

Separating Merit Raises From Performance Scores

Q: We use performance management scores to calculate the amount of merit pay an employee receives. Instead of focusing on development, my managers focus on the distribution of their merit dollars and staying within budget. I want to separate the two processes: performance management with a focus on developing people, merit raises based on an employee's contributions to our business success. How do I proceed?

—*Shifting Gears, consulting/legal, Westminster, Colorado*

A: The link between performance management and merit scores remains a fuzzy proposition and will continue to be, unless performance goals are adjusted to match the individual goals of each employee. You also need to track this successfully--a major problem for most organizations.

Factor in subjective ratings issues, such as employee attitudes and other personality factors favored by employers, and it's easy to see how these competing criteria can create a recipe for failure.

Compensation experts for years have preached that discussions on performance with employees should not be linked to pay discussions, although most companies ignore this advice.

I am not a fan of using employees' performance ratings or scores as a basis for pay decisions. Employees should know at all times how well they are performing and also need to see periodic adjustments to their base pay that keep wages in line with their peers in the marketplace (we are not talking about a cost-of-living adjustment, though).

In addition, your pay programs should focus on company-established business goals and the professional development of employees by improving their skill sets. Pay programs that fit into this category include gain-sharing, profit-sharing, skills-based pay and milestone pay (common in project work), as well as other custom programs that emphasize sharing financial success with all or most employees based on meeting certain milestones.

Design your pay programs with a view to supporting the company's business goals. Also, be sure they are linked throughout the company, so that whichever goals the executive team is rewarded for are the same goals for which receptionists and others are rewarded as well.

SOURCE: Dick Dauphinais, [the Herman Group](#), Greensboro, North Carolina, April 20, 2006