

SELECTED REFERENCES

INDUSTRIAL RELATIONS SECTION

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MERIT PAY SYSTEMS* *

Bacciocco, Edward J., Jr. "Survey of West Coast cities with merit pay systems." *Public Productivity and Management Review* (Jossey-Bass, 350 Sansome St., San Francisco, CA 94104), Summer 1990, pp. 405-411. \$17.00.

This article explores the experiences of sixteen cities that have implemented merit pay systems (MPS). Three distinctions are noted: first, some cities base their pay systems on program budgets, which establish city and department objectives from which performance evaluations are drawn. Second, some cities still use line-item budgets and have performance evaluation criteria drawn up by a personnel department. Finally, most cities and public entities with MPS have developed them solely for managerial and supervisory employees. In general, most of the cities that have implemented MPSs plan to keep them, with some minor changes, but most unionized employees are not considering merit pay systems. Of related interest: "Collective bargaining and merit pay: a case study" by Joseph Ohren and Laura Reese (*Public Administration Quarterly*, Summer 1990, pp. 230-244. \$10.00).

Cohen, David K. and Richard J. Murnane. "The merits of merit pay." *The Public Interest* (National Affairs, Inc., 10 East 53rd St. New York, NY 10022), Summer 1985. pp. 3-30. \$4.00.

This article reviews the history of merit pay for public school teachers and examines several contemporary examples of school systems using merit pay. The authors' conclusions are mixed; while there is no evidence that money had an appreciable or consistent positive effect on teachers' classroom work, there is a fair amount of evidence that it did encourage some teachers to do the sorts of work outside the classroom that many educators consider important.

DeBaugh, David H. *Pay for performance*. Washington, D.C. 20004-1703. CUE/National Association of Manufacturers (1331 Pennsylvania Ave., NW, Suite 1500-North Lobby). 1991. 22 pp. (No. 56; Studies in Employee Relations). \$10.00 CUE members; \$12.00 nonmembers.

This booklet describes the successful implementation of a gainsharing system at a white-collar, professional unit of Butler Manufacturing Company. Compensation strategy at Butler includes base pay at a market competitive (median) level; short-term variable pay; and long-term capital accumulation.

Gerhart, Barry, George T. Milkovich, and Brian Murray. "Pay, performance, and participation." In: *Research frontiers in industrial relations and human resources*, edited by David Lewin, Olivia S. Mitchell and Peter D.

*Prepared by Ellen Gilbert, Assistant Librarian, Industrial Relations Library.

**Items on this list should be ordered directly from the publisher. Addresses are given in connection with each reference.

Sherer. Madison, WI 53706. Industrial Relations Research Association (1180 Observatory Dr.). 1992. pp. 193-238. \$22.50.

This chapter-length survey of some of the recent evidence on pay and performance emphasizes the different requirements of various organizations and the potential importance of procedural or administrative issues in the success or failure of pay decisions. The authors note that questions have been raised about the extent to which merit pay policies are actually carried out and, although there is not sufficient evidence to date, they assume that organizations differ significantly in the degree to which pay and merit are linked.

Heneman, Robert L. *Merit pay: linking pay increases to performance ratings*. Reading, MA 01867. Addison-Wesley (Rte. 128), 1992. 298 pp. (The Addison-Wesley Series on Managing Human Resources.) \$25.75.

This volume is an effort to summarize current knowledge on merit pay. In the introduction, merit pay is defined and contrasted with other forms of incentive pay. Next, the author assesses the desirability and feasibility of implementing a merit pay plan. A discussion of the processes used to develop and administer the plan follows. The final part of the book describes anticipated outcomes associated with merit pay, methods to evaluate merit pay plans, and studies that have evaluated actual outcomes of merit pay plans compared to anticipated outcomes. Robert L. Heneman is also the author of *Pay for performance: exploring the merit system* (Pergamon Press, 1984. 64 pp. \$35.00).

Kanter, Rosabeth Moss. "The changing basis for pay." *Society* (Transaction Publishers, Rutgers—The State University, New Brunswick, N.J. 08903), Sept./Oct. 1989. pp. 54-65. \$12.00.

Kanter discusses recent and potential innovations in compensation, including profit-sharing, performance bonuses, pay-for-skills (also called pay-for-knowledge) systems, and venture returns. Although the use of commissions and bonuses for sales personnel have been standard practice in most industries, Kanter observes a change in the amounts people can earn, the greater number of people who can earn these amounts, and the proliferation of ways productivity bonuses can be earned.

Kopelman, Richard E., Janet L. Rovenpor, and Mo Cayer. "Merit pay and organizational performance: is there an effect on the bottom line?" *National Productivity Review* (Executive Enterprises Publications, 22 West 21st St., New York, NY 10010-6904). Summer 1991, pp. 299-307. \$42.00.

Noting the paucity of rigorous evaluation studies on the topic of merit pay (and the difficulties involved in conducting such studies), the authors examine merit pay practices in 398 stores of a large retail chain. They find that within-in store performance pay correlation is positively correlated with store profitability.

McCoy, Thomas J. *Compensation and motivation: maximizing employee performance with behavior-based incentive plans*. New York, NY 10020. AMACOM (American Management Association, 135 West 50th St.). 1992. 260 pp. \$59.95.

According to McCoy, behavior-based incentive compensation (BBIC) differs from traditional compensation in three significant areas: it requires a high degree of consideration of human resources as well as of finances; it is contingent

upon performance; and it is flexible in its ability to produce improvement in any area of organizational need. This book attempts to show how BBIC can be utilized to attract, retain, and motivate employees.

