

Pay for Performance Systems: Individual Programs

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In the past three years, pay for performance systems have exploded in popularity among public sector organizations. Performance evaluation systems have been used in most of the private sector companies for a long time. There is even research which suggests that if a company has a performance evaluation system in place, their performance is better (as measured by profits and related financial measures) than those companies that don't have such systems in place.

Since government managers want to be able to reward top performers, and in light of the evidence from the private sector, doesn't it stand to reason that pay for performance systems in the public sector would work to motivate government employees? (We will answer that in a later newsletter.) First, it is important to recognize the variety of options available to governments when they want to install or revise a pay for performance system for their employees.

There are two conceptually different types of pay for performance systems. There are individual programs and group programs. Each focuses on a different type of behavior and thus each has varying degrees of success.

Individual Programs

The key to individual performance based programs is that they focus specifically on the individual. (We didn't say this was rocket science!) The assumption underlying these

programs is that an individual can control their own behavior, and given some feedback about the behavior that is good and that which needs improvement, the employee will choose to improve. Typically, individual performance based systems involve one individual, usually a supervisor, evaluating (i.e., judging) the performance of another individual. If there is enough behavior that meets their approval, the employee is rewarded. Hopefully, the employee will be grateful and decide, like a good lab rat, to be rewarded again. If it works, everybody is happy and productivity, quality or what have you is up.

Among individual performance based systems are the following:

- * performance evaluations
- * skill based systems
- * competency based systems
- * recognition
- * spot awards
- * suggestion programs
- * promotion

Among systems in the public sector, recognition and suggestion based systems are the most popular according to a survey that our firm conducted in 1996 among government organizations. Unfortunately, they are among the systems that are the least effective and frequently fall into misuse or disuse. Skill based and competency based programs are less popular but gaining some frequency of use. They

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are most popular among trades, police and fire and clerical. Some of the larger public sector unions (AFSCME) have found them to be acceptable if developed jointly and managed fairly. Finally, spot awards are used in just a handful of organizations and usually for only a specific event, such as completion of a special project on tight time lines.

Performance evaluation systems, in our opinion are experiencing a renewal of interest, but will probably have a tough time in the long run because of the inherent subjectivity involved. When pay is tied to the results, the systems pit one employee against another for a small and finite

pool of money. In fact, with today's payroll increases averaging somewhere in the 3-4% range, even if an employee is exceptional, the amount of money tied to such performance amounts to about \$20 per month. This is earned at the expense of someone who must be judged as less than acceptable for the math to work out right.

It's typically seen as a win/lose situation: I win/you lose; or you win/I lose. Most employees view these types of programs with suspicion and will likely argue against them.