

FIA

SOLUTIONS

Volume 5, Number 3: Implementing Merit Pay: Creating a Successful Program

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Merit pay doesn't exist in a vacuum. The intent is to improve employee and organization performance, and that means the policy and the prospects for rewards have to be perceived as a positive incentive. Employee reactions will be affected by a long list of organizational and individual circumstances.

One consideration that is common across all organizations is that the merit decision process is dependent on people - both supervisors and subordinates. A few employees generate tangible outputs that are easy to measure but for most employees the differences in performance are intangible. The few objective measures that exist never capture the whole job. Supervisors and their people should be able to agree on what's expected but some of those "standards" inevitably depend on judgment.

Merit pay needs to be planned and managed in the broader context of performance management. If it is out of sync with the way people in the organization think about performance, it is going to be ignored or become a source of disruption. It will be advantageous to assess the way performance management is handled and to decide how merit pay can best support that process. In this regard there are a number of

considerations that can and will increase the prospects that a new merit pay policy is successful.

Determine a well reasoned goal in moving to a merit policy. There needs to be a credible purpose that will benefit the organization. Plan a communications campaign to convince employees and stakeholders that the change is important.

Treat the switch to merit pay as an organization development (OD) initiative. The process and communications issues are much more important than any technical considerations. The new policy will change the organization and affect supervisor/subordinate relationships - that should be a goal. The new policy will require top management leadership and commitment. It cannot be seen as another Personnel policy. Senior managers have to be directly involved and prominent in planning discussions. Someone has to champion the change in policy.

Managers and employees, preferably those who are seen as top performers, should be asked to play a role in planning the new system. It has to become an accepted management system. Asking groups of employees how to measure performance is an effective way to gain their buy-in and also makes it that much more difficult for them to shoot arrows.

It will be valuable to spend time discussing agency or work group

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goals and how each employee is expected to contribute to the achievement of the goals. The discussion does not necessarily have to lead to specific goals but it should end with a shared understanding of the mission and priorities. The importance of those goals should be clear; progress toward achieving the goals tracked; and success celebrated. Those discussions should lead to the establishment of performance standards for each position.

Try to keep pay levels at least close to prevailing market rates, and make certain that employees know pay levels are competitive. Employees who think they are underpaid often react negatively when they are told they will have to work harder to earn a pay increase. Low salaries could undermine the acceptance of a merit policy.

At the same time, experts on performance measurement contend that they can develop measures for any job. If incumbents have any discretion in what they do or how they do it or if they are expected to satisfy any customers or if results differ from worker to worker, their performance can be assessed.

It may be useful to explicitly reconsider the merit principles that have served as the foundation for the existing pay system. The idea that everyone has to be paid the same makes sense when the differences among employees are inconsequential. The world of work is changing, employee expectations are changing, and employer needs are changing. The merit principles from the last century may need to be reconsidered.

Establish an ongoing communication strategy to keep employees abreast of the agency's progress in achieving its goals. Employees need to understand that performance is an ongoing concern and a management priority.

It will be advantageous to publicly recognize group and individual success stories and accomplishments.

Keep in mind that these are pocketbook issues and ones that will make virtually everyone anxious. It is inevitable that some employees will feel like losers because from their perspective they were in a better position under the prior policy. Keep in mind that they are not the best performers.

Provide training for both supervisors and for employees that stress two-way communication. They may also need training in goal setting and performance planning. That training should be repeated once a year.

Consider adding cash incentives for managers with payouts tied to the performance of their unit. That will make the achievement of goals important to them. They in turn will communicate that to their subordinates.

Be flexible, seek feedback on the new policy, and be ready to refine the system based on lessons learned. It does not have to be textbook perfect to be effective. It will take several years before merit pay is accepted and the organization realizes the benefits.

Summary

No one said it would be easy. But we believe that merit pay is here to stay. It's linked to our cultural values. The external pressure to end automatic increases and to improve performance will continue to capture elected officials attention. You should be prepared to respond with a plan.

Keep in mind that the format of the appraisal is not important. That's been confirmed by research. The discussions between a supervisor and a subordinate are the key to success. If the performance standards are solid, the form is immaterial.