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The purpose of variable pay schemes and trade unions

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Abstract

Purpose – The purpose of this paper is to contribute to the debate concerning the compatibility of variable pay schemes (VPS) and trade unions, by investigating the effects of the managerial function (to increase management control over employees) and market function (to attract and retain suitably qualified employees) of VPS for trade unions.

Design/methodology/approach – A critical case study approach was used to verify how the two varying functions of VPS affect the trade union of a large multi-establishment Irish financial institution. Data are based on a total of 60 in-depth interviews with key informants (trade unions, managers and non-managerial employees) at various levels in the organisational hierarchy and a representative survey of employees.

Findings – While the findings confirmed the a priori expectation that the managerial function of VPS is more likely to damage unions than the market function, this study revealed that the interplay between the two functions varied over time and across outlets, and was primarily contingent on the disposition of line management towards the use of VPS and the market context.

Research limitations/implications – The consequences of the shift to a managerial function of VPS following the 2008 economic crisis could only be assessed in a preliminary manner due to the time frame of the study.

Practical implications – Trade unions, managers and employees need to consider the potential gaps between the intended purposes of VPS and their actual implementation to assess whether they are of potential benefit.

Originality/value – This paper contributes to the existing literature in two main ways. First, it adds that the market function of VPS serves managers' aims not only in aiding them attract, retain and motivate suitably qualified employees as indicated by Flanders (1970), but also in helping them gain great control over labour costs, which in turn, has mixed effects for trade unions. Second, in addition to the pragmatic reasons identified by previous studies, the findings show that a key determinant in unions' acceptance of VPS involves earlier experiences of unions fighting unsuccessfully against the adoption of VPS.

Keywords Line managers, Banks, Pay policies, Trade unions

Paper type Research paper

Introduction

The relationship between variable pay schemes (VPS) and trade union workplace controls has a long lineage in work and employment relations scholarship (Edwards and Scullion, 1982; Flanders, 1970; Roy, 1952). In the early literature, it was widely believed that VPS represented a significant threat to trade unions, as they were often used intentionally to undermine unions and increase managerial control (Flanders, 1970; Gunnigle *et al.*, 1998). These studies found that VPS damage unions, principally through the erosion of workers' collective identity and commitment to unions (Kessler and Purcell, 1992). More recent empirical studies reveal that VPS may not damage unions in every circumstance (Arrowsmith and Marginson, 2011; Nergaard and Dolvik, 2012). These studies point to situations where unions are able to maintain collective control over



certain aspects of variable pay regulation, when there is no deliberate management intention to undermine trade unions. The outcomes for unions are thus perceived to be contingent on the purpose of the VPS.

Although Flanders (1970) distinguished between two main purposes of VPS, these being a managerial function (i.e. to increase management control over employees) and a market function (i.e. to attract and retain suitably qualified employees), there is limited empirical evidence on the actual impact of the two different functions of VPS on trade unions. The available evidence would indicate that those forms of VPS which are introduced to enhance management's control over the labour process are more likely to challenge union controls and thereby undermine their influence than those which are designed to serve a market function (Heery, 1997b; Gunnigle *et al.*, 1998). Nevertheless, there are mixed outcomes for unions even when there is no deliberate managerial intention to use VPS to marginalise unions (Arrowsmith and Marginson, 2011; Heery, 1997b; Nergaard and Dolvik, 2012). Thus it would seem that the marginalisation unions may result despite the intention of managers. Still, however, given the dearth of research evidence in the field (Marginson *et al.*, 2008), it remains unclear exactly how VPS' effect union influence (whatever its design or intention).

This paper addresses this gap in the literature by investigating the effects of the managerial and market functions of VPS on trade unions in the case of a large Irish financial services company. This highly unionised organisation is identified as a critical case, as it introduced a particular form of VPS for outlet managers in the late 1980s, with the purpose of enhancing the headquarters' managerial control over management working in the bank's retail outlets. Then in the 2000s, the company introduced another form of VPS for the non-managerial employees and junior managers working in the retail outlets with the objective of performing primarily a market function. The implementation of this VPS was dependent on how outlet managers introduced and operated the scheme. Thus as the case company is a large multi-establishment company, it is possible for us to explore the extent to which the declared purpose of VPS is adhered to by managers in the different outlets. This case study therefore provides a rather unique setting to explore how the two varying functions of VPS affected trade unions.

While the overall findings confirmed the a priori expectation that the managerial function of VPS is more likely to damage unions than the market function, this paper contributes to the existing literature in three further ways. First, it finds that the market function of VPS serves managers' aims not only in aiding them to attract, to retain and to motivate suitably qualified employees, as indicated by Flanders (1970), but also in helping them gain greater control over labour costs, which in turn, had mixed effects for trade unions (some positive, some negative consequences). Whichever outcome occurred was found to be contingent on the role of the outlets' (line) managers and the function they identified that the VPS could serve. Second, the distinction drawn by Flanders between the two managerial objectives for VPS – that is, of serving a “market” and “control” functions – is found to be of limited analytical value in that the two were sometimes entangled within one another. Further, while they were sometimes found to be complimentary, other times they were found to be conflictual. Third, the paper contributes to the literature by explaining why unions have come to accept VPS in recent years. In addition to the pragmatic reasons identified by previous studies (Arrowsmith and Marginson, 2011; Marginson *et al.*, 2008; Heery, 1997a), our findings show that a key determinant in unions acceptance of VPS involves earlier experiences of unions fighting unsuccessfully against the adoption of VPS.

The paper begins by reviewing the consequences of VPS' managerial and market functions on trade unions. It then explains the study's research design, and thereafter presents and discusses the empirical findings.

