

How to Implement a Performance Based Pay that is Sustainable

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Performance based pay refers to a pay strategy where evaluations of individual as well as of the organisation have significant influence on the amount of pay increases or bonuses given to each employee. Performance-based compensation is the process of paying employees for a particular outcome or paying extra for work which goes above and beyond the usual call of duty. Organisations can potentially see great benefits with this approach. When a pay for performance system functions properly:

1. Poor performers will receive no increase, which is intended to persuade them to improve their performance.
2. Average performers will receive substantially smaller raises, which may encourage them to work harder to achieve larger raises in the future.
3. Outstanding performers will receive the greatest rewards, to acknowledge their contributions and to motivate them to continue high working hard.

Organisations often have many objectives for performance based pay. For example, they may aim to improve the Organisation's ability to attract and retain high performers. They may hope to improve individual effort and consequently, business performance. They may also be searching for a fair way to pay since those who contribute more to the business should receive a larger salary in return.

Given the appeal of paying for performance instead of tenure, many Organisations are rapidly moving towards implementation of performance based pay. For any performance based pay system to be successful, Business leaders should demonstrating commitment to a performance-based pay strategy through their words and actions. As time progresses, the emphasis on performance perpetuates itself towards a performance based culture.

What are the goals of performance based pay?

Organisations should establish clear, realistic goals before taking any action to change their pay systems. It is also useful to keep in mind the impact that pay system changes will have on the Organisational culture and the importance of maintaining alignment between Organisational values and pay strategies. For example, if the nature of the work requires collaboration, an organisation may choose a team-based reward structure or at least incorporate teamwork into the reward structure to avoid pitting employees against one another in competition for individual rewards.

Who should be paid for performance?

To choose the appropriate range of coverage, an Organisation needs to decide the message it wants the pay system to send to the workforce, including what is to be measured and how. Some Organisations

cover all employees with a single performance based remuneration system to unify the workforce in pursuit of common goals. Other Organisations limit performance-based pay to those employees with direct responsibility for the Organisation's core functions and results.

What should be the timing for implementing performance based pay?

Organisations often have the flexibility to decide whether the system should be implemented at once or in stages. If in stages, coverage can start with a limited group of staff as a pilot test, and expand later to additional groups of employees once the system has proven itself. Starting with a small group of employees and later expanding coverage may enable the Organisation to demonstrate successes before rolling the system out to the entire Organisation. This also provides an opportunity to fine-tune the system and remedy any problems before they undermine its long-term success.

What should be rewarded?

An important point to keep in mind is that performance based pay, when not applied appropriately, can have a detrimental impact on staff morale. For that reason, Organisations must be very careful when deciding what to measure and reward. Organisations must be sure they are reinforcing desired behaviors associated with the most critical outcomes and not encouraging counter-productive responses. An effective performance appraisal system requires clearly defining expectations in advance, while recognizing that priorities may shift along the way. Enumerating specific goals gives employees a clear road map that they can use to decide how to allocate their time and efforts. It is also important to take note of the following when implementing a performance based pay system:

- **Use of multiple measures**

Given the complexity of work, multiple measures are often necessary to adequately capture accomplishment. To decide what to measure, Organisations need to ensure that they focus on important outcomes without excluding other critical aspects of individual or Organisational performance. One common problem in this area involves Organisations that set quantitative goals only to find a negative impact on quality because important qualitative aspects of performance were not included in the goals.

- **Alignment of Organisational goals and measures**

Supervisors frequently derive employees' goals, at least in part, from high-level Organisational goals. This cascading of goals is useful for aligning employee efforts with Organisational objectives. To achieve this, employees need to understand how their individual performance supports Organisational outcomes. However, supervisors should also recognize the value of a bottom-up approach that gives employees a voice in how they will be evaluated and some discretion in deciding how best to achieve the results desired. Excessive top-down control of goals, work methods, and job behaviors may stifle risk-taking and innovation by employees.

- **Individual vs. team vs. Organisational performance**

Similarly, the level at which performance is assessed for remuneration purposes should reinforce the desired breadth of collaboration, although this must be balanced with the need to be able to identify individual contributions. It is important to consider whether cooperation should be encouraged within a discrete work unit or across a broader context, such as Organisational components. For example, when employees work independently, it may make more sense to evaluate them individually. However, when high levels of interaction and communication are necessary, it becomes much more difficult to accurately measure the accomplishments of individual employees. Rewarding only individuals when mutual support helps advance the Organisational goals may discourage cooperation and teamwork, to the Organisation's detriment.

- **Short-term vs. long-term goals**

Performance appraisal cycles are typically one year in duration. As a result, short-term goals may be more easily assessed than long-term projects, which may go across multiple assessment cycles. For assessments to be fair, the life cycle of projects should be taken into account and proper credit given for progress towards the end goal. Further, complex projects can usually be broken into intermediary steps to evaluate progress against these milestones. Taking both short and long perspectives into account helps ensure that employees on the extended projects will be rewarded for their achievements to date and not forced to wait until project completion.

- **External constraints**

A common frustration for employees involves the inability to control all of the factors that affect their performance and results. These include changing priorities; supervisor-controlled work assignments and resources; geographical variations in workload or other conditions; and access to equipment and information. An employee may work diligently toward a goal, only to have the priorities shift just before project completion. Another external variable is location, which often drives workload and therefore, could be factored into performance-based pay decisions.

It is important to note that Organisations should not rely only upon the motivational ability of money to improve individual or Organisational performance because some employees are motivated by factors, such as personal pride or satisfaction in my work or a personal desire to make a contribution rather than a monetary reward.

Also, performance-based pay systems are not as straightforward as many companies think, so before implementing one at your business, it's important that you try to learn from the mistakes of those who came before you and also consider looking for advice from experts. While performance pay programs can be extremely effective, they are unlikely to be successful if you do not perform thorough research before implementing them.

If a performance-based pay program is to succeed at your company, you must ensure that managers and employees communicate their expectations clearly and that you find the perfect balance between employee reward and company profit. It is also helpful to seek professional guidance from experts.

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