

# Pay restraint

## – at what price?

With a possible public sector pay freeze on the horizon, **Ivan Robertson** discusses the likely impact on employee motivation and looks at what managers can do to maintain commitment

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There is a view – false in my opinion – that workers in the public sector are somehow insulated from the worst effects of the recession. In practice, the only real difference may be something of a delay in the timing of any impact. Because of the way public spending works and the timing for setting budgets, there may be a lag between damage to the country’s economy and the effects being felt by workers. Apart from this, however, the impact on the public sector is likely to be just as severe – or perhaps even more so because in a recession like the current one, which involves high levels of national debt, cuts in public spending are inevitable.

It seems that uncertainty about exactly how the recession will bite in the public sector will remain until after the next election and there are links here to some of the points my colleague Gordon Tinline was making about managing in a climate of uncertainty in last month’s column.

In this case, lower levels of funding may also mean pay restraint. The head of the Audit Commission Steve Brundred recently pointed out that a public sector pay freeze could save the Treasury £5bn a year. The Chancellor, Alistair Darling, has already signalled that he feels that he will need to impose restraint on public sector pay and although David Cameron has said that this is best set by independent bodies rather than government, the result could still be pay restraint. And it may not be limited to pay because, in certain circumstances, additional negative outcomes such as compulsory redundancies may also come into play.

Given this background, what effect will a pay freeze have on the motivation and commitment of the public sector workforce and what can managers do to minimise the negative impact?

It is self-evident that pay is an important factor in terms of how people experience work, but in many ways the available evidence suggests that financial benefits – and pay in particular – may not be as important as other factors. On a broad scale we know from international evidence that financial circumstances and happiness certainly do not go together. A study published a few years ago in *New Scientist* showed that the happiest countries in the world included Nigeria, Mexico and Venezuela – ahead of all of the more developed and affluent countries of Europe and North America. In Britain, despite the fact that our material wealth has increased significantly, happiness levels are lower now than they were in the 1950s, with only 36 per cent of people saying they are “very happy” compared with 52 per cent back then.

Another well-understood issue is that pay incentives are not necessary, or key, for improving and sustaining high performance. This conclusion is the result of decades of research into the theory and practice of goal-setting. The extensive research of two psychologists, Edwin Locke and

Gary Latham, has demonstrated very clearly that goal-setting is the most successful motivational approach out there. The highest levels of performance are produced when goals are difficult and specific – as long as people get feedback about how they are doing and are committed to achieving their goals (perhaps because they have helped to design them). When these conditions are in place and pay is not perceived as being completely unfair there is no need for additional monetary incentives. This does not mean that pay is unimportant to people, but there is relatively little evidence that people’s level of satisfaction with their pay completely determines how they behave at work on a day-to-day basis – the challenges inherent in their current tasks or projects have much more relevance. To back this up, in a recent very large meta-analysis that looked at more than 200 pieces of research conducted over the past 35 years, Margaret Williams and colleagues found no strong links between pay satisfaction and various outcomes such as absenteeism, intentions to leave and job performance.

So what is the role of pay in the workplace and how difficult could things become for managers if public sector employees are confronted with staffing shortages and pay freezes?

Although research into goal-setting theory has made it clear that monetary incentives are not critical, there are exceptions. For example, pay seems to become more salient to people when it is reduced or under threat. Paying someone to perform a task or role and then reducing the rate of pay is likely to result in reduced effort levels. This is worrying at a time when pay levels might indeed be under threat and the message to the government might be that freezes are one thing, but cuts are quite another.

In reality it seems unlikely that pay will be reduced, but perceived unfairness in pay levels could still have significant negative effects on performance because people in organisations, public or private, want to feel a sense of justice.

Research findings consistently show that there are negative consequences when people in organisations feel that either procedural justice (the processes used to make decisions) or distributive justice (the actual distribution of rewards) is flawed. Consequences include increased intention to leave, lower levels of organisational citizenship (discretionary behaviour to support colleagues or solve problems that go beyond the narrow job description) and poorer levels of customer satisfaction. All of these would be serious for a public sector with demanding goals and shrinking resources.

We’re familiar with the old debates about the value of performance-related pay in the public sector, but unless the government, whoever that is, handles this issue sensibly we may be debating pay-related performance in the very near future.