Literature review

It is generally accepted that unions prefer standardised mechanisms of payment based on principles of the common rule and rate-for-the-job (Bryson *et al.*, 2011; Eurofound, 2015). If differences in pay levels are allowed, unions tend to prefer that they would arise from a system which recognises employees' length-of-service or from some form of payment-by-results scheme which takes account of employees' productivity as assessed on the basis of "hard" quantitative measures (Marsden and Belfield, 2010). Such mechanisms have a dual benefit for unions: they are easy to govern and police and they unite workers around common interests – a pay rise for one is a pay rise for all. For workers, they ensure predictability of earnings.

Union fears with new forms of VPS usually centre on the purpose of the VPS (Arrowsmith and Marginson, 2011; Gunnigle *et al.*, 1998); that is, whether they are intended to increase management control over employees (managerial function) or to attract and retain suitably qualified employees (market function) (Flanders, 1970). Kessler (2000) has made the case that the recent popularity of individual performance-related pay (IPRP) cannot be explained by the traditional managerial aims of enhancing employee recruitment, retention and motivation (market function) alone. Instead it is also being used to signal a very different approach to management: that managers must manage, and without the interference of a union (managerial function). The market function of VPS can be used by managers in two divergent ways to deal with increased market competition; they may be used to provide additional (performance-related) pay to attract, retain and motivate employees to work harder and develop long-term trust relations with customers, whilst they may also be used to reduce labour costs as found, for example, by Regini *et al.* (1999) in their seminal account of the changing nature of work in retail banking.

Although VPS may have mixed purposes (Marginson *et al.*, 2008), the prevalence of a market or managerial function is generally reflected in the different VPS forms (Heery, 1997a; Marginson *et al.*, 2008), processes of adoption and implementation (Arrowsmith and Marginson, 2011; Gunnigle *et al.*, 1998) and outcomes (Kessler, 2000; Traxler *et al.*, 2008). This section reviews the consequences of VPS' managerial and market functions on trade unions in relation to these three inter-related elements.

Forms of VPS and their effects on trade unions

It is common place to distinguish between three different forms of VPS (Van het Kaar and Grünell, 2001): (a) IPRP schemes that reward employees on the basis of a superior's appraisal of their work performance; (b) incentive-based schemes that establish a link between pay and employees' output (examples include piecework, payment-by-results, commission and bonuses); and (c) organisation-wide schemes, such as profit-sharing and equity-share plans, that reward employees on the basis of the organisation's performance. As the organisation-based VPS do not distinguish between employees' effort levels, they often account for only a modest proportion of employees' earnings and are paid generally to all on top of their salary. Due to this they are rarely identified as a significant threat to unions (Arrowsmith and Marginson, 2011). They are also the least commonly used (Eurofound, 2015). Comparatively IPRP is considerably more common

and form (a) is prevalent in 43 per cent of establishments, while incentive-based schemes that establish a link between pay and employees' output (form b) are used in 34 per cent of establishments operating in the EU (Eurofound, 2015, p. 75).

In establishing an explicit link between individual employees' effort levels and the rewards they receive, both forms (a and b) of IPRP provide management with an effective "cost control" mechanism (Kessler and Purcell, 1992). It has also been found that IPRP led to substantial erosion in unions' influence over pay determination as well as weakening the union's relationship with its members and, in some cases, led to de-recognition (Heery, 1997a, 2000). Further, as IPRP is often designed to increase employees' productivity by stimulating competition between employees, it generates differences in pay levels across workers undertaking broadly comparable tasks (Heery, 2000; Marginson *et al.*, 2008). IPRP can therefore make it difficult for unions to sustain a collective identity around pay determination and, in turn, to mobilise members around shared interests (Marginson *et al.*, 2008; Heery, 2000; Wood, 1996).

Overall, the effect of different forms of VPS on trade unions varies, depending on their focus on managerial and/or market function of VPS. The most widely used IPRP scheme, form (a), which is specifically designed to increase management's prerogative, represents the biggest threat to unions (Arrowsmith and Marginson, 2011), followed by IPRP schemes that have both a managerial function and a market function (form b). Finally, the organisation-wide schemes introduced to attract and retain suitably qualified employees (market function) are the least likely to affect trade unions. Nevertheless, 65 per cent of those establishments using VPS have two or more forms in place (Eurofound, 2015, p. 75), which makes it unclear as to how these various VPS schemes operating in tandem actually affect unions.

Introduction and implementation of VPS and their effects on trade unions

The process of introduction and implementation of VPS in unionised workplaces vary from a deliberate strategy of marginalising unions to involving them and engaging in joint decision processes (Marsden and Belfield, 2010; Traxler *et al.*, 2008). In Ireland, Gunnigle *et al.* (1998, p. 565) argued that the diffusion of VPS was "indicative of increasing employer attempts to individualise the employment relationship and exclude union penetration". In their study of the introduction of VPS in multinational corporations, they found that employers used the introduction of IPRP to signal the adoption of an individualist orientation to staff relations that excludes or severely restricts trade union involvement. In a later study, they found that many managers used the 2008 recession as an opportunity to substantially reduce labour costs by paying lower or no bonuses, and by dispensing with profit-sharing schemes, particularly in the banking sector where the power of unions was significantly diminished (Gunnigle *et al.*, 2013, p. 222). Roche and Teague's (2014, p. 179) findings are a little different. While they too found that Irish companies took a series of measures to reduce their overall payroll costs, this was not accompanied by a systematic attempt to marginalise unions. VPS was in fact one of the key aspects on which employers consulted unions during the crisis in the EU (Eurofound, 2015, p. 10).

While it might be the case that management is motivated to adopt IPRP by a desire to enhance their control over the labour process, this may not extend to a deliberate strategy of marginalising unions. Management may be well aware of the many problems associated with VPS and, in an attempt to allay workers' fears, may seek to tie their own hands by inviting union representatives to become involved in talks to arrive at a negotiated agreement (Marsden and Belfield, 2010; Traxler *et al.*, 2008). Such union involvement might include the negotiation of the size of the overall pay

award, the revalorisation of grade point minima and maxima and the criteria for variable pay's distribution, although management may retain the authority to decide on how to distribute pay increases according to individual performance (Arrowsmith and Marginson, 2011; Heery, 2000). Roche and Teague (2014, p. 179) found that the HR changes introduced in unionised companies worked best for firms with union involvement in decision making, due to the manner in which joint decision making was perceived to enhance the fairness of management actions.

