Abstract: Another difference is that the payouts from management incentive plans - and this is true in every industry - depend in part on the performance of the company. Business leaders retain authority to make subjective adjustments to awards, but it's not common; adjustments below the executive level are rare.

Full text: Federal pay practices cannot be defended. No one who claims expertise in compensation management would agree with the policies governing salaries or bonus payments. This should be a wake-up call to the need to develop better controls.
Well-managed businesses rely on very different practices to manage financial rewards. In business, virtually all executives and managers and most professionals are eligible for annual incentive awards. The prevalence of incentives has increased over the past 20 years. One of the most important trends is the introduction of group and team incentives at lower levels.
The reason: Business leaders are convinced the incentives will contribute to better performance.
But it is important to understand a difference between incentives, as they are used in industry, and the bonus payments made by the General Services Administration and other agencies. Incentives are based on an explicit link between the desired performance results and the payouts. It's effectively a contract: "If you accomplish these goals, you will receive X dollars."
Bonuses, in contrast, are based largely on subjective, after-the-fact decisions. Employees may have an idea of what they need to accomplish, but the ties to bonus awards are unclear. Even recipients sometimes do not understand the reasons for a bonus. Congress clearly wants to see explanations.
Another difference is that the payouts from management incentive plans - and this is true in every industry - depend in part on the performance of the company. When the organization achieves its goals, all plan participants can expect a payout.
Group incentives at lower levels reflect the same philosophy - all plan participants can expect payouts. That's integral to the team philosophy and to the idea of shared responsibility for results. There are occasional problems with "free riders," but other team members can usually solve that.
A key issue is that the amount of the incentive award is considered in salary planning. To illustrate, if the planned award is 10 percent, the salary is set 10 percent below market so the total is in line with market pay levels. The awards are not added on top of fully competitive salaries.
Business leaders retain authority to make subjective adjustments to awards, but it's not common; adjustments below the executive level are rare. Subjective bonus awards - spot awards - are permitted by many companies, but the amounts are typically small, often $100 or less.
The link to performance measures and accomplishments is important to motivation - people are more productive when they have specific goals. It also clears up the questions about why an individual earned an award.
Business leaders would agree employees "are paid to do a job." That's analogous to telling a child "to do your best in school." The role of incentives is to provide a focus on the accomplishments important to the organization. It's the same reason parents promise treats for an A on a test.
Federal agencies need to introduce strategies "to do more with less." No new management systems are available to accomplish that. Telling employees to work harder or longer hours is not the answer. Current bonus practices are also not the answer, nor is eliminating cash awards.
Financial rewards - if linked to goals important to agency missions - can be instrumental in improving performance. They could be funded through savings - a concept known as "gain sharing," an idea conceived by a union leader in the 1930s. The payouts could be linked to achieving specific goals. That is a proven strategy to improve performance.
The Office of Management and Budget, in the 2013 budget, says it is committed to "delivering a high performance government." But for unexplained reasons, the workforce is discussed several chapters later. Incentives are effective when they strengthen employee commitment to agency goals. For that to happen, agency leaders must clearly articulate those goals and link them to incentives. Employees need to understand how their efforts contribute to the goals' achievement.
That "line of sight" is a key to high performance. Incentives help employees focus on those goals.
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