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Synchronizing Pay and Performance

When pay and performance are in sync, productivity and profits rise right along with worker morale. By rewarding employees for success in meeting a clear set of targets based on company goals, performance-based compensation plans give employees a personal stake in improving operations crucial to business success.

The first step in establishing an effective performance-based compensation plan is identifying the employee's role in helping meet company goals. Rewards may recognize overall company performance, offer incentives to encourage achievements by individuals or combine the two approaches in a program focused on team rewards.

Designing the Plan

Team-based performance-compensation plans seem to be growing in popularity. Companywide plans, sometimes called gain-sharing or goal-sharing plans, may seem too removed from individual achievement to provide much incentive. Rewarding individuals, on the other hand, may go too far the other way, creating a "hired gun" mentality that undermines the group effort needed for company success.

Another alternative is to develop a plan that mixes all three approaches — offering rewards on the basis of company achievement, team performance and individual accomplishment.

Defining Metrics

Once you've decided on the broad outlines of a performance-based compensation plan, the challenge is to find ways to measure performance. Usually the question comes down to three quantifiable achievement standards: quality, time and cost.

For most companies, turning out a quality product is a key goal, so an employee's contribution in maintaining quality standards is a natural metric to track in evaluating performance. For example, a company might decide to keep records of rework or defects by individuals or by teams to encourage and reward workers with extra compensation for achieving error-free performance targets.

Speed is another area of production that lends itself to quantitative measurement in evaluating employee performance. Rewarding employees who help the company meet goals for cycle time reduction offers workers clear incentives to put out the extra effort it takes to meet these goals.

Costs provide the third arena for measurement. Workers who deal with the daily challenges of production often have the most direct impact on reducing costs of production. Tracking costs by production unit provides a basis for identifying cost-effective performance and rewarding those who are helping keep costs down.

Setting Rates

For effectiveness, performance compensation plans need to offer the opportunity to significantly increase worker income. Employees need to see that the company is sharing gains that come from increased staff effort.

Simplicity is a key component of effective performance-based compensation programs. Keep the number of goals small — four or five — and help workers see how the goals affect company success and how individual and team efforts can bring the targets within reach.

Finally, you don't want to reward run-of-the-mill performance or make the goals so unrealistic that employees won't put out any extra effort. So set goals that are ambitious but attainable.



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