view was echoed by many interviewees. For example, the production coordinator suggested:

> 'We've looked for the stuff to put on whether it's wanted or not and we've just seen it and as long as we've kept our machine running and we've got our bonus the box is ticked. I don't give a sod what they're gonna do to it in the next stage. I've got my money.'

In other words, operators' effort was not geared to the production of added-value. The lack of a system for coordinating production and sales activities also meant that the push for maximum production resulted in the accumulation of very high levels of unsold stock. Not only were substantial resources tied up in stocks, but some of it also became defective, rusting away during long periods of storage. Product was being generated and good bonuses were being earned at the point of production but the value produced by employees remained a potential, unrealised through exchange in the marketplace.

A degree of slack and waste could be accommodated during the boom times of the mid-1980s but, as order books shortened, emphasis shifted to improving return on capital from a reduced output. Accounting-based arguments (e.g. the high cost of quality rejects, low return on capital caused by high investment in stocks and high levels of stock spoils, etc) were deployed to discredit the old PRP scheme and simultaneously pave the way for a new scheme. The old system was presented, through accounting language, as making little economic sense: it was construed to lead to high reject rates and low profitability.

Much of the discourse on performance measurement and evaluation under the old reward system was infused with a particular kind of accounting-based measurement which emphasised production (rather than the added-value of productive activity); as one manager noted:

> 'We will be measured on the performance of manufacturing. If you look at it at the moment the figures don't look all that good because, if you stop a machine, as far as the management accountant is concerned, you have still got the overheads and you have still got all the labour rates and everything else. So the price per ton which is what we are being measured on looks bloody awful quite honestly.'

As the old system was discredited, the necessity of an alternative system that would check waste and improve profitability was simultaneously made transparent. Such a system, it was conjectured, would also necessitate a reassertion of management control that was perceived to have been lost to the shopfloor under the old system which was deemed to be responsible for the high levels of unsold stock and reject product.

> 'The [shopfloor] started controlling things. People weren't worried about the fact that (the product) was coming out in the wrong size because they diverted it through another machine which drew it down further and they sold it somewhere else and you have this huge material flow with no real control in it' (managing director).

The new reward scheme

At the time of our interviews a new remuneration system for shopfloor workers had just been introduced. At an embryonic stage, and in the process of further refinement and elaboration, it was a banding system geared to the rewarding of teams (in alignment with a recent change in production technology in which machines were grouped into product-focused cells) rather than individuals, as under the old system. Each team was initially placed in one of five skill bands, and the team performance measured over a period of 13 weeks at a time. The new system was commended to employees as one that smoothed out short-term income fluctuations associated with the old scheme. Under the new band system, employees seemingly have:

'...got used to receiving the same amount of money on a weekly basis instead of every week being different. But at the same time you still have the productivity element that goes with that, it still relies on an incentive scheme, so their performance during that 13 weeks sets up the performance payment for the next 13 weeks' (works director).

The new scheme was also commended for being more in line with business objectives:

'The new system is much more focused towards what the business needs' (finance director).

One manager suggested that the new scheme has contributed to 'reducing stocks, giving better customer service and providing the information so that sales can go out there and sell what manufacturing can make'.

According to the finance director, production quotas were now disaggregated, cascading through the various hierarchical levels so that the targets for one level 'dovetailed' into those of the level above and took into account whether or not the company has secured sales orders for the output. The drawing up of production quotas involved the collaboration of production engineers and accountants; the relevant figures were fed into the overall budget system developed in the finance function. This involved a significant change from a production-dominated culture to one that, as our interviewees put it, now produced to customer orders, and thereby reduced the loss association with over-production and the deterioration of stock: 'Each operator, once he reaches his target, says "Well I've finished all what's on my schedule. Stop the machine" ' (production coordinator).

