What you Need to Know about Performance-Based Pay

Author: Carl Tapi . April 2020

Performance-related pay is a system that employers use to pay their employees depending on their productivity at the place of work. These systems vary depending on the type of industry, the number of employees, and the size of the firm. Many companies use these systems because of the rewards that they get. Employees also receive the rewards of performance-related pay (PRP). However, those rewards do not come without certain shortcomings.

Performance-related pay systems are popular first of all because of their ability to boost the career of employees. If employers effectively implement these systems, employees can easily monitor their performance and increase the prospects of their careers. For employees who do good work, the systems also offer them a way to prove that they deserve a salary increase or bigger bonuses. Since employees often receive basic pay, performance-related pay can help them to increase their income. Further, this system can increase the feeling of satisfaction. When employees work hard, and their work is rewarded, that can significantly increase their level of job satisfaction (Wynn & Sorbero, 2007).

Performance-related pay is a vehicle for improving employee performance. This compensation plan ties employee performance to groups, corporate, and individuals. Since employees want high pay, this compensation plan motivates them to work hard to make more money. According to Stredwick (2003), this model puts employees in front and the center of their financial destiny. Employees can take full control of their destiny and are inspired to work as much as they wish to be paid for.

At the same time, performance-related pay has several advantages for employers. The first benefit is staff motivation which eventually benefits the employer. When employers use this system, and an improvement in business performance, they become more result-oriented. In addition, employers can better attract new talents (Stredwick, 2003).

Qualified professionals always prefer to be paid depending on their performance as they are confident of their ability to deliver quality and meet deadlines. It also increases staff productivity. If proper performance-related pay systems are used, this can lead to a significant increase in staff productivity. When employees are satisfied, the rate of turnover is lower. Employees who are working hard and well paid are loyal to the company. The employer is also better placed to achieve their goals. Performance-related pay, therefore, helps employers to encourage employees to work hard and achieve company goals (Performance-related pay, 2004).

Performance-related pay also helps employers to differentiate between the performance of a low employee and a high performing employee. By doing this, Hume (1995) says it helps the employer to know who qualifies for different types of rewards. The company does not end up rewarding low performing employees at the expense of higher performers, which in the long run helps to create a good working environment for high performers.

Further, performance-related pay, unlike bonus pay and profit-sharing schemes, enables employers to differentiate between the performance of particular individuals and the overall performance of the company. While these systems also provide an overall reward, by reserving a portion of the available compensation for high performers, it promotes values such as effective customer service, positive coworker relations, and teamwork. In addition, this system provides a device for employers to recognize the performance of individuals on a one-time basis. Because of this, employers can use it to reward employees who participate in one-time projects like opening up new sales territories (Hume, 1995).

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 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 is 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 contribute rather than a monetary reward.

Carl Tapi is a Consultant at Industrial Psychology Consultants (Pvt) Ltd, a management and human resources consulting firm. *https://www.linkedin.com/in/carl-tapi-45776482/* ***Phone +263 (242) 481946-48/481950 or cell number +263 772 469 680 or email:*** *carl@ipcconsultants.com* ***or visit our website at www.ipcconsultants.com***

https://thehumancapitalhub.com/articles/WhatYouNeedToKnowAboutPerformance-BasedPay