Unions might also see some benefit to working with management in introducing VPS. Unions might be inclined to accept VPS, where there is a tradition of jointly addressing workplace change (Dalton, 1998). The available evidence also suggests that unions' acceptance of VPS may be informed by a variety of other considerations. These include recognition of management's rationale and by a desire to meet employees' expectations of increased pay which may include an acceptance of a meritocratic pay scheme which – if properly and fairly administered – differentiates on the basis of employees' efforts and performance. Consider the findings of Marginson *et al.* (2008, p. 342) where, notwithstanding unions' rhetorical distaste for IPRP in the two sectors studied – retail banking and machinery and equipment – unions were found to be pragmatic in their response. Where IPRP was introduced with “objective” criteria of assessment and could be shown to add to employees' earnings and to help in maintaining the viability of the enterprise, unions were accommodating. The Eurofound (2013) study, too, found that in the large majority of EU countries (including Ireland) employee representatives are more likely to be supportive than obstructive to the introduction of VPS. Nevertheless, unions are more likely to become involved in the process of adoption and implementation if the VPS is used to serve a market function, as it may provide them with an opportunity to maintain (or expand) their role at the workplace.

However, there could be unintended downstream consequences of VPS where the threat to unions is not apparent in the schemes' design or introduction but rather only becomes evident from their operation on the ground. For example, a situation where some workers may welcome VPS as a means for enhancing their earnings, while others may object fearing that it will import risk and uncertainty, it is challenging here for unions to preserve workers' collective identity and commitment to trade unions (Marginson *et al.*, 2008; Heery, 2000; Wood, 1996). Thus, the consequences of VPS for unions are uncertain, even when there is no deliberate intention to marginalise unions.

The outcomes of VPS and their effects on trade unions

Unions' previous experience of the perceived gap between the expected and the actual outcomes of VPS has resulted in an attempt to be further involved with their introduction in the workplace (Kessler, 2000). Particular unintended consequences have often been identified by unions and include: demoralisation of staff arising from biased and inconsistent assessments; undermining teamwork; and fostering rivalry between workers (Kessler, 2000; Prendergast, 2010; Storey and Sisson, 1993). It has also been found that in circumstances where VPS gives rise to anomalous outcomes or perceived inequities, they are likely to become a potent source of grievance and conflict for and amongst employees. This, in turn, may provide unions with a point of leverage over management, thereby enhancing their regard among union members.

Nevertheless, the empirical evidence suggests that the existence of perceived inequities need not necessarily lead employees to request a greater role for their union. Heery's (1997b) national survey of union officers and case study of union representatives in local government and local authorities in the UK indicates that, while

there was evidence that IPRP had stimulated demand among members for a greater union role to ensure that it was fairly implemented, thereafter unions were rarely, if ever, called upon to address workers' grievances with the operation of the VPS. Heery's research points to the importance of the level of union organisation within the workplace and unions' ability to give coherent expression to workers' concerns to temper the potentially corrosive effects of VPS. Hence, it is conceivable that a strong trade union may benefit from the introduction of IPRP where it is associated with an escalation in individual grievances, but a weak union may not. Thus, there could be unintended positive consequences for strong, well-organised unions, particularly when VPS is introduced to serve a managerial function.

In summary, the effects of VPS on trade unions are not clear-cut, whether they are introduced to serve a managerial or a market function. On the one hand, it might be claimed that when a variable payment scheme is used to perform primarily a managerial function, its effects might be perceived to be damaging to unions (Gunnigle *et al.*, 1998). However, that is far from certain. The use of IPRP, for example, which is based on a superior's appraisal of an employees' performance and which excludes unions from its adoption and implementation may lead to perceived inequities. Employees, in turn, may seek a greater role for trade unions to address their grievances. Similarly when a VPS is used to serve a market function, its consequences for unions cannot be assumed a priori to be benign. Some studies, for example, indicate that VPS does not necessarily damage unions when variable rewards are paid on top of existing wages, and where strong unions have been involved in the introduction and implementation process (Arrowsmith and Marginson, 2011; Heery, 1997b; Traxler *et al.*, 2008). Furthermore, there are very few studies examining the actual consequences of VPS for trade unions, particularly in the private sector (Marginson *et al.*, 2008) and especially where VPS of variable elements and purposes are introduced. The case study examined in this paper thus presents a rare opportunity to investigate the effects of the managerial and the market functions of VPS on trade unions.

Methodology

We examine a case of the introduction and operation of VPS in a highly unionised financial services company in Ireland (anonymised as BankCo). We combined sequential exploratory and explanatory research designs (Creswell *et al.*, 2003). First, 14 key informants were interviewed in 2006 and 2007, to help us develop quantitative measures. This included three interviews with senior officers of the Irish Bank Officials' Association (IBOA), two shop stewards, four interviews with management with responsibility for industrial relations and human resources management at company level, two regional HR managers and three workplace managers[1]. All had been involved at various stages in the design and implementation of the VPS. Subsequently, we undertook a postal survey of the company's retail staff in July 2007. A proportionate probability stratified sampling procedure was used to examine the views of 851 employees of whom 66 were categorised as senior managers, 213 as junior managers and the remaining 572 as non-managerial employees. The response rate, which was 54 per cent overall, varied across the three occupational groups: 79 per cent for senior management, 64 per cent for junior management and 48 per cent for non-managerial employees. To adjust for these differences in response rates, the response sample was weighted to restore the number of respondents to their correct respective proportions in the workforce. The present study is confined to examining union members, of which there were 523 (or 78 per cent of the weighted response sample).