Accounting calculations, both financial and quantitative, were mobilised at Heavy Metal to achieve and smooth the shift from the production-dominated culture to the newly espoused customer-focus. As production quotas were translated into team targets, the level of expected financial reward for members of the team became conditional upon attained levels of performance. Team performance was periodically measured and assessed and then inscribed in accounting reports. Levels of performance attained were subsequently compared against team production targets (both in terms of quantity and quality) and deviations from targets highlighted. Levels of stock were measured and reported regularly, and any reworked scrap was recorded. Operators' performance was monitored twice a shift:

'Part of the discipline is that the foreman has to go around twice a shift in most areas and go and check each machine, each operator in terms of output and at that point you pick up whether the person is on schedule or behind schedule or ahead of schedule in terms of what is required from that machine on that day, and equally takes them to the point if there is a problem when the foreman has to get something done about that problem' (works director).

The new reward scheme was thus introduced simultaneously with a new management control system through which supervisors oversaw the operators strict adherence to predetermined production schedules. Ultimately, all these calculations were fed into the reward formula to determine the skill band, and consequently the financial reward, for the team[1]. This became the new numerical reality that operators in teams were expected, or urged, to accept if not enthusiastically embrace.

Investing in people, empowerment and control

Those who we interviewed at Heavy Metal noted that the hierarchy of the company had become significantly flatter, and therefore that rewards for most employees could no longer be primarily based on promotion. For example, the group finance director claimed that while 'money is the nice one', rewards are not exclusively in the form of money, and employees should make themselves more flexible and able to do different things so that they derive greater satisfaction from the acquisition of more skills. He pointed to how the scope of his own job had expanded recently, resulting in him taking over responsibility for two new areas with apparently no increase in his financial remuneration.

This broadening of job responsibilities was represented not so much as an intensification of labour as a motivating device in its own right: 'I've probably now got a job that someone coming into

[1] It is worth noting that under the band system, teams downgraded to a lower band encountered a negative effect on their wages for a period of 13 weeks. However, in the event of deteriorating performance, there were likely to be mitigating circumstances which reduced the risk of reductions in income. In commenting on teams who fall down to lower bands, the works director said that 'there are some good reasons why people are falling down'. He then went on to suggest that, for example, when scrap material is reworked, rather than being put in a scrap pile, individual earnings are not affected because 'we have made savings elsewhere'. Even though the scheme was presented as being well defined and fairly objective, there was still considerable scope for the exercise of managerial discretion: 'If they [the team] look as though they are going down [a band], they are interviewed by the manager to find out why and the manager has the discretion whether to move them or not' (management control systems coordinator). While the opportunity to make judgements generates uncertainty and invites bargaining, it also makes possible the exercise of managerial prerogative and, where deemed to be justifiable, morale can be maintained if not boosted by accepting that circumstances beyond the control of the team have adversely affected their performance.

it as I did four years ago couldn't do....I think that's the way you continue to have a challenge and fulfilment.' He may eventually reap his rewards by gaining promotion within the company, if not by using his experience to obtain a lucrative position elsewhere. It is less easy to understand how shopfloor employees, given their signficantly restricted job mobility, are to derive an equivalent material or symbolic benefit from increasing their workload.

When discussing the motivation and retention of staff, managers emphasised the importance of the company's commitment to the 'Investors in People' initiative. In this initiative, the cooperation, effort and loyalty of staff is sought by emphasising the company's commitment to training and health and safety[2]. Coincident with the changes in production technology and the new remuneration system, managers indicated that the company had embarked on an extensive training programme at all levels:

> 'I think we have actually now got people switched on. We spent a lot of time and a lot of effort and a lot of money on education and training' (computer services manager).

This intensive training programme was "focused" on 'improving the percentage of 'right first time' every time' as the technical manager put it. The progress and effect of training are closely monitored, reviewed bi-annually and evaluated against sectional and company achievements. There was little mention of the projected rewards that the individual employee may achieve from improved training other than the implied prospect of increasing their chances of gaining a job elsewhere. However, the age profile of employees (most were in their 40s and many were in their 50s and 60s) militated against this possibility.

The health and safety policy entailed an emphasis on both providing a 'safe working environment' and the information, training and supervision deemed desirable to reduce the number of accidents at work to 'reasonably practicable' limits. The policy was presented as a major motivational device that could foster a climate of increased self-discipline.

> 'I think health and safety is an added cost, but I think it is a cost worthwhile. I say to my people, "What is their number one priority?" and a trainee says "Test the [X] product", I say "No, no. Number one priority is health and safety. Do the job right in a safe environment", because that creates interest from people, motivation of people' (technical manager).

