

## Results of Alternative Rewards Survey: Performance Management Systems

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A previous newsletter in December detailed the findings of our preliminary Salary Management and Alternative Rewards Survey. The survey collected data from 273 organizations regarding specific changes in their compensation programs. Of these 273 organizations, 112 (41%) indicated they changed one or more of the following elements of their compensation program in the past three years: Quantitative Job Evaluation, Market Based Grading Systems, Performance Management Systems, Broadbanding, New Salary Ranges, Skill Based Pay, Competency Based Pay, Spot Awards, Team Awards, Gainsharing, Goalsharing.

This article deals with one aspect of Salary Management: Performance Management Systems.

Performance Management Systems allow an organization to assess an employee's performance. If designed correctly, it allows an organization to give feedback to its employees, without diminishing their independence or motivation.

### SURVEY PROCESS

Organizations were asked to identify why they implemented a new performance management system, what type of performance management systems they selected, how many incidents their system contains, and finally organizations were asked to indicate their system

reflected organizational strategy.

### SURVEY RESULTS

The average organization that implemented a new performance management system had about 1500 employees. 70% of these organizations were City organizations and 30% were County organizations.

The tables below summarize the most important and least important reasons why they adopted performance management systems, and the percentage of organizations that responded.

#### Most important:

Link Pay for Performance 100%

Improve Employee Morale 76%

Improve Service Quality 71%

Involve EE's in Improvement Activities 51%

#### Least important:

Avoid Unionization 100%

Result of a Collective Barg. 95%

Reduce Cost 57%

The most common types of performance management system implemented are:

1. Management by Objective, (MBO), (39%).

2. Behavioral Anchored Rating Scales, (BARS), (17%).

3. Competency Based (14%).

4. 360-Degree Feedback (11%).

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5. Graphic Rating Scales, Hybrids, Essays/Dairies and Straight Comparisons each comprised less than 7% of the new systems implemented.

50% of the new systems contained 11-15 incidents, 29% had 1-5 incidents and 21% had 6-10 incidents; consequently no organizations had over 16 incidents in their system.

On average, the systems concentrated on either organizational or individual employee elements of strategy, both individual and organizational objectives were reflected 38% of the new systems. 15% reflected departmental and 9% reflected team elements of the organization's strategy.

#### **ANALYSIS OF RESULTS**

Linking pay to performance is an important trend in performance management systems. For many years private sector organizations have been moving away from using performance management systems

solely as factors in promotions or terminations; and we believe it is important for public sector organizations to begin changing as well. Employees have a difficult time in associating their performance with promotions or terminations because there is not an immediate link between these elements and performance. Promotions or terminations are static events, whereas an employee's performance can be linked with pay on a monthly basis. This way employees can be directly and consistently rewarded for their performance.

The top three performance management systems implemented were Management by Objective (MBO), Competency Based and Behavioral Rating Scales (BARS). Each of these systems typically balances the organizational performance with individual performance, and the survey supports this. The elements of strategy are equally split between organizational and individual elements.