

## Barriers to Pay for Performance Programs

### Budget Cycle Barriers

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In our experience, individual performance evaluation programs are the type that are used most frequently in government and the type of program that most government officials think of when they think of pay for performance. In this issue we discuss some of the structural barriers to implementing an effective individual pay for performance program and some ways in which these barriers can be overcome.

Psychology teaches us that individuals will perform and continue to perform at certain levels as long as they are rewarded for their efforts. It is a simple equation. If the reward comes after the performance, it is likely that the employee will perform again. Sounds sort of like the rat in the maze. But the principle is quite solid.

Now enter the elected official. S/he encourages the organization to develop a pay for performance program. Which it does. Employees are trained in the system and go about the process of developing goals and objectives of performance. The year goes by and some employees have performed at the highest level possible.

Not all employees will exceed expectations, but even if they do, that doesn't matter for our example. Let's just say that this employee gets a performance rating of 4.5 on a 5-point scale, indicating that s/he did really well.

Now, we wait for the money to be funded in the budget. There is talk that next year will be particularly difficult and the money is tight. Guess where the council will find the money? You got it, right in the merit budget. In fact, they will probably decide that the market has not moved much and they can afford to fund the merit budget at only 1.5% this year. There will be no across the board, "cost of living" or market adjustment.

Our employee has just done an outstanding job and received more than the 1.5% average. Let's say 2% for this level of performance. For the typical employee making \$35,000, this outstanding performance has grossed them a \$700 raise for the next year, or about \$21 per pay period (24 pay periods) after taxes. Not much for inspiration.

The problem, in a nutshell, in addition to the low amount of money, is that the budgeting is done after the performance period. Thus, the employee has no idea if the performance will actually be rewarded; they have to take it on faith. Sometime, dare we say frequently, the faith is destroyed. This is where employees get cynical and lose trust with the pay for performance program. This can be resolved by biting the bullet and budgeting for raises before the performance year. This may be very difficult in your jurisdiction but the pains only occurs for one year, then the cycle of budget will be back to normal.

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### **Inability to Distinguish Different Levels of Performance**

This problem is nothing new for pay for performance systems. The only difference is that in government, salaries are typically known or knowable to anyone who wants to find out. This makes the decision to differentiate employees' performance through pay all the more difficult.

Not only do you have to determine how to rate the employee's performance, you also have the possibility that you will have to defend your decision to all the other employees in the department. Since the manager's job success is dependent on the work of his/her subordinates, keeping subordinates happy is one consideration that is magnified when all the other employees can see what you have done, but may not understand the reasoning behind your actions.

Some Jobs Simply Cannot be Rated for Performance or if You Can, It Doesn't Matter. The last time that you flew an airplane, did it matter if the pilot came on the intercom to let you know which city that you just passed over? In the back of your mind, what really mattered was that if the plane took off successfully, you also wanted it to land successfully. All the rest of his/her behavior didn't matter. If you were his/her boss, how would you rate his/her performance if the plane crashed into the side of a mountain? Would "less than expected" do justice? I'll bet the pilot really wouldn't care.

The point is, the performance of some jobs in government cannot or, at the least, should not be evaluated with a performance evaluation system. You would be better off spending your time developing a skill-based pay system than a performance evaluation system.

### **Difficulty Determining What is Important**

Talk to your organizational development friends sometime and they will argue that performance evaluation starts out with a clear vision and mission statement, flowing into goals and objectives at the department and unit level, until you identify the performance objectives of the employee. Now, step back a minute and ask yourself if that is really possible. First, the answer is probably no, since government organizations (cities, counties, states), have such a multitude of needs to serve, that one vision is unlikely to survive the process needed to establish it. Even if it is possible, it probably is insufficient to drive behavior toward that end. So where does that leave you? Somewhere between measuring the irrelevant or establishing goals and objectives that can't be measured. Tough spot to be in.

These are not encouraging conditions for a pay for performance system to work in government. The bottom line of this is that to get to the point where pay for performance is meaningful, it requires a lot of up front work. It can be done, because we have seen it done. But don't expect it to work on day one, unless you have spent lots of days developing the right conditions to make it work.

**Next time:** What are those conditions that will make pay for performance work?