The health and safety policy provided management with a means of demonstrating its good will whilst helping to remove what were deemed to be undesirable working practices and thereby regain control over territory that had been colonised by employees. Employees were encouraged to identify with the task of reducing the accident statistics rather than negotiate over their share of the material benefits accruing from the in-roads into establisheed production practices made in the name of improved safety. Paradoxically, the promise of empowerment was presented as further incentive to evacuate the terrain of established production practices. The rhetoric on 'empowerment' claims to extend the discretion of employees in ways that facilitate flexibility and reduce the delays and costs of supervision. At Heavy Metal, it is also intended to harness employee 'intellect', creativity and responsibility with the objective of minimising distraction from tasks by removing power-play and politics:

> 'There used to be a little battle and it used to be power, politics and all that stuff. Now that is going away, we're now trying to work together as a team....there is only one competition and that's the people outside' (technical manager).

However, a number of our respondents suggested that in order for it to be operational, empowerment has to be circumscribed and carefully monitored. In this sense, their rhetoric locates empowerment within the limits of what they deemed practicable and acceptable. For example, according to the manufacturing director, empowerment means that management helps employees achieve what management wants as reflected in plans ' 'cos people like to know where they stand'. He then went on to convey his unease over the issue of empowerment: 'I find it [empowerment] damn difficult because I have a natural tendency to want to control.' This ambivalence over empowerment by such a senior manager also found its way to lower levels in the organisation where, as suggested earlier, despite the rhetoric emphasising operator discretion, the performance of operators continued to be monitored twice per shift.

[2] Posters placed on notice boards throughout the company conveyed the message that the future success of the company depended on 'the awareness, skills and competence of employees and their ability to respond to increasing demands for improvement in an ever-changing business environment'. These posters also stated that employees were expected to understand clearly the corporate mission and that each employee 'will make a positive contribution in the achievement of our business goals and targets through their continuing and effective training and development'. Very low levels of employee turnover were frequently cited by these managers as evidence of the success of this policy, and also as an indication of the strength of employee loyalty to a company that provides a good working environment. The fact that Heavy Metal is one of the few surviving companies in an area of high (male) unemployment was not mentioned.

In summary, the old piece-rate reward system in Heavy Metal was presented as one that promoted the maximisation of production volume at the expense of quality while simultaneously being insensitive to market demand. High levels of rejects/seconds and accumulating stocks were construed as economically wasteful. The new, team-based reward system was presented as the sure remedy to these problems as it was deemed capable of reducing stock levels, enhancing manufacturing flexibility, improving customer service and synchronising better production and demand levels.

While the new reward system was buttressed by practices, in particular empowerment and investment in people, that had no direct financial impact on employees (even though they had the potential to drive cost of production down), the financial incentive remained an important part of the pay package. Although the remuneration package had been redesigned to facilitate a different 'added-value' approach to the organisation of productive activity, accounting calculations continued to be relied upon to establish performance targets, to measure and quantify achievement and to determine ultimately the level of pay.

3.2. *StitchCo*

StitchCo was established as a family-owned, single brand manufacturer and retailer of fabrics and furniture. It embarked on a major growth strategy in the late 1980s by broadening the brand base through acquisitions and organising its structure into a series of strategic business units (SBUs). Within 18 months, however, the growth strategy collapsed as the company experienced serious problems in managing a diversified portfolio of brands and in coordinating the diverse activities of the loosely structured SBUs. In 1990, new managers were recruited externally and the company changed its strategy back to refocus on a single brand market niche. Virtually all the other brands were divested. Manufacturing operations were reduced and 'focused'. Half of its factories were closed with further significant reductions of staff in manufacturing but also in retailing, and the SBU structure was abandoned as the company reverted back to a more centralised structure. In the remaining factories, activities were radically redesigned and reconfigured to introduce flexibility and teamwork, the structure was simplified by taking out many layers, and an empowerment programme was introduced. In place of pure volume of output, emphasis was placed upon the speed of response to changing patterns of demand and the reduction of wastage and 'seconds'.

The old reward scheme

The old reward system was performance-related and directed at individual operators and managers. It was linked to 'selling on price' which was subsequently perceived to be suicidal. As one director put it: 'You are dead in the Western world if you attempt to sell on price, [and] piece work systems automatically drive you [in that direction]'. Further, the piece rate system was seen by many informants to reward effort more than skill, for example:

> 'Piece work drives you towards effort and very small jobs, and the best paid people in the plant are those that were least flexible. Piece work payment systems are probably totally unsympathetic to good quality, flexibility and quick response' (buying and production director).

As in the case of Heavy Metal, at StitchCo the language of accounting was deployed to discredit the old piece-rate reward system. Here also, the system was construed as making little economic sense. Accounting terminology was mapped onto firm economic foundations. To 'sell on price' was equated with lack of business sense for it leaves you 'dead', killed by more economically motivated and rational competitors. The construed limitations of the old reward system were unpacked further to identify it as rewarding effort, rather than skill, and promoting poor quality output, lower flexibility and late response. These limitations were then re-presented to mean high production costs, impaired competitiveness, lower profit rates etc; which if not checked quickly would lead inevitably to a withdrawal from manufacturing and/or corporate collapse.

Again, in discrediting the old system, a new, more economically rational system was not simply presented as an option; rather, it was deemed a necessity. The old PRP scheme was typically described by our informants as one that failed to promote some measure of goal congruence between the SBUs, and instead emphasised individual contribution to the performance of the SBU. According to the group treasurer, the old reward scheme, 'had nothing to do with the group-SBUs: [we] were told, this is your project, this is your turnover and all the rest of it, that's your lot and that's what you will be rewarded on, then they would do it at the expense of other SBUs within the group, and that happened a lot'.

The new reward scheme

A new reward system for operators at StitchCo factories based on three skill bands was introduced. Skill bands were differentiated according to the quantity of skills, out of a total list identified by management, that a particular operator was shown to have: low (1–4 skills), medium (5–12 skills) and high (13 or more skills). Operators were tested on these skills to determine their efficiency, based on time and motion calculations of the standard minutes required to produce a particular product. The system comprised two elements; basic pay which depended entirely on the skill band of the individual employee plus a bonus based on group performance. A bonus was earned by a team when a level of 80% efficiency of output was attained. This was levered so that the percentage of bonus earned increased as efficiency levels improved with the bonus being at maximum with 110% efficiency:

> 'We have introduced a 110%, not because things are slack, it's because we don't tell them how to make the product...so, in effect, if we give them 100 minutes to make this garment and they can do it in 90, we don't want to penalise them for thinking, 'cos this is the whole idea' (factory manager).

Accounting-inspired arguments, which focused upon added value to the business, were deployed by management to promote the new reward scheme. According to the HRM director, the new system was aimed at 'trying to reward people for what they know and their value to the business as opposed to status'. Similarly, the buying and production director, in emphasising the 'desirable' qualities of the new reward system, said: 'Now we set targets for the team and there is a bonus structure for output from the team. But within the team each person can earn more by moving up one skill band. There are rewards for quality, there are rewards indirectly for skills'. The rationale for focusing on skills was articulated in the following way: 'If we're gonna move to tailoring and to a wide variety of size you needed skilled sewers, so we changed the pay structure with the emphasis being on having the product that the customer wants rather than making something that we hope the customer was gonna buy' (group accountant).

A major challenge for those operating the new reward scheme was to establish a clear link between performance and rewards in certain parts of the business. For example, on the retail side, individual stores were rewarded on store sales, branch teams on sales and profits of all stores in the branch, regions on region sales and profits, and finally, head office on group sales and profits. The underlying rationale for this arrangement, it was suggested, was to make it possible for a given team to identify more closely with the financial indicators to which their rewards were linked:

> 'As you come through the organisation for the store manager to relate to group results is too far away for understanding what it's all about. What we do is we merge in the areas that they can directly influence appropriate to the level and the understanding of what it'll do and so that it actually motivates them to be better at their work' (financial accountant).

This drive to align reward to financial indicators was reinforced by additional measures whose purpose, it was claimed, was to sharpen the individual employee's sense of how s/he contributed to the securing of corporate objectives. For example, an accountant in the finance department was paid a bonus on the basis of divisional profits *and* other key success factors or personal objectives—such as setting up a headquarters (HQ) review process with each HQ manager each month, developing adequate forecasting mechanisms, delivering monthly accounts on a given day the following month, etc.

In contrast, shopfloor operators were rewarded on the basis of a number of key success factors: quality, delivery and cost/profit implications. For these employees, the new reward scheme constituted a numerical view of reality where reward was determined by a combination of team effort and individual level of skill.

This numerical view of reality was presented by our interviewees as a central plank in StitchCo's drive towards promoting motivation to enhance the efficiency of employees and to align their efforts to corporate objectives. The financial accountant articulated this view by suggesting that:

> 'At the beginning of the week the shop manageress stands up at a team meeting and says, "right, our target for this week is...."bang, that's what we have got to do. Here, this is where we are to date and we are going for our quarter's commission. We had individuals earning in a quarter £400 commission. OK? It can be big money for them'.

On the shopfloor, teams were balanced in terms of the internal distribution of high, medium and low skill members. Many high band employees were concerned about this, the HRM manager suggested, because they felt that they were going to end up losing, they could be subject to how somebody else performs. However, according to this manager, such fears were removed once the new system went into practice. For those in the high band 'could see that they could earn just as much and they just benefitted from the fact that they were then working in groups'. What he did not acknowledge, however, was that this depended upon high skill band workers organising and cajoling other team members to maximise team productivity, and thereby secure a good level of bonus. There was also resistance to the new system by supervisors and first line managers who felt threatened by the change, as the scrapping of the piece rate system was depicted as 'taking away their entire reason for existence' and, indeed, most of them were 'weeded out' (buying and production director).

Under the old piece rate system the total wage was dependent upon output, whereas under the new system approximately 85% was fixed wage based on the skill band with the bonus constituting the remainder. The bonus was strictly linked to quality: operators were paid a bonus only on complete, 'first quality' output. By claiming that the new system rewarded skill and knowledge as it aligned performance and reward to the attainment of key strategic objectives, accounting measures and calculations were construed to play a critical role in the implementation of the new system by determining team targets that cascaded from the corporate budget, measuring performance, contrasting performance achieved against targets, and quantifying levels of reward.

Investing in people, empowerment and control

Our informants at StitchCo suggested to us that the company invested heavily in skill training and launched a wide-ranging empowerment programme seeking to release personal initiative while simultaneously enhancing quality. For example, one senior manager said:

> 'We actually took the whole system and turned it on its head and said these are the skills we would like you to have....we empower people... It's all about people management. It's all about taking supervisors and making them facilitators. It's constant skill training.... There are rewards for quality, there are rewards indirectly for skills'.

Training at StitchCo was seen to be built into the organisation of the teams and the mix of individual and group remuneration. The self-interest of those with the highest skills was assumed to motivate them to train and assist team members with lower skills to increase their skills and effort, and thereby boost team performance and bonus:

> 'What you will find in groups is say, you have got a couple of high skilled people and a couple of low skilled people. The high skilled people will teach the lower skilled ones because it is in their interest' (cutting manager).

For the individual employee, the chance to move up the band ladder occurred at a quarterly review of skill bands. According to the above manager:

> 'Every three months the facilitator in charge of the groups will come in to me and sell that person to me saying, "Yes, she has done this, against a set of measures obviously, she deserves to go up a band". So in effect they can have a pay rise every three months up to a certain level'.

Peer pressure within teams was relied upon by senior and middle managers to maintain high levels of performance. In a sense, managers willingly abdicated responsibility for directly motivating employees by constructing a system that shifted the burden to team members in the name of empowerment. The possibilities for 'free riding' on the efforts of other team members were recognised to produce tensions within teams. But apparently this tension was too insignificant to thwart the perceived benefits of teamworking:

> 'Regularly we have fall-outs [within groups], but you find absenteeism has gone down because of peer pressure. If there's three of us in the group and you are away we have to cover for you. Whereas in the old days, it would be me saying "Where were you yesterday?", now it would be the group saying "Where were you yesterday?" and you feel more insulted letting your friends down than you do me. So peer pressure does come in quite a bit' (cutting manager).

Another factory manager regarded peer pressure as an inevitable consequence of setting up the teamworking because 'if you put people in groups anyway, by the nature of doing that you are putting pressure on them'. For that manager, paying group members according to their skill bands made them 'feel important'. Moving up the skill-bands could also be seen as similar to moving up a career structure where symbolic rewards are valued. Other, non-financial, elements of reward were also emphasised. Managers frequently talked of 'employee loyalty' and satisfaction being derived from 'challenging jobs'.

As a consequence of downsizing and delayering, internal promotion opportunities for managers in StitchCo were few; a situation that was exacerbated by an influx of 'knowledge experts' recruited from outside. The HRM director thought that motivation could be maintained through careful job rotation, as she summed up the problem facing her in terms of:

> 'Identifying the people that are particularly strong performers, try to get a lot of lateral movement around the business that people do understand, and get people satisfied in what they are doing rather than chasing that promotion'.

Ultimately though, economic dependence through employment and its associated insecurities were depicted as the ultimate motivator. Or, as the buying and production director put it: 'Well bluntly, continuing employment is the incentive scheme.'

In summary, prior to the redesign of the remuneration system, StitchCo had a piece-rate reward scheme which paid individuals on the basis of quantity of output. This scheme was diagnosed as rewarding effort but not skill and was presented, through the accounting language, as an economically irrational and dysfunctional scheme that ignored corporate interest and consumer demand, resulting in high stock levels and low returns to the owners. These accounting-based criticisms opened up the way for a new, team-based reward scheme that aimed to mobilise peer pressure to motivate team members to enhance their skill levels, align their efforts to corporate goals, and produce high quality products that the customer values. Although most of the total pay was now fixed, the remaining bonus part of pay was levered to heighten motivation, and focus was directed towards rewarding skill and the ability to meet key success factors. The new reward scheme was presented as one that rewarded employees in accordance with their added value to the business, and the numerical view of reality created by accounting calculations was presumed to motivate and mobilise the effort of employees to do their best for the company, and by implication for themselves. The reward system was buttressed by non-financial initiatives, in particular empowerment, training and TQM.

4. Discussion

Until recently, both of our case study companies relied upon a piece-rate system based on actual levels of output provided by individual shopfloor employees. As both companies delayered their structures and introduced teamworking, increased flexibility and introduced empowerment and accountability programmes, accounting-based arguments were deployed to discredit the old PRP systems and to facilitate the launching of the new reward schemes. The deficiencies of the old reward systems were crystallised through accounting calculations which quantified the costs of high levels of stock, high quality reject rates, uncompetitive pricing, etc. The virtues of the new reward systems were identified in terms of added value to the business, the rewarding of skills instead of gross effort, and thereby the attainment of business objectives in the form of higher rates of return.

The new reward systems shifted from an exclusive focus upon individual piece-work to team-based forms of remuneration. At Heavy Metal, the contribution of individual skill was understood to be reflected in the performance of the team; and, in principle, the opportunity to raise the team's skill-band provided the necessary inventive for individuals, supported by peer pressure, to acquire or improve skills. At StitchCo, where individuals were placed in skill bands that determined their basic rate of pay, there was both an incentive for the individual to acquire additional skills and peer pressure to increase bonus by raising team performance. In each case, accounting was deployed in the development and implementation of the emerging reward schemes no less than it was in the development of the previous piece-rate based systems. Accounting-based calculations were relied upon to quantify the costs and benefits of the new reward systems. Moreover, accounting was used to quantify skill bands in terms of wage range, and determine performance targets whether financial (e.g. sales volume, profit margins) or non-financial (e.g. tonnage; garments). Accounting also intervened in the process of measuring actual achievements, comparing achievements against targets, and determining levels of financial rewards.

It can be argued that such schemes create a win-win situation where operators enjoy a more reliable income flow and employers derive the benefits of increased flexibility and effort from teamworking. However, in each case, the scheme was reported to be bedeviled by problems; in particular: (i) even though the managers in principle took overall responsibility for arranging the flow of production activities, it was the supervisors who tended to drive, and hence control, the piece-rate system on the shopfloor and they therefore resisted changes that acted to marginalise, if not remove, them from this key aspect of the production process; and (ii) the identification of team targets was in some cases problematic because of performance ambiguity.