Second, we used a sequential explanatory design (Creswell *et al.*, 2003), by conducting 45 in-depth interviews in nine retail outlets in 2008 to assist us in explaining and interpreting the survey findings. The outlets were selected to represent a broad representation of geographical spread and size. In each outlet, we interviewed the manager, the workplace union representative together with at least one junior manager and, one senior and one recently recruited employee. Each interview lasted between 35 and 45 minutes. There was a thematic content analysis of the qualitative data.

Findings

This section examines the effects of the VPS purpose on BankCo's trade union (IBOA) in relation to its forms, process of introduction and implementation and the perceived outcomes for employees following the introduction of VPS. This is followed by an analysis of the overall consequences for the union's presence, cohesion and influence.

Forms of VPS and their effects on trade union

In the late 1980s, BankCo introduced IPRP for retail outlet managers and in the mid-2000s introduced individual and collective forms of VPS for junior managers and non-managerial staff. With respect to the former, VPS was designed to help the company reassert control over workplace managers many of whom were in union membership and along with this to reduce the union's capacity to resist changes in work practices. Prior to then, managers' pay increases (and non-managerial staff) were negotiated by the IBOA at an industry level. In moving towards VPS, BankCo provided a very attractive package for outlet managers that included an initial pay increase in excess of the provisions of the collective agreement and a company car scheme in exchange for agreeing to individual contracts of employment. According to a senior trade union official:

It was totally voluntary. There would be new ranges put in place and based on how individual managers perform. [...] Managers had two weeks to respond and the vast majority of managers opted in. [...] The bank took the view here would be an opportunity to take the managers out of the trade union without saying that that was the reason. Number two, providing a better benchmark to manage the managers, because at that point in time most managers had a kind of a self-contained little branch with their own manager.

The senior managers interviewed confirmed that they were compelled to find ways to reduce the union's influence at that time as, it was claimed, the union opposed all technological changes which rendered BankCo less competitive than its main competitors. Despite the IBOA's resistance and their advice to outlet management to reject the new pay scheme, it was introduced unilaterally. The great bulk of management left the union and the IBOA lost the right – and the capacity – to negotiate the salaries of the outlet managers. Thus, although IPRP was paid on top of these employees' exiting salaries, the VPS damaged the status and position of the union with regard to this cohort of the bank's staff. In this instance, VPS was introduced to serve a managerial function.

In 2006, BankCo introduced a profit-sharing scheme and a new performance management system (including IPRP) combined with a re-definition of employees' job roles and responsibilities, which entailed redirecting staff's efforts from "telling" (advising customers) to "selling" (prevailing upon customers of the merits of buying a particular financial product).

This resembles, in some respects, the changes "from tellers to sellers" identified by Regini *et al.* (1999, p. 10), which refers to a shift in job roles from processing transactions

towards a sales and service orientation. BankCo, however, first improved its services following technological changes in the 1990s, and only in the mid-2000s, did management seek to persuade employees to see any customer interaction as a “sales opportunity”.

The company’s decision to implement the new VPS was informed by two economic objectives which might broadly be said to embrace Flanders’ “market” and “managerial” functions. The emphasis, however, varied across different managerial functions. HR management placed a great deal of emphasis on the requirement, as in the early- to mid-2000s, to attract and retain talented employees. Staff had also indicated to management, principally through annual staff surveys that the standardised incremental pay scale system failed to recognise and reward employees’ for their efforts and that VPS would be welcome.

Business managers, however, placed more emphasis on the managerial function of the VPS and, in particular, the requirement to enhance their control over the labour process. This was cast as a requirement to strengthen the company’s performance culture with the expressed intention to enhance work organisation processes by better planning “what” needs to be done and “how” it should be done. They also wanted to be in a position to compare the performance levels of staff across retail units and to identify and share “best practice”. It was also expected that the regular interaction between management and employees at appraisal time would provide for greater accountability, as well as helping to identify employees’ training needs. While senior HR personnel understood the need to develop both functions of the VPS – market and managerial – their task, as they saw it, was to balance these potentially competing objectives, particularly at the outset of VPS’ introduction, so as to ensure that both the staff and union bought-in to its operation. For this reason, the former more benign function was given greater weight in the roll-out of the initiative than the latter potentially harsher managerial function.

Under the new VPS, employees’ pay comprised of three elements. First, there was a “pay zone” for each occupational grade which ranged from “entry”, “mid” to “advanced”. For example, officials’ pay zones ranged from €21,637 to €28,890 at the entry zone, €28,891 to €37,499 at the mid zone and €37,500 to €41,700 at the advanced zone. Second, with the IPRP scheme payments ranged from 0 (where an employee fails to meet expectations) to 7 per cent (consistently exceeds expectations) at the entry zone, from 0 to 5.5 per cent at the mid zone and from 0 to 3 per cent at the advanced zone. Finally, a profit-sharing bonus based on the company’s financial performance was paid to all employees, assuming their performance was deemed to have met expectations. Individual bonuses, expressed as a percentage of base salary, ranged from 2.7 per cent to 13.3 per cent for officials, up to 16 per cent for officers and up to 20 per cent for junior managers. In 2006, employees with a minimum period of one year service were paid a 5 per cent share of the company’s profits of €1.7 billion in bonus payments, which were received either in shares or in cash.

Introduction and implementation of VPS and their effects on trade union

In contrast to the unilateral introduction of VPS for management in the late 1980s, when BankCo introduced VPS for its other retail outlet staff in the 2000s it granted the IBOA a significant level of influence over its design and implementation. It did so for one principle reason, it expected stern union resistance if it had acted unilaterally. It had learned an unpleasant lesson in the early 1990s when, in an attempt to introduce new technologies and new work practices, there was a bitter and prolonged industrial dispute, culminating in a four-month strike.

The experience of resisting the introduction of the VPS in the 1980s also affected the union's stance. Although the IBOA was ideologically opposed to the introduction of IPRP, it saw little practical benefit in resisting management. First, if they had objected, they believed "they would have been wiped off the pitch". Second, the IBOA had long been a vehement opponent of centralised multi-employer bargaining which had operated in Ireland with the advent of social partnership in 1987. The strictures associated with these national-level agreements had restrained wage growth in profitable sectors and had made little and infrequent provision for additional company-level bargaining. The IBOA foresaw the possibility that, if in negotiations with the company, it was able to ensure that the VPS payments were made on top of annual cost-of-living increases and were determined by productivity improvements, the union might be provided with a legitimate means for increasing the wages of its members above that prescribed in the national wage agreements. Also, as the economic circumstances of the national economy were buoyant and as the financial outlook for the company was propitious, the union took the pragmatic view that the company's profits should be shared with staff. Finally, a survey of union members conducted by the IBOA indicated that the vast majority of members were in favour of VPS. The union was therefore, from an early stage, positively disposed towards accepting the introduction of VPS.

It took two years to reach an agreement. The company set out to introduce the VPS together with a plan to reconstitute employees' work roles, responsibilities and competencies. The IBOA sought to ensure that any new appraisal-based pay system would be fair, equitable and would operate in a transparent manner; that employee participation therein would be voluntary; that its representatives would negotiate annual profit-sharing bonus payments and that participation would be open to all staff; and finally, that any new job roles would be specified by agreement. In the final stage of negotiations, the two parties agreed to use the services of the Labour Relations Commission to help them in resolving outstanding differences. Their recommendation provided for a 2.5 per cent pensionable wage increase for all staff, as well as a 15 per cent and a 7.5 per cent increase in the salary scales of junior staff and managerial grades up to assistant manager, respectively. The recommendation also included the introduction of a voluntary IPRP system and a profit-sharing scheme. The size of the latter's payment was to be negotiated annually with the trade union. Cost-of-living increases agreed under the terms of national wage agreements would continue to be applied automatically. The recommendation was balloted upon and the majority of employees voted in favour.

All parties expressed satisfaction with the negotiated outcome. Management believed the VPS permitted them greater control over the organisation of work (managerial function), while allowing them to reward excellent staff and to reduce employee turnover (market function). The union judged it had exercised a great deal of influence in the negotiations. The VPS was seen to be fair, particularly as participation therein and the setting of performance targets was voluntary (for existing employees), and staff retained the option of opting-out in the first two years. It also included an appeal procedure, which permitted employees to be accompanied and represented by their union representative or by a work colleague. The union was particularly pleased that all VPS payments were to be paid on top of cost-of-living increases. In this sense, the VPS not only represented a very significant "local bargaining" gain, but its design and the manner of its operation, "ensured", as one senior union officer argued, that "the IBOA remained relevant". Thus, at the design and introduction stage of the VPS, the trade union had played an important and constructive role.

The outcomes of VPS and their effects on trade unions

The results from the employee survey and in-depth interviews in the nine selected workplaces indicated that employees were broadly happy with their wages and the bonuses they received under the VPS. Most respondents' views were positive: "There are only upsides to it, especially for younger staff" (outlet manager, March 2008). "My salary increased by €3,360 in 2006"; "it gives people a chance to perform and progress in their career" (interviews with junior managers, May 2008). "It is a fair reflection of how people perform. It is an incentive for young people to work harder"; "it's not brilliant, but up to now there was nothing" (interviews with non-managerial employees, April 2008). The findings from the survey and the interviewees reflect both the buoyant economic circumstances and the manner in which their performance was appraised and the amounts of extra payment they received.

There are two points which warrant emphasis. First, the variable payments made to staff were paid on top of their existing wage and in addition to the pay increases awarded under social partnership. Second, senior management tempered the independent influence of line management by urging workplace managers to be generous in their evaluation of employees' performance in the first two years of the scheme. This resulted in the payment of sizeable bonus payments as indicated in the quotations above. One junior manager explained that "the policy was to give almost everybody a 'fully meets expectations' grade in the first two years", while a non-managerial employee believed that "the first year was too good to be true".

At the time we conducted our in-depth interviews in the nine selected workplaces, the market circumstances of the banking industry had changed very markedly. The economic crisis had now taken hold. The findings as to the effects of VPS on workers and their work at this point relay a more complex and variable picture. The VPS had been in place for three or more years and the limitations formerly placed on line management discretion in determining employees' variable payments had been lifted. There was now greater scope for workplace managers to use the VPS as they deemed appropriate.

In four of the workplaces we examined the VPS was associated with increased workloads, increased rivalry between staff, impaired teamwork and poor morale. We wondered initially whether these outcomes were directly attributable to the VPS, and that perhaps we had failed to capture the full effects of the introduction of VPS in our survey instrument administered some time earlier, or whether the altered economic context was the key factor. Neither, however, accounted fully for these findings. Certainly while the worsening economic context was identified by staff to be important, they emphasised other influences, in particular the role and "style" of local management. These various factors are illustrated in the views expressed by employees below:

At first it [the VPS] seemed like a good thing. You had a definite career trajectory. The goals seemed attainable in a buoyant economy. But now the targets are less attainable and there will be repercussions for staff. [...] Targets are a lot higher and the current economic situation makes them harder to reach (non-managerial employee, 2008).

It's more about profits than people. It's all about the results. As soon as you do well, they ask you to do more; and [...] yes, you get recognition, but they expect too much from us (non-managerial employee, 2008).

Increased competition and the new VPS have led to increased workload, stress; staff are stretched over their limits. There were conflicts between reviewers and reviewees. The assessment "fell short" of a junior manager last year led to conflict and divisions within the management team (outlet manager, 2008).

In one of these four workplaces, the following comments were made by staff:

This workplace is a dictatorship (non-managerial employee “a”, 2008).

There’s no team spirit here (non-managerial employee “b”, 2008).

Employees stole customers from each other. It’s a cut-throat environment (non-managerial employee “c”, 2008).

Significantly, however, in the other five workplaces and despite the similarly changed market circumstances, the outcomes for staff were very different. Here they pointed to the benefits of the VPS. As to the reasons, employees gave emphasis to the same set of contingencies identified in the other four workplaces; that is, the quality of local management and the climate of staff-management relations, but these were seen to operate in a different manner. Interviewees emphasised, for example, that the VPS operated in a more objective manner than the former payment system:

It adds structure and it’s clear what you need to do to progress in your career (junior manager, 2008).

It helps to focus on objectives and there’s regular communication and feedback (non-managerial employee, 2008).

We struggle to explain the presence of different management styles. First, we examined whether they might be related to the outlet performance, but this was not the case. Second, we investigated whether gender affects it, as three (out the five) outlets with predominately positive effects on staff had female managers, while the other four had male managers. However, survey data show no significant gender differences in 2007. Nevertheless, it might be the case that during the recession female managers were more likely than their male counterparts to maintain good relationships with workers. Overall, it appears that the management style was primarily dependent on the personal approach to management of outlet managers.

As to the consequences for the union, at first we examined how the IBOA responded to these adverse consequences and then how members viewed the union’s response. In in-depth interviews with the IBOA, senior union officers acknowledged the varied consequences of VPS across business outlets, while also pointing to various measures which were introduced to mitigate their effects:

We cannot control how this will be played out in each outlet. It has posed big challenges for us. But we request and are given the distribution curve each year. This is a broad controlling mechanism as we also have the distribution for pay before 2004.

Technically we had a good agreement, but for it to work people had to appeal their rating, but people saw it as inevitable, because if they challenged it they feared they would be relocated.

Agreeing targets was to be voluntary in theory but in practice it was less so. Local managers were working outside the agreement.

In the four workplaces where there were negative effects on staff we enquired how they assessed the union’s response. In interviews with staff they did not identify the IBOA as being culpable; they did in fact believe that the union had made a commendable effort to protect their interests in difficult circumstances. Most workers identified the financial crisis, executive management’s part therein, and the role of line management as the principal reasons for the difficulties they experienced with the VPS. As such, the employees did not “blame” the union for the harsher side-effects of the VPS and they understood and accepted

the appropriateness of the union's shifting postures as they moved from securing additional benefits for staff (market pay context) in the mid-2000s, to adopting a defensive position (managerial pay context) as the economic circumstances of the firm changed in the late 2000s. They further conceded that the former objective had been requested by staff themselves – they had sought higher wage increases than that permitted under national wage agreements and VPS were the vehicle for achieving such gains. While many staff foresaw that it would now be more difficult to achieve new bonuses in the harsher climate of the late 2000s, they appreciated the new role which the union could offer principally in affording them some protection against work intensification and bullying by line management. Such traditional union roles came to be more important post 2007/2008 than they had been during the earlier economic boom years.

In summary, it is clear that that the variability in outcomes witnessed across the nine workplaces cannot be attributed solely to the financial crisis or to the shift in managerial strategy. At the outset, management's strategy for VPS combined both market and managerial functions. In the first two years of the initiative the focus was on the former; times were good, the company was anxious to embed the new reward scheme and workers received generous bonus payments. However, as the consequences of the economic crisis became more apparent senior management strategy flipped from the former more benign motivation to accentuating the latter managerial function. Still, the potentially harsher side-effects of this shift were mediated by local management style. For some managers the appropriate strategy was to give renewed emphasis to the market function of VPS and through such means they would be able to maintain employees' cooperation. Others emphasised the managerial function of the scheme, however, which was perceived by employees to be crude and led to the intensification of staff effort levels. Despite this, the union was not faulted for its participation in the introduction of the VPS, although there was acknowledgement that it was stretched in its oversight of their effects as the recession intensified. Apart from this, there were no major negative spill-over repercussions for the IBOA, as is also indicated by the quantitative data which we review below.

Overall downstream consequences of VSP on trade union

Union presence. In contrast to the introduction of IPRP for senior managers in the late 1980s, where the IBOA lost the right to represent this category of staff, the adoption of VPS in the mid-2000s for junior managers and non-managerial staff was accompanied, as we have seen above, by the extensive involvement of the IBOA. Subsequent to its introduction, the evidence suggests that the consequences for the union remained relatively benign, although there were some tensions and perceived failings. Trade union density remained high (78 per cent) and had not declined with the introduction of VPS.

Union cohesion. While there were major tensions between members and the union after expelling members who crossed the pickets during the 1992 strike, the union remained a cohesive force through the mid to late 2000s after the introduction of the VPS. When employees were asked if there had been any increase in tensions and conflicts within the IBOA between 2004 and 2007 only 13 per cent of respondents believed there had been. The one voiced criticism referred to the perceived option of being free or not to participate in the VPS. Only a small number of staff declined to participate but, of those, many complained that they had been subsequently pressured to join and had received little support from the union. The option of being permitted to opt-in or opt-out was, in their view, merely a fig leaf.

Union influence. The role and influence of the IBOA in setting pay for managerial staff was reduced in the 1980s following the introduction of the VPS. By contrast, it was

enhanced with the introduction of VPS for the other categories of staff in the mid-2000s. Before VPS' introduction in 2006, pay bargaining was predominantly of a ritualistic form. Pay increases were a "gift" of the social partnership process; they were transposed to workplace level with little if any opportunity for additional bargaining. With the introduction of the profit-sharing scheme, the IBOA was in a position to negotiate the size of the "overall pot" for distribution to staff. In addition, it expanded its representative role by dealing with employees' grievances in the new appeal system which accompanied the introduction of VPS.

Union members' perceptions of union effectiveness. We found a mixture of views amongst union members in our survey as to the effectiveness of the union following the introduction of VPS. The predominant view was that the IBOA had been an effective union and had increased its influence through the late 2000s. We asked union members "how good has the IBOA been in representing your interests over the last three years?" The stated time period was designed to capture the period since the introduction of the VPS. While a small minority believed the union had either been "very bad" or "fairly bad" (13 per cent), the majority (55 per cent) perceived the union as either being "fairly good" or "very good".

Union members' orientation and commitment to the union. The results in respect of members' orientation to membership leaned in a positive direction. In total, 42 per cent agreed that being a union member had become more important to them over the previous three years. The level of union members' commitment to the IBOA was also relatively high (see Table I). We use a version of Gordon *et al.*'s (1980) scale to measure union loyalty, responsibility to the union, willingness to work for the union and belief in unionism. A shorter version of this scale had been used previously in a national representative survey carried out by Geary (2008) of workforces in companies with similar partnership arrangements in Ireland. This allows us to compare (on a selected number of items) employees' levels of union commitment in BankCo with that of Geary's sample. The mean score for each of the four items measured reveal that the level of members' commitment to the IBOA in BankCo was considerably higher than that found by Geary (2008), and notwithstanding the limitations of cross-sectional data, would thus suggest that the introduction of VPS had not damaged members' loyalty to their union. Further, the sub-scale mean values as well as the overall composite result reveal moderately high levels of union commitment amongst union members in BankCo.

The effects of the market function of VPS on the IBOA in the mid-late 2000s

We investigate the impact of the manner of introduction and implementation and the perceived outcomes for employees on members' commitment to the IBOA in the first two years after the introduction of the VPS in the mid-late 2000s. It should be noted that at this point, it was designed primarily to serve a market function. First, the evidence indicates that the adoption of a joint management-union approach helped to engender confidence among the workforce in the VPS and, in turn, in the effectiveness of the union in representing their interests. We asked respondents whether or not workers and union representatives were "properly informed and consulted" about the VPS before it was implemented. In total, 78 per cent agreed they were. Employees' main concerns were generally of fearing biased and arbitrary judgements, personality clashes and the difficulty of measuring employees' performance objectively. Despite these worries, 92 per cent of respondents indicated that management had taken their concerns into account when introducing the VPS.

The data presented in Table II takes the analysis one step further by enquiring whether the IBOA was damaged or prospered in terms of workers' commitment, arising from (A) the

	Mean	SD	The purpose of VPS and trade unions	
<i>Loyalty</i>				
I feel a sense of pride at being part of the union	3.41 (2.25)	0.876	14	
The record of my union is a good example of what dedicated people can get done	3.47 (2.25)	0.927		
There is a lot to be gained from joining the union	3.64 (2.14)	0.92		
Sub-scale mean	3.51	0.91		
<i>Belief in unionism</i>				
My values and the union's values are very similar	3.44	0.828		
My loyalty is to my work and not to my union ^a	2.89	0.911		
I could work just as well in another organisation where there was no union, as long as the type of work was similar ^a	3.28 (2.61)	1.037		
Sub-scale mean	3.20	0.93		
<i>Willingness to work for union</i>				
I am willing to put a great deal of effort in beyond that normally expected of me in order to make the union successful	2.93	0.836		
If asked, I would serve on a committee for the union	2.57	1.065		
Sub-scale mean	2.93	0.98		
<i>Responsibility to union</i>				
Every union member must be prepared to take the time and risk of lodging a grievance	3.73	0.808		
It is every member's duty to support or help another worker with his or her grievances	3.76	0.801		
Sub-scale mean	3.75	0.80		

Notes: ^aItems are reverse coded. A ten-item scale, each item scored 1 = strongly disagree to 5 = strongly agree. The mean values for Geary's (2008) study are provided in parentheses. Cronbach's $\alpha = 0.809$. Composite scale mean = 33.1, SD = 5.48

Table I.
Union commitment

	β	t-Value
<i>(A) Manner of introduction of VPS</i>		
Familiarity with variable pay scheme (VPS)	0.091	2.29*
Workers' concerns addressed in VPS agreement	-0.029	-0.648
<i>(B) Outcomes for members</i>		
How beneficial is VPS for employees?	0.003	0.074
I am well paid for the work I do	0.038	-0.899
<i>(C) Trade union effectiveness</i>		
How good was the IBOA in representing workers' interests in last 3 years?	0.552	14.047***

Notes: n (weighted) = 514. Adjusted $R^2 = 0.361$ ***. The dependent variable is union members' commitment to the union. Control variables used in the model are: quality of relations between staff and management, quality of relations among staff, preference for a cooperative union bargaining posture, age, level of satisfaction with pay and occupational category. Only two of these control variables have a significant effect, preference for a cooperative union bargaining posture and age. *, **, ***Statistically significant at the 0.05, 0.01 and 0.001 level, respectively

Table II.
VPS and employees' commitment to the union: OLS regression results

manner in which the VPS were introduced (two items are used: members' familiarity with the VPS and whether their concerns were addressed prior to the introduction of the VPS); (B) whether the outcomes were of benefit to members (again two items are used: had members believed they had benefited from VPS introduction and did they believe they

were paid well for the work they undertook); and (C) whether the union had been effective in representing members' interests in the last three years. We added the overall effectiveness of the union as a control variable, as many studies indicate that VPS is less likely to undermine unions if the union is strong (Arrowsmith and Marginson, 2011; Heery, 1997b). The items in equation (A) are designed to see if there is any link between members' union commitment and the union's early postures in relation to the introduction of the VPS; that is, their efforts to ensure that their members were informed of their introduction and purpose, and any concerns they may have had were addressed by management. Items in (B) relate more directly to outcomes following the introduction of the VPS and the item in (C) refers to the union's continuing role and perceived level of effectiveness. Thus the items in (B) and (C) are designed to capture the extent to which there might be a link between union members' perceptions of the downstream effects of VPS's introduction and, in turn, their levels of union commitment. Again, it should be held in mind that the data originates from the employee survey which was conducted in the first two years of the introduction of the VPS and at a time when Ireland's economic boom was beginning to ebb and VPS served primarily a market function.

The results for one of the items in (A) – employees' familiarity with the VPS – is significant, while the results for the other item – whether their concerns were addressed prior to the introduction of VPS – as well as both items in (B) are non-significant and thus explain little of the variance in union commitment. However, the major influence would appear to be the effectiveness of the IBOA in representing workers' interests in the period following the introduction of the VPS. It would seem then that one important reason why the IBOA had been able to retain the regard and commitment of its membership was because of its early strategies in relation to the design of VPS and its continuing role in representing members' interests.

In summary, we conclude that the downstream consequences of VPS on the IBOA were largely benign when the VPS was used to serve primarily a market function: union membership and density had been maintained, the union had remained a cohesive and effective voice for employees, employees were happy with the manner in which the VPS had been implemented, and they remained committed to their union.

Discussion and conclusion

There has been considerable debate in the literature concerning the compatibility of VPS and trade unions (Gunnigle *et al.*, 1998; Heery, 1997b). Recent empirical contributions reveal mixed outcomes for unions (Arrowsmith and Marginson, 2011; Nergaard and Dolvik, 2012). This paper contributes to this literature by examining the downstream consequences for a well-established trade union when the purpose of the VPS shifted from serving a market function to a managerial function in one of Ireland's largest financial institutions. The overall findings confirmed the a priori expectation that the managerial function of VPS is more likely to damage unions than the market function (Flanders, 1970), while it adds that shifts in the interplay between market and managerial functions of VPS across time and within the organisation play an important part in explaining the mixed outcomes for unions.

This paper adds to the existing literature in four ways. First, there is a need to revisit Flanders' typology which was used by him in a descriptive manner and was not developed with any great theoretical rigour or subsequently with any detailed empirical inquiry. We find that the ostensible market function of VPS as deployed by management in BankCo served not only to attract, retain and motivate suitably qualified employees, but it was also designed to reduce labour costs in a context of

increased market competition. This dual purpose was not anticipated by Flanders. His typology distinguishes essentially between managerial objectives which hinge on a clear distinction between employee “motivation” and “control”, but these two are not dichotomous. Both came to be embraced within the one aim or function in BankCo’s use of VPS, both as introduced in the 1980s and 2000s. Staff welcomed their introduction, voted for their introduction and in one case relinquished union representation for it (branch management). With their introduction managerial control over the labour process was enhanced. At this point in time and in times of economic prosperity the two aims (motivation and control) came to complement one another. However, as the economic climate worsened the two objectives came to be in conflict with one another.

Second, the research evidence points to the critical role played by outlet (line) management in the operation of VPS and, in turn, on VPS’ consequences for trade unions. As the economic crisis took hold in 2008, management’s strategy shifted to using the VPS to extend the managerial function of pay, to extend management’s control over the labour process and to reduce labour costs. At this point, the effects of the revised VPS became potentially more negative for staff and, to an extent, for the union. However, where local management used their autonomy to moderate the harsher elements of the scheme, employees had few grievances, but where local management opted to emphasise the harsher functions of the VPS the effects were more adverse for employees. Thus, the disposition of line management towards the use of VPS critically accounts for the mixed effect of VPS on employees and trade unions. The key task in any future research which explores the role of line management, particularly across different business units, is to explain why such variable dispositions arise.

Third, this paper contributes to a better understanding of how trade unions come to adopt different postures in regard to VPS. In the mid to late 2000 the union had adopted a pragmatic position: while it saw the potential risks, it could foresee that these could be managed or outweighed by potential benefits, which their members were anxious to avail of. However, the union’s position was not so accommodating in the 1980s. Their conflictual posture resulted in being marginalised and management moving unilaterally to introduce the VPS for senior outlet management. This previous experience of the union fighting unsuccessfully against the adoption of VPS had a substantial influence on the union acceptance of VPS in the 2000s. Thus, this study contributes to a better understanding of the reasons why a union’s position might change and how they might come to accept VPS (Arrowsmith and Marginson, 2011; Marginson *et al.*, 2008; Heery, 1997a).

Finally, this paper has some practical lessons for managers, unions and workers. Although, in many respects, the context for the adoption of VPS in the mid-2000s in BankCo could be considered a best case scenario in terms of the forms and purposes of VPS (paid on top of existing wages), the process of introduction and implementation (i.e. joint decision making, voluntary scheme and an appeal system), and their positive outcomes, this study draws attention to the challenges faced by all stakeholders regarding the adoption and implementation of VPS, especially as economic circumstances change. It also highlights the central role of line management and the part they play in implementing VPS. Where they are found to act in an inconsistent manner, various anomalies in the operation of VPS are likely to arise. These in turn are likely to give rise to negative consequences for employees and the company, such as diminished employees’ loyalty and commitment to the organisation (Kessler, 2000). The increase in responsibilities asked of middle managers requires that they be afforded adequate training to deal with VPS and that, in addition, senior management conduct regular oversight regarding VPS implementation.

While this study goes noticeably further than much of the existing literature in the depth with which we have been able to examine the effects of VPS purpose on trade unions, the consequences of the shift to a managerial function of VPS since the 2008 crisis can only be assessed in a preliminary manner. Further research is required to see whether over the period of a prolonged economic crisis unions might be able to moderate the harsher elements of VPS as well as being able to sustain their presence, influence and regard among their membership. Our findings suggest that any potentially adverse effects on employees and unions are likely to be moderated by the overall management purpose of VPS and the manner of their implementation by line management, as they grapple with the contradictions underpinning managerial strategies in balancing the requirement to control and motivate staff and which are not neatly distinguished from one another whatever function – be it “market” or “managerial” as prescribed for in VPS.

Note

1. An additional interview was conducted with the IBOA’s General Secretary in 2011.

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