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# PAY FOR PERFORMANCE

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For indeterminate employment, remuneration refers to the material, monetary (wages, cost of living bonuses, premium pay, bonuses, etc.) or other (paid leaves, services and privileges, etc.) compensation as well as the psychological benefits (personal growth, satisfaction, pride, etc.) received by individuals in return for assuming the roles and duties inherent to their position and, depending on the practices in effect, in recognition of their individual performance or contribution to organizational performance. These direct and indirect benefits are intended to compensate individuals for their contribution and motivate them to join, remain with and give the best of themselves to organizations. However, when professional or technical services are provided under a fixed-term contract, the meaning of "remuneration" (or, in this instance, "pay") is often more limited in scope. For example, it may merely refer to direct compensation in form of professional fees, emoluments and payments for specific services that are provided during a set period of time.

Direct compensation is either fixed or variable. As for variable pay, there are two types of systems. One is based on the individual, whereby an individual's pay is fully or partially related to his or her performance. The other is based on a group, whereby a portion of the pay is determined by the savings or performances achieved by an organization in the short or long term.

Saint-Onge, Commeiras and Balkin (2007) distinguish five types of individual pay plans:

- merit pay, which takes employee performance at least partially into account when determining salary raises and then integrates these into the pay scale;
- merit awards or bonuses, which are paid as a lump sum on top of wages and are not integrated into pay scales;
- mixed plans composed of wages and merit awards;
- various piecework rate payment practices;
- commissions and bonuses given to sales personnel. Some authors include suggestion awards and programs in this type of plan.

Individual performance pay plans must meet various critiera if they are to succeed in motivating staff to positively affect organizational performance. For example, a merit pay plan should meet the following conditions:

- the performance to be measured should stem primarily from the efforts of the individual concerned;

- performance should be properly measured;
- the performances of assessed individuals may be compared in view of awarding their raises, but this should be done in a fair manner;
- the raise offered to an individual should be large enough to justify his or her efforts;
- the motivation that an individual gains from the merit pay should not lead to dysfunctional behaviour, such as excessive competition;
- the indexation of scales should not result in a distorted pay structure that violates the principles of internal equity;
- wage indexation should not threaten the medium- or long-term budgetary balance of an organization.

It is particularly difficult for the public and parapublic sectors that use individual variable pay plans to meet these criteria, due to the following problems:

- it is often hard to find enough funds to offer the kind of performance pay that motivates individuals;
- individual performance trumps group performance when it comes to performance pay;
- because it is difficult to discern which individuals deserve merit pay based on their performance, some organizations are tempted to extend the benefits of additional pay from the funding envelope reserved for merit pay to the greatest number of people possible, which may create dysfunction.

As shown in the list of conditions to be met, proper performance assessment is at the core of the merit pay and merit award allocation process. However, it is a complex undertaking that is rife with pitfalls. Some authors, such as Laurin and Boisvert (1997) and Morin (2004), go as far as to claim that it is the most delicate – indeed, most unpleasant – task in the field of management, considering the number of challenges associated with it. The first of these challenges is to choose reliable, precise and valid performance indicators and to measure them adequately. According to Foucher (2007, p. 67), performance refers to "an obtained result and, consequently, the degree of success represented by the result. The degree of success associated with a result can be assessed according to various criteria, such as its compliance with a standard, the fulfillment of pre-set objectives, or comparison with another criterion that allows the decision-maker to make a judgment" [our translation]. The second challenge is to motivate the actors concerned to play their assigned roles so that the performance assessment process can be successfully completed. This is an essential condition for avoiding a trend affecting many organizations that use performance-based pay – namely, the inflation of good results in assessments (Brett and Atwater, 2001). The third challenge is to incorporate assessments in a performance management system and support them with a compatible culture. At that point, the performance assessment will help to achieve the following objectives: collect and organize information that can be sent to a targeted individual so that he or she can use it to grow, improve and ultimately contribute to the development and progress of the enterprise (Brassard, 2009).

As for group variable pay plans, Saint-Onge, Commeiras and Balkin (2007) distinguish two main types. Under the first type, there are five plans that offer short-term benefits:

- profit-sharing plans;
- productivity gain sharing plans;
- success sharing plans;
- group bonus plans; and
- bonus plans based on individual and group performances.

Under the second type, there are two plans that afford long-term benefits:

- share award or purchase plans; and
- share option plans.

While the plans coming under the second heading do not apply to the public and parapublic sectors, plans of the first type are quite appealing to them, especially when the productivity gains and savings achieved by organizations are the result of group efforts. For organizations that hesitate between these two types of variable pay, Saint-Onge and Thériault (2006) provide a grid with criteria that makes it easier to choose between the individual-based and group-based plans.

In conclusion, pay for performance is neither a panacea nor an automatic source of motivation and performance. When managed according to certain principles, it can be effective. But when it is poorly managed, it is likely to cause inequity, conflicts and other problems having a range of adverse impacts.

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