

and deserving persons to be promoted to higher-level positions in responsibility and salary without having to wait for an "opening" as such. However, the reward

system would put emphasis on the opportunities to assume more responsibility rather than on dollar rewards for performance.

Participation and Pay

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AN INCREDIBLE VARIETY of pay plans has been designed and put into practice during the last 50 years. The majority of these plans are designed primarily to determine what pay rates different jobs should have, although many are designed to relate pay to performance in order to motivate employees to perform better. Each year the avalanche of "new" approaches continues and the debates about the relative advantages of the different approaches become more complex and obscure.

An infinite variety of potential systems can be developed to administer pay, and some are superior to others in certain respects. Some, for example, tie pay more closely to performance than do others. It seems to me, however, that we have been and continue to be overly concerned with

the mechanical aspects of pay administration. It is very clear that none of the present pay plans is perfect, but it is equally clear that little progress is being made toward developing the perfect pay plan. In fact, in developing new pay plans, we have reached the point of diminishing returns as far as time spent on developing new techniques of pay administration. The time has come to direct our attention elsewhere.

What to Do Next

No really new approach to administering pay has been developed in the last ten years. Rather, time has been spent on perfecting the point system of job evaluation or improving Scanlon plan formulas. Undoubtedly mechanical improvements can be made in these plans, but are they the

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best place to focus our attention if we want to improve the behavioral impact of pay programs? I think not.

If we want to make a significant improvement in the effectiveness of pay programs, we need to direct our efforts to the process side of pay administration. We need to focus our attention, not on technical issues such as how many factors are needed in job evaluation or on developing new stock option plans, but on issues concerned with who should be involved in designing and administering pay plans and what kind of communication structure should exist with respect to pay policies and rates.

A growing body of research literature suggests that the process side of pay programs is at least as important as the mechanical side. This does not mean that good process can make up for a poorly designed plan or low pay; it does mean, however, that bad process can ruin a technically sound plan.

Psychologists are fond of pointing out that people respond to the world as they perceive it, not as it exists. This point is certainly relevant to the area of pay administration, where a great deal of research has shown that people respond to pay systems in terms of their perceptions of the system, not in terms of how they actually operate.

Two perceptions seem to have particularly crucial influences on behavior: feelings of satisfaction with pay and perceptions of how pay is determined. Feelings of satisfaction have been shown to be a major determinant of absenteeism and turnover while perceptions of how pay is determined seem to influence performance. When pay satisfaction is high, absenteeism and turnover to be low, and when

pay is perceived to be based upon performance, performance is high if pay is important to the people involved.

What determines people's perceptions of pay satisfaction? Clearly, the amount of pay they receive is important as is the amount they perceive that others receive. Similarly, how pay is actually administered is an important determinant of people's perceptions of the degree to which pay is based upon performance. But the technical details of the plans and the amount of money they distribute cannot explain all the variance in these perceptions because people often misperceive situations where pay is involved.

For example, a series of studies has shown that managers often misperceive the pay of other managers in ways that make their pay look worse than it is. Thus managers often report pay dissatisfaction when according to their actual pay rates, it shouldn't exist.

Giving Employees a Say

Two studies provide good examples of how the same pay plan can produce very different results.

In the first (by Cortlandt Cammann and myself), two work groups were studied: In one group, productivity was very high and had continued to go up for over ten years; in the other, productivity was low and had remained relatively stable for years. Both groups did the same kinds of jobs, and both had similar pay incentive plans.

In the second study (Lawler and Hackman, 1969; Schefflen, Lawler, and Hackman, 1971), identical incentive plans designed to motivate attendance were installed in a number of work groups. In some of these groups the plan was highly

successful in reducing absenteeism; in others it was only moderately so.

Clear evidence thus exists to show that the same pay plan can get quite different results even when applied in work situations that are similar in technology and work environment. The reason for this seems to be that the same pay plan is often perceived differently. If we want to understand individuals' perceptions of their pay plans, we need to look at issues such as the degree of openness that exists about pay policies and pay rates and, perhaps most importantly, who is involved in making pay decisions.

In the Lawler and Hackman (1969) study one characteristic distinguished the groups where the plan worked from those where it didn't. The plan was designed and developed by the employee groups where it worked. It was imposed on those groups where it didn't work.

In the cases of the two groups studied by Cammann and myself, employees in the group where the plan worked had a long history of participating in decision making, and they had actually voted on the plan when it was put into effect 15 years earlier. In the other group, no history of participation existed, and the plan had simply been designed by management and imposed upon the employees.

Thus we have some evidence suggesting that participation in the design of a pay incentive system can influence its effectiveness. This raises the question of why participation makes a difference. In some cases it may lead to the design of a better plan, but in the studies cited above this cannot account for the differences since similar plans produced different results. Other research shows that participation can decisively influence a person's percep-

tion of situations. It does this because participation contributes to the amount of information employees have about what is occurring and to their feelings of control over and commitment to what is decided.

Why Participation Works

For incentive pay plans to work, employees must see a relationship between pay and performance. This is a delicate perception in the sense that it is a prediction about the future that has to be based on a feeling of trust in the future. As has been demonstrated in much of the research on pay incentive systems, this trust often isn't present. Workers often feel that the system will be changed to keep them from making a bonus and that no real pay-performance connection exists. One possibility is that when workers participate in the design and administration of a system, they are more likely to trust it for two clear reasons: They have more information about it, and they perceive they have control over what happens.

It seems logical that people will be more likely to trust a process when they have designed it and they control it. Thus it seems logical that one reason the incentive plans worked so well in the studies where participation took place is that the employees trusted they would in fact reward performance because they participated in the design of them.

So far, the emphasis has been on the effect of participation on pay incentive systems. However, the same kind of thinking would seem to be applicable with respect to systems that are designed to set salary levels and to influence pay satisfaction, absenteeism, and turnover. In order to test this out, Douglas Jenkins and I have been conducting a study in a small manufactur-

ing plant. As a part of this study, employees were asked to design a pay system for their plant. This was handled by an elected committee of workers who did considerable research on different kinds of job evaluation plans and gathered salary survey data. They ended up developing a plan that gave control of salaries to the employees themselves. This plan was put into effect, and the employees set each others' salaries.

The result of the new pay program was a small increase in the organization's salary bill (7 to 9 percent) and a significant realignment of employee salaries. A survey of the company six months after the new system went into effect also showed a significant change in turnover, in job satisfaction, and in satisfaction with pay and its administration. Why did this occur?

The workers seemed to feel better about their pay because the additional information they received gave them a clearer, more accurate picture of how it compared with that of others. Further, the participation led to feelings of ownership of the plan, and this in turn led to feelings that it was fair and trustworthy. It also seemed that the new pay rates themselves were more in line with the workers' perceptions of what was fair and that pay satisfaction would have increased somewhat even if the employees hadn't developed commitment to the plan.

Similar findings have come from a recent study we have done at a plant where pay rates are based on the skills of employees and other employees decide when the skill has been acquired. In this situation, pay satisfaction is high and turnover is practically nonexistent. The impact of participation on pay satisfaction is also shown by a study done by David Nadler

and myself in a Scanlon plan company that is highly participative in nature. The data from this site indicate a high level of pay satisfaction and a significant correlation exist between the amount of influence on pay decisions an employee has and his pay satisfaction.

Implications for OD

The apparent relationship between participation in pay system design and trust has some interesting implications for the field of organizational development. Many organization development theorists argue that participation can increase trust and satisfaction, but few suggest that participation *start* in or even include the area of pay. Quite to the contrary, it is seen as a difficult area to work in and one that should be dealt with after a spirit of trust and participation have been established.

The reasoning in this paper suggests quite a different strategy. It doesn't disagree with the point that pay can be handled after a spirit of trust and participation have been established. However, it suggests the possibility of starting organization development efforts with participation in pay administration precisely because it is so important and difficult to deal with. This approach is congruent with the literature that suggests that participation is likely to be successful only when it involves decisions that are important to employees.

Because of the importance of the pay area, success here is particularly likely to produce a general organization climate that is characterized by trust and mutual influence. What better indication of the seriousness of an OD effort and of the trustworthiness of management is there than for management to turn over pay ad-

ministration to employees. I can provide dramatic proof to employees that management is "for real" when it talks about participation and that it trusts them to handle a very important facet of organization existence.

Some evidence in support of beginning an OD effort with pay changes is provided by the results we obtained in the plant where the employees were asked to design their own pay system. Prior to this, the plant was run in a very traditional way and trust of management and satisfaction were low. After the experience with designing the pay system, trust and satisfaction went up dramatically in a manner that indicated the experience impacted upon other areas of the relationship between the employees and the company. One reason for this seems to have been that the process skills and effect that were generated in dealing with the pay issue were applied to other organizational issues (for example, terminations and layoffs), and the

process worked well. In short, it appeared that pay may in fact have been a very effective change level.

Need for Trust

The line of reasoning presented in this paper also leads to an interesting conclusion about when pay systems will be effective. Over all, the examples suggest that a climate of trust must be present for pay to be administered in a way that will be perceived to be fair. In situations where trust is low, however, something must be done to change the climate if pay is to be administered well. One way to create the kind of trusting climate needed to administer pay well is to have employees participate in pay plan design and administration. In terms of traditional thinking, this is roughly equivalent to putting the cart before the horse, but the data suggest it is a very effective way to get both the horse and the cart moving in the right direction.