In all the six companies where we conducted interviews, the opportunities for promotion were fairly limited because of the extensive delayering that occurred. At StitchCo this was compounded by external recruitment of 'knowledge experts' to help manage the change process. In the six companies, the lack of promotion opportunities was recognised as a problem and efforts were made to broaden the remuneration package by augmenting the financial rewards with non-financial 'incentives': e.g. empowerment, job rotations, broadening job boundaries, better health and safety procedures, employee training and enhancing employee loyalty (see Ezzamel et al, 1996). However, to that extent that these schemes were deemed to be effective, their 'success' is arguably as much attributable to labour market conditions as to the use of the non-financial incentives.

At Heavy Metal, shopfloor operators had no realistic chance of promotion beyond the supervisory level. From a managerial perspective, little added-value was to be gained from employees who have reached 'the end of the line', and who are perceived to have poor chances of gaining better employment elsewhere, particularly in a recessionary job market. The main incentive for these employees was the financial security of the current job and their personal pride in their work. In designing a new reward system, the emphasis was on the development of a remuneration package based upon a fixed wage that was deemed commensurate with a particular level of skill and performance supported by an 'improved' working climate that explicitly promoted better work relations, active training programmes, employee empowerment, and improved health and safety policies.

In the current recessionary economic climate, it is comparatively easy for companies to claim success as Investors in People, by publishing impressive statistics such as low employee turnover. Nevertheless, and despite the threat of unemployment, reduction in the percentage of bonus as a variable component of the total wage/salary raised anxieties among managers at Heavy Metal about the potential adverse effect on employee motivation. The development of additional dimensions in the employment package, such as better training, improved health and safety, etc. were perceived to strengthen motivation but not necessarily to deal with the problem fully[3].

Contrary to the propositions of some researchers (e.g. Barker et al, 1988), the accounts given by our interviewees suggest, if anything, the use of PRP systems based upon performance-bands more frequently at the lower, rather than middle, echelons of management. This would appear to be the case, at least for our case studies, for three reasons. First, it is comparatively easier at higher management levels to broaden the scope of job responsibilities and to render them more intellectually challenging, as the example of the finance director at Heavy Metal suggests. Those who are sufficiently ambitious may relish the added responsibilities for the purposes of internal prestige, job satisfaction, and enhancing their potential for promotion in the external labour market. Or, at least, they may be inclined to make a (macho) virtue of the necessity of adding to their work load in order to hold down their jobs.

Second, the accounts given by the managers we interviewed suggest that they value the importance of material incentives or, at least, they are reluctant to dispense with them, even when they espouse the language of empowerment and associated symbolic gratifications.

Third, despite the dysfunctional attributes of quantitative performance measures (Baker *et al*, 1988), it is at lower levels in the organisation that these measures can be most readily developed. In all six case studies it was possible to develop seemingly simple measures of performance at the shop-floor, e.g. tonnage at Heavy Metal, and also at lower management levels, e.g. sales targets in the retail side of StitchCo, but these became less concrete at higher levels in the hierarchy.

5. Conclusions

In this paper we have examined reward systems in the broader organisational setting of two companies drawn from a study based upon six companies. Our concern has been to examine the role of accounting in the development of remuneration systems that has accompanied such changes in the organisation of work as delayering and multiskilling, team working and employee empowerment. We have focused upon the extent to which accounting is implicated in the abandonment of 'old' reward structures and the promotion of 'new' ones, and the extent to which accounting contributes to the design and implementation of reward systems through which a numerical view of organisational reality is promoted. We have also explored the extent to which new initatives have been mobilised by management to buttress accounting-based reward structures in the quest for maintaining/enhancing employee motivation and coping better with the consequences of the wider changes in management practice.

Accounting is centrally involved in the constitution not only of the reward formula but also of the performance to which the formula is applied. Whether it is individual-based or group-based, the amount of reward is predominantly a product of two accounting-constituted variables: performance measure and pay rate. For all its limitations, accounting is called upon to quantify and render visible complex patterns of human performance. It is expected (by its users) to take account of discontinuities, uncertainties, and interdependencies, and somehow to generate hard data to monitor dimensions of performance.

But even when accounting's limitations in attending to these discontinuities become clear to managers, accounting remains at the centre, albeit with calls for additional supportive indicators of performance. In our case studies, accounting-based reward schemes which focused on the individual became discredited because, as one manager has suggested: 'You can't remunerate just the individual because you end up with dysfunctional decisions being taken; they could be fighting for the customer.' This then gave way to an alternative, team-based reward scheme, which was also defined through accounting calculations. Accounting defined the main performance indicators for each team, e.g. production, sales, costs, profits,

[3] Evidence from other studies also indicates that companies are seeking to evolve new scenarios to increase motivation. Zenger (1992), for example, suggests that companies tend to reward/penalise only extreme performance; very high performers are rewarded handsomely while the very lowest performers are pushed out. Such aggressive pay-for-performance contracts are seen to have the advantage of helping to retain the best performers whilst avoiding the costly alternative of rewarding the majority of employees.

and hence it influenced the selection and definition of key personal objectives; it quantified and reported achievements; and, significantly, it also constituted boundaries within each team by promoting the notion of individual influence.

In the conventional literature, reward is postulated to determine performance, as the perception of the type and level of reward provides the motivation to attain given performance levels. Yet, it is clear that under PRP systems pay is related to past performance; and hence, performance and reward could be seen to condition and mediate each other. As performance and reward each impact upon the other, conflicts and tensions are likely to arise, such as those discussed earlier. Most of the well known problems have been located in reward systems targeted at the *individual*. Our concern here is to summarise some of the PRP problems in teamworking suggested by our analysis.

First, PRP systems remain in vogue, but in our companies the fixed proportion of the total wage is now much higher than previously, as there is a move away from piece-rate systems to skill-band systems. This is consistent with a concern to avoid the dysfunctions of piece-work systems (see Baker et al, 1988). In the case of our six companies, this shift in practice has been supported if not prompted, we have argued, by a lack of growth opportunities, where the potential for internal promotions was significantly curtailed.Second, within our case studies, PRP systems were more prevalent among staff occupying positions at the lower end of corporate hierarchies compared to middle managers. This is inconsistent with the suggestion made by some researchers (e.g. Baker et al, 1988) that there is a greater tendency to reward managers, compared to shopfloor employees, on the basis of PRP schemes because, as a consequence of delayering, they have fewer chances of increasing their salaries through promotion. That said, we do not consider the value of our case study-based research to be reducible to its 'testing' of theoretical propositions. Rather, it is the capacity of contextual findings to generate insights into the dynamic practicalities of work organisation and industrial relations that is arguably of greater lasting value. Third, the shift from individual-based piece rate systems to team-based skill band systems has increased significantly the propotion of fixed wage to bonus-based pay. Given the difficulty of identifying the contribution of every individual member within a team, it is now more problematic for managers to identify and sanction individual 'slackers'. Further, the reduced bonus percentage of the total pay creates an added difficulty of motivation as pay becomes less affected by performance.

The problem of motivating the individual is increasingly becoming the responsibility of the team. Management has systematically exploited the expedience of peer pressure in the expectation that the financial imperative of the threat of reduced group pay caused by 'less cooperative' individuals will provide the necessary lubricant. The problem of motivation caused by the increase in the proportion of fixed pay has been addressed, but not necessarily overcome, by supplementing financial reward through non-financial elements such as investment in human resources (e.g. training), job enlargement and rotation, better health and safety procedures and increased 'empowerment'. Arguments and injunctions laced with terms such as 'added value to the business' and 'rewarding both skill and effort' are mobilised to promote such alternative reward schemes.

Accounting language and calculations are used to determine performance targets, whether for individuals or groups, and to quantify the skill bands for the emerging team-based reward systems. Accounting calculations are also utilised to quantify the costs and benefits of alternative reward systems in order to ensure, from the perspective of managers, that they are affordable financially.

Further, accounting intervenes in the measurement of performance, in the comparisons of actual achievements against targets, and in the determination of financial rewards. These involvements point to a potent and central role for accounting in the design and functioning of reward schemes in organisations; this, we believe, merits further examination and articulation through detailed studies of the roles of accounting language and calculation in shaping 'the new organisation' and, in turn, in being reformed by it.

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