Fall 9-20-2019

Pay for Performance and Motivating Professional Development

David Longjohn
Western Michigan University, david.longjohn@wmich.edu

Pay for Performance & Motivating Professional Development

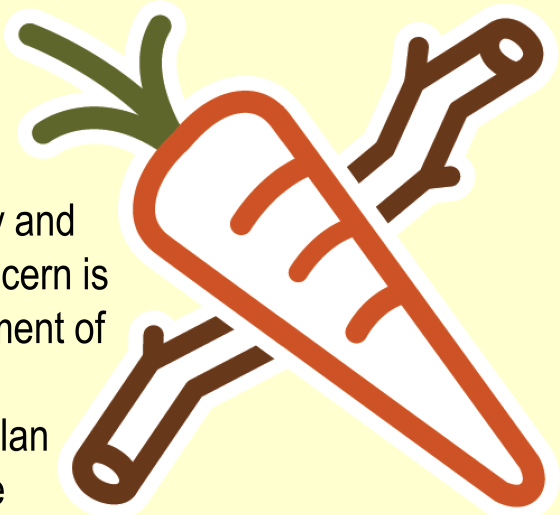
David Longjohn
Western Michigan University - Academic Leadership Academy 2018-19

What is PFP?

Pay for performance, also referred to as merit pay, is a compensation system that rewards employees relative to their job performance. When meeting or exceeding goals, individuals receive greater compensation compared to if they fall short of targets.

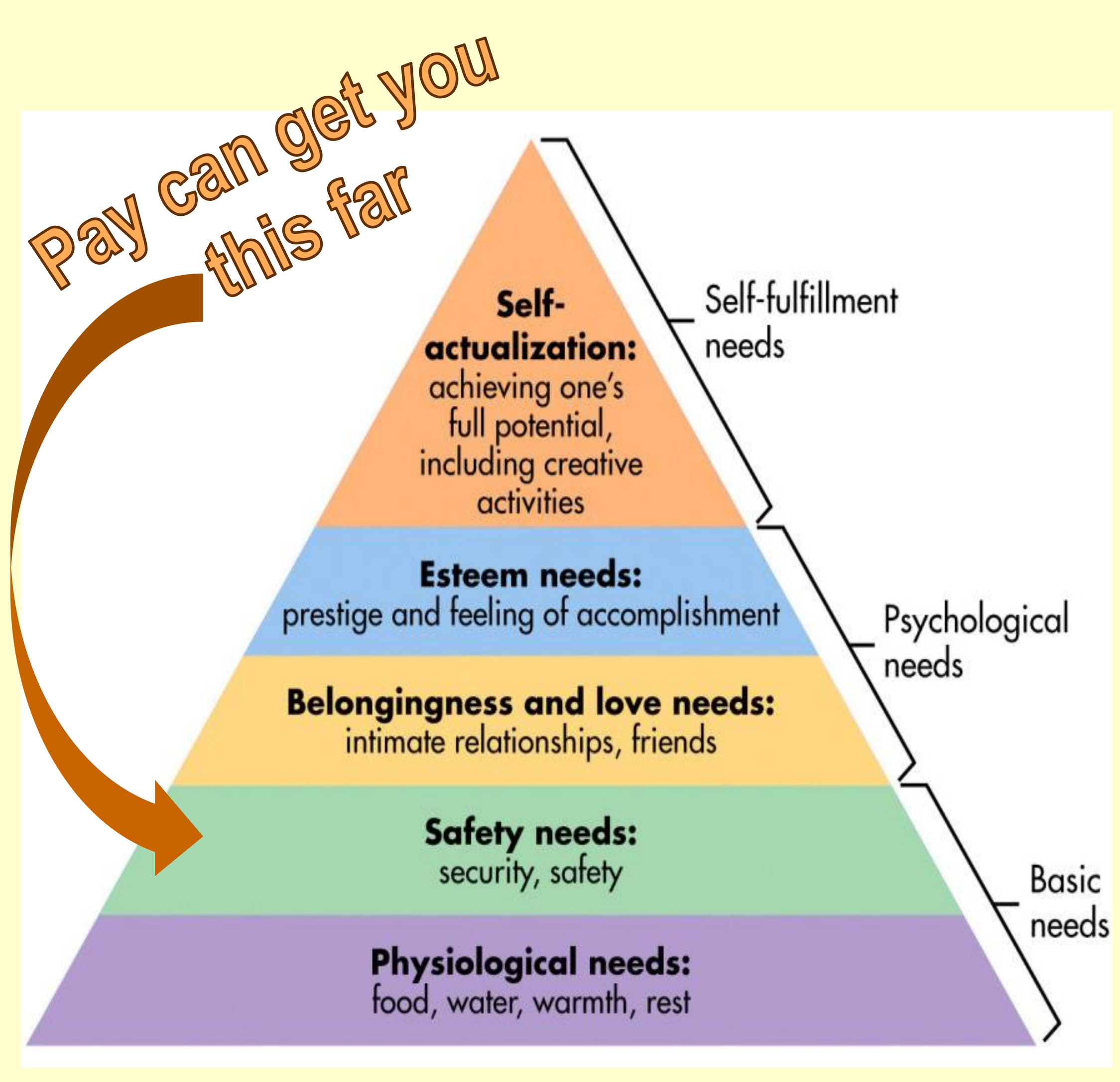
Advocates of PFP believe that compensation is a motivator and that greater quality and quantity of work can be incentivized by rewarding employees accordingly. Employees whose work does not meet goals may be incentivized to seek relevant training to strengthen skills or pursue a different role that is a better fit. Proponents believe PFP can lead to fairer compensation, strengthen the organization and boost morale.

Opponents criticize PFP of evaluating complex jobs with simplistic measures, possibly undermining quality, productivity and engagement. An often-cited concern is the potentially subjective judgement of employee performance and the challenge of applying the PFP plan to roles more cognitive in nature versus those that are mostly mechanical.



Of Carrots & Sticks…

Maslow's theory is that wages can satisfy the deficiency needs (physiological and safety). Going beyond that to satisfy the growth needs (belonging, self-esteem, self-actualization) requires fostering a team spirit, periodic praise, designing challenging jobs, providing training, and encouraging creativity.



Maslow's Hierarchy of Needs

Does Compensation Motivate Behavior?

Recruitment: there is a **sorting effect** in that people choose organizations based upon personal preferences regarding compensation. High performers more likely to join organizations that embrace pay based upon individual performance.

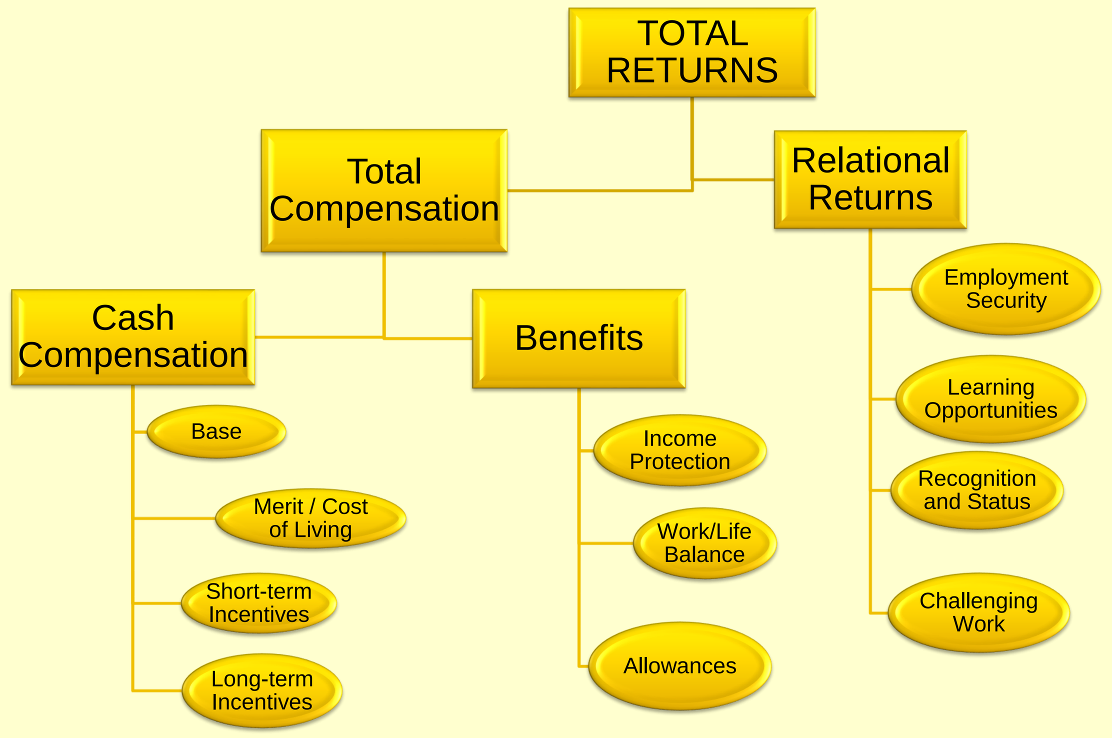
Retention: there is a **sorting effect** where people dissatisfied with their pay leave organizations. Turnover for poor performers is higher with PFP systems. High performing employees are less likely to leave when performance bonuses are used.

Development: there is anecdotal evidence suggesting that employees are more likely to develop job skills because of pay.

Performance: there is an **incentive effect** that can motivate employees to perform better… **IF** the PFP plan is **designed** and **implemented properly**.

The Carrot Garden

It must be crystal clear what gets assessed to arrive at PFP and this merit system is most successful when integrated with other HR functions to motivate behavior. This broader array of rewards comprises the **Total Returns (or Rewards) Model**.



An institution of higher education is particularly well equipped to deliver relational returns. Connecting learning opportunities to short-term and long-term incentives can be a good return on investment for both employee and the organization.

Learning opportunities range from short training sessions on commonly used software tools to completion of a college degree. A better skilled employee is more efficient, effective and can take on more challenging work to achieve greater employment security.

Incentivizing professional development with merit compensation could result in greater productivity, boost morale, and increase enrollment.

Win – Win !

PFP Plan Design

Effective PFP depends upon efficiency, equity and compliance. PFP must be customized to individual jobs. No one size fits all.

Efficiency relies upon a **strategy** for the PFP plan to support organizational objectives, a **structure** decentralized enough to allow different operating units flexibility in developing variations of the plan, and **standards** to make good decisions regarding performance objectives and measures, eligibility and funding.

Equity refers to the distributive justice and procedural justice of the plan. The outcomes and the process must be perceived as fair.

Compliance is about minimizing legal costs and protecting the reputation of the organization.

Changing Philosophies

Historically, pay seen as entitlement, but in recent years there has been a major shift in compensation with larger share of pay tied to individual or organizational performance. This change in perspective is driven by increasing global competition with a need to lower costs and raise productivity. Fast-paced business environments necessitate nimble workers. A way to promote nimbleness is with PFP.

Pay for performance can be individual focused to incentivize higher productivity gains or group focused to improve team coordination. Most organizations that use PFP do a combination.

A Variety of Carrots

Pay for performance can take many forms, both long-term and short-term.

Merit pay links increase in base pay to how highly employees are rated on a performance evaluation. Keys to success are accurate performance ratings, enough budget and differentials across levels large enough to motivate employees.

Merit bonus is a lump-sum not added to base pay. It has less entitlement and controls labor costs but is less popular with employees because it must be earned every year.

Group PFP plans can be by work team, department, division or entire organization. Standards must be developed against which group performance is measured. Performance appraisals don't work well for groups as those are more personal in nature.

> *"In business school we are taught that labor is an expense to be managed, but in reality, people aren't an expense, they are an investment, an appreciating asset – the more we invest in them, the more we see productivity, customer service, innovation and growth."*
>
> -- Josh Bersin, Industry Analyst

Conclusion

The most significant factor in quality and quantity of work is intrinsic to the individual rather than being prompted by compensation. Pay for performance may be motivational to a significant degree, but the extent still weighs greatly on the personalities involved. A person with little ambition may not be prodded greatly by PFP programs.

For any merit system to succeed, it must be thoughtfully designed and communicated well so that employees have a line of sight on how their behavior influences outcomes. If employees don't feel the process was fair, then much is lost.

Designing and managing a PFP plan is a complex process and the funding challenges presented by budget constraints could render a fully developed system an impracticable commitment. Having a merit component that further incentivized professional development and job-related coursework may be a feasible way to reward practical personal growth and strengthen the institution.

References

Appiah, K. (2018). *The myth of meritocracy: who really gets what they deserve? | News | The Guardian*. Retrieved from https://www.theguardian.com/news/2018/oct/19/the-myth-of-meritocracy-who-really-gets-what-they-deserve

Bersin, J. (2014). *The Secret of Effective Motivation: Purpose*. Retrieved from https://www.linkedin.com/pulse/20140706191322-131079-the-secret-of-effective-motivation-purpose/

Bersin, J. (2018). *We Wasted Ten Years Talking About Performance Ratings. The Seven Things We've Learned. – JOSH BERSIN*. Retrieved from https://joshbersin.com/2018/11/we-wasted-ten-years-talking-about-performance-ratings-the-seven-things-weve-learned/

Delisio, E. (2019). *Pay for Performance: What Are the Issues? | Education World*. Retrieved from https://www.educationworld.com/a_issues/issues/issues374a.shtml

Hutcheson, K. (n.d.). *Paying For Performance*. Retrieved from https://www.forbes.com/2010/05/26/college-pay-performance-leadership-education-hutcheson.html#48e1bba77199

Milkovich, George T., Newman, Jerry M., Gerhart, Barry. *Compensation* (12th edition), McGraw-Hill Education, 2017.

YourCoach. (n.d.). *Maslow hierarchy of needs theory | Employee motivation theories*. Retrieved from https://www.yourcoach.be/en/employee-motivation-theories/maslow-hierarchy-of-needs-theory.php

Acknowledgements

Amy Brimmer
Director, Compensation | Human Resources, Western Michigan University

Mary McConnell, PHR
Workforce Coordinator | Kalamazoo Valley Community College

Jan Gabel-Goes
Director, Office of Faculty Development | Western Michigan University
https://wmich.edu/facultydevelopment/programs/leadership

Contact information

David M. Longjohn, MBA
Systems Specialist Sr.

WMU Unified Clinics & Center for Disability Services
1000 Oakland Drive, Kalamazoo, Michigan 49008
269-387-7015 David.Longjohn@wmich.edu
https://wmich.edu/unifiedclinics
https://wmich.edu/disabilitycenter