New strategies and innovations in compensation. Edited by Frank Caropreso. New York, NY 10022. The Conference Board (845 Third Ave.). 1989. 56 pp. (Conference Board Report No. 931). \$10.00 members; \$80.00 non-members.

This report highlights innovative compensation strategies practiced by such major firms as Armstrong World Industries, Corning Glass Works, Du Pont, Honeywell, and Xerox.

Newman, Jerry M. and Daniel J. Fisher. "Strategic impact merit pay." *Compensation and Benefits Review* (American Management Association, Trudeau Rd., Saranac Lake, NY 12983). July-Aug. 1992, pp. 38-45. \$17.50.

According to the authors, the two most popular approaches to "pay for performance," merit pay and lump-sum bonuses, are unsatisfactory. Instead they propose the use of Strategic Impact Merit Pay (SIMP), an alternative that takes into account a variety of behaviors and goals. Employee actions that have a short-term effect on organizational success should be rewarded with short-term payoffs; performance that has a more enduring impact on the organization should have a longer payout period.

Pay for performance. Consultant views. Company Programs. Chicago, IL 60646. Commerce Clearing House (4025 West Peterson Ave.). 1990. 24 pp. On request.

This booklet is divided into two parts. First, six consultants respond to questions about pay for performance systems. Representatives from Liz Claiborne, Merck, and DuPont then answer questions about incentive plans at their respective companies.

Pay for performance: evaluating performance appraisal and merit pay. Edited by George T. Milkovich and Alexandra K. Wigdor. Committee on Performance Appraisal for Merit Pay. Commission on Behavior and Social Sciences and Education. National Research Council. Washington D.C. 20418. National Academy Press (2101 Constitution Ave., NW). 1991. 210 pp. \$24.95.

The Office of Personnel Management (OPM) requested this study in preparation for reauthorization hearings on the troubled Performance Management and Recognition System (PMRS). In their overall findings the authors emphasize that personnel systems in general and performance appraisal and pay systems in particular must exhibit "fit," or congruence, to be effective. They identify three categories of contextual factors of particular relevance: the nature of the organization's work, or technical fit; the broad features of the organization's structure and culture; and external factors such as economic climate, the presence of unions, and legal or political forces exerted by external constituents. This well-referenced volume also includes survey descriptions.

Pay-for-Performance Labor-Management Committee. *Strengthening the link between pay and performance.* Washington, D.C. 20402. Superintendent

of Documents, U.S. Government Printing Office. 1991. 81 pp. o.p.

The above-cited *Pay for performance: evaluating performance appraisal and merit pay* was among the reports reviewed by the Pay-for-Performance Labor-Management Committee in their preparation of this report for the Office of Personnel Management (OPM). The Committee's responsibility was to advise OPM on the design and establishment of systems for strengthening the linkage between the performance of General Schedule employees and their pay.

Schuster, Jay R. and Patricia K. Zingheim. *The new pay*. New York, NY 10022. Lexington Books (866 Third Ave.). 1992. 366 pp. \$24.95.

Traditional pay solutions (including merit pay systems), say Schuster and Zingheim, are unresponsive to the challenges being faced by businesses today. An effective alternative, they suggest, is "new pay": flexible reward programs developed to reflect an organization's goals, values, and culture, as well as the challenges of a more competitive global economy. Edward E. Lawler, who wrote the foreword to this volume, laid some of the groundwork for it in his book *Strategic pay* (Jossey-Bass, 1990, 308 pp. \$28.95.)

Schwab, Donald P. and Craig A. Olson. "Merit pay practices: implications for pay-performance relationships." *Industrial and Labor Relations Review* (New York State School of Industrial and Labor Relations, 207 ILR Research Building, Cornell University, Ithaca, NY 14851-0952), Feb., 1990, pp. 237S-255S. \$6.50.

The authors suggest that findings from recent examinations of the effectiveness of merit pay systems have been variable because these studies of single organizations do not account for differences within the organizations studied. This study investigates how merit policies and other company attributes influence the relationship between employee performance and pay rewards. Among the authors' conclusions is that conventional merit systems achieve a considerably better link between pay and performance than does a bonus system with periodic adjustments in base wages.

Taylor, Ruth Leshner, Garland G. Hunnicutt and Michael J. Keeffe. "Merit pay in academia: historical perspectives and contemporary perceptions." *Review of Public Personnel Administration* (Institute of Public Affairs, University of South Carolina, Columbia, SC 29208). Summer 1991, pp. 51-64. \$12.00.

Merit pay plans originated in industry and have been adopted in the educational sector as a means of encouraging and rewarding excellence in faculty performance. Many state legislators are now mandating merit pay systems, and universities are being called on to design and implement a faculty evaluation program to justify merit raises. This paper provides a comprehensive review of the existing literature on merit pay systems and discusses contemporary perceptions of those features of merit plans seen as positive forces. It examines the future need for merit plans beyond legislative mandates, the risks involved in implementing merit systems, the range of alternatives to merit plans, and how contemporary academic administrators feel about the benefits of and implementation problems associated with merit pay plans. Of related interest are the five articles in the special issue of *Academe* devoted to merit pay (Nov.-Dec. 1988. \$7.00), and the article "Merit pay in academia: perceptions from the school of business" by Lena B. Prewitt, J. Donald Phillips and Khalad Yasin (*Public Personnel Management*, Winter 1991, pp. 409-417. \$14.50).