What Does Science Say about Performance-based Pay

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Agenda

1. Performance-based Pay: *Popular and Polarizing*

2. *The science of performance-based pay:*
   - *3 Stylized Facts*

Performance-based Pay: Popular

EXAMPLES

> Almost all U.S. companies say they "pay-for-performance"

> 2/3 of workers in Asia-Pacific region say that performance-based pay would "motivate them to perform more productively."

> Large-scale migrations to pay-for-performance in certain countries and territories
  - e.g., Finland, Hong Kong

> Support from surprising sources
  - e.g., Deng Xiaoping's 1979 visit to the U.S.

Performance-based Pay: Polarizing

EXAMPLES

> Heated debate in certain sectors of U.S. economy
- Federal government, public school teachers

> Best-selling authors and speakers
- Daniel Pink's "*The Puzzle of Motivation*"
  - Nearly 13 million views on TED, subtitles available in 41 languages

Fact 1
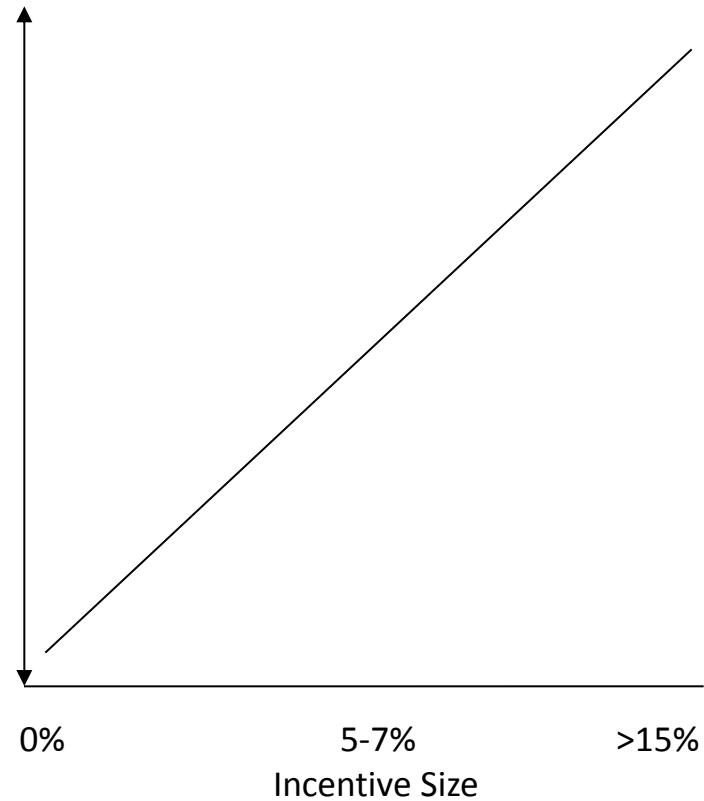
THERE IS A PAY-FOR-PERFORMANCE "SWEET SPOT"

Fact 1

General assumption is that incentive size is positively related to reactions

EFFORT

More Effort

No Reaction

Less Effort

0%   5-7%   >15%

Incentive Size

Fact 1
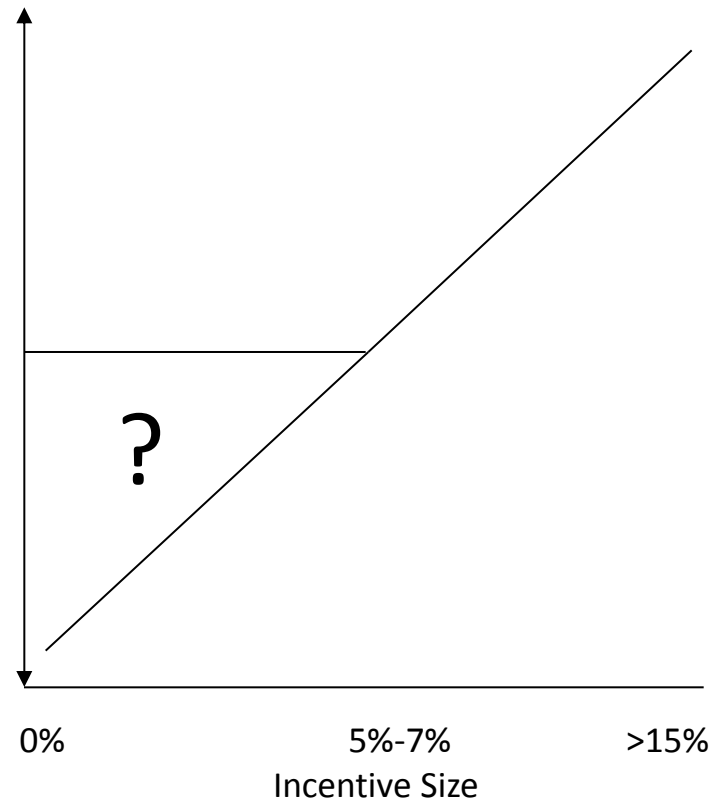
*But, apathetic (rather than negative)
reactions are more common at low
incentive levels*

EFFORT

More Effort

No Reaction

Less Effort
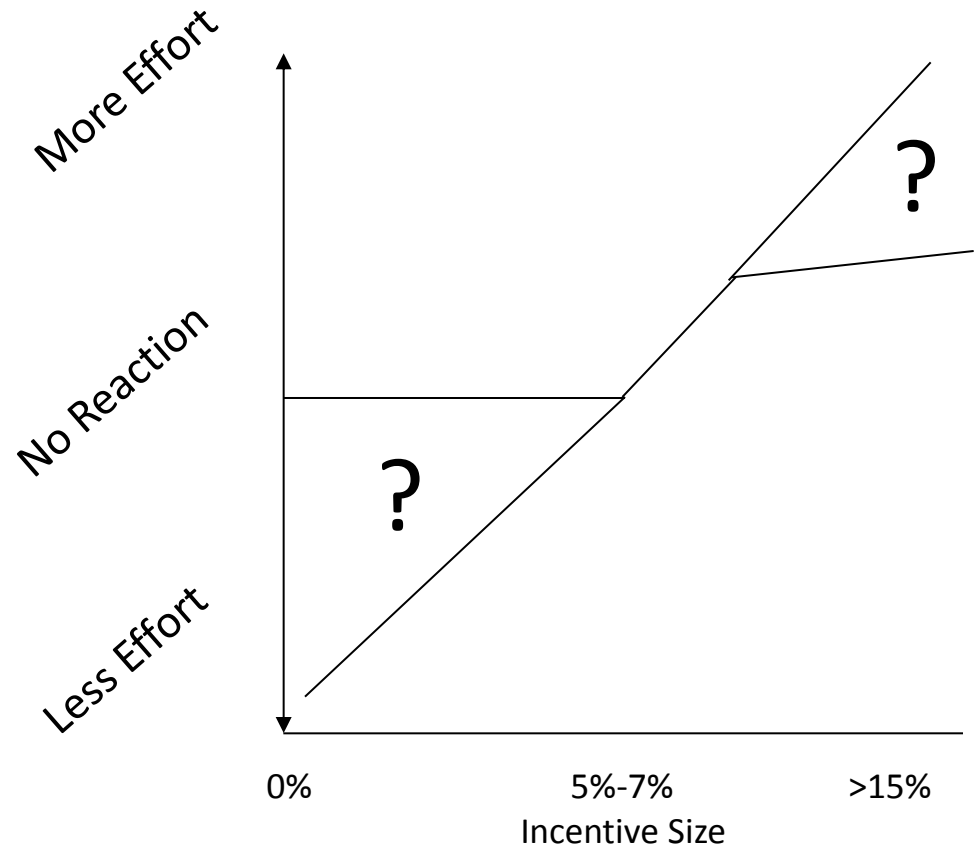
?

0%   5%-7%   >15%
Incentive Size

A 5%-7% threshold is typically evident

Fact 3

General assumption is that larger incentives will yield increasingly positive reactions

EFFORT

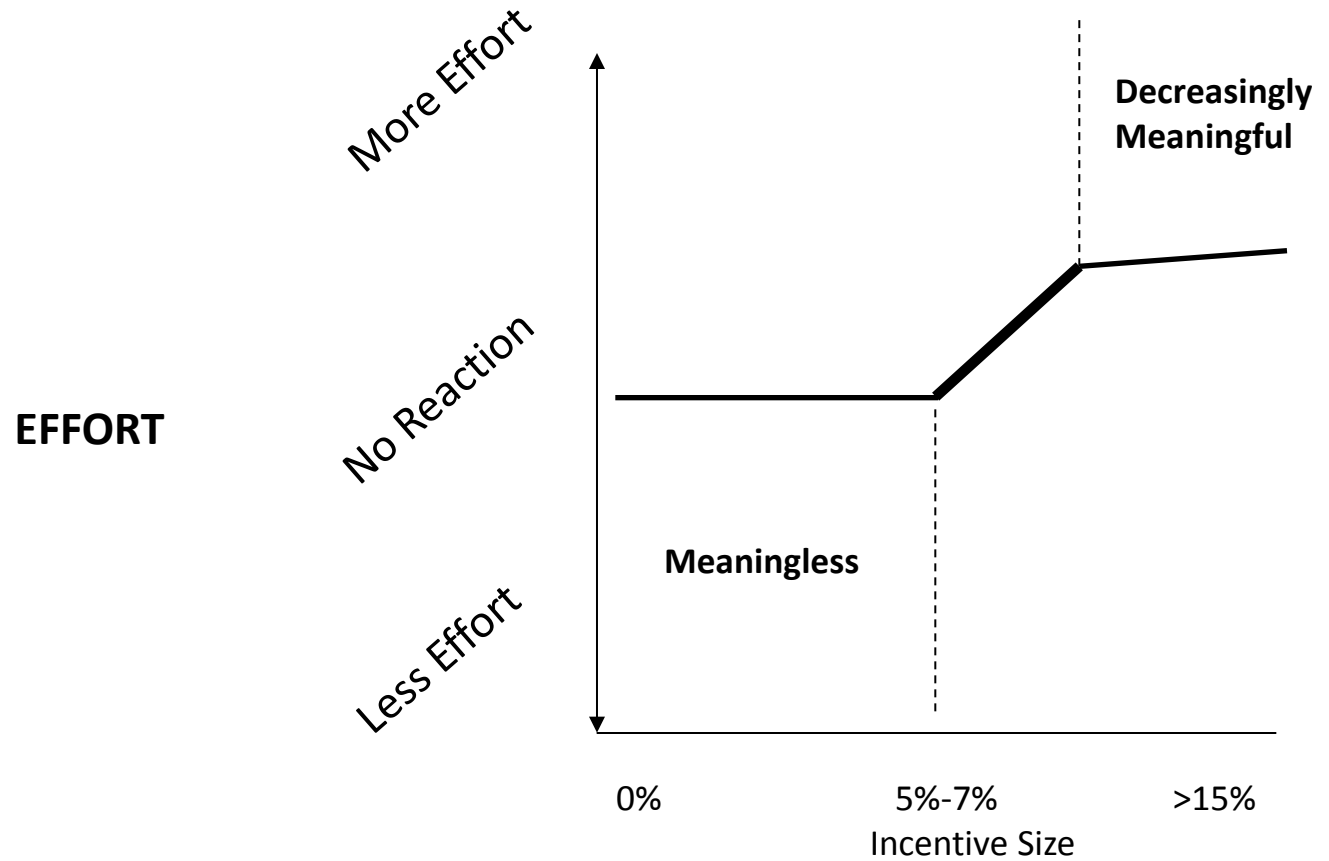*The relationship weakens as incentive levels rise.*

Fact 1

EFFORT

More Effort

No Reaction

Less Effort

Decreasingly
Meaningful

Meaningless

0%   5%-7%   >15%

Incentive Size

Fact 2

MANAGE EXPECTATIONS; AVOID SURPRISES

Fact 2

*When we have **"NO CONTROL"***

Under-met Expectations	Over-met Expectations
> Surprise is "muted" • *"what can you do?"* > Reactions • *ambivalence* • *mild disappointment*	> Very surprising • *lottery, long-shot* > Reactions • *exceptional* • *super lucky* • *euphoric*

Fact 2

*When we have "**CONTROL**"*

Under-met Expectations	Over-met Expectations

> Very surprising
   • *a non-normal event*
 	
> Reactions
   • *despair, disgust*
   • *anger, anxiety*
	> Surprise is "muted"
	   • *"I had it coming"*
	
	> Reactions
	   • *pleasant*
	   • *"it's a 'relief'"*

Fact 3

JUSTICE REIGNS SUPREME!!

Fact 3

>Justice is critical

>Perhaps the most important challenge

>Justice perceptions are the strongest predictor of system success

Fact 3

>Leventhal's Procedural Justice Rules

- *Consistency* – are decisions constant across persons and time?

- *Accuracy* – are decisions based on relevant information?

- *Correctability* – are there ways for decisions to be challenged?

- *Representativeness* – are the views of all are heard and included?

The Science of Performance-based Pay
3 Facts

Performance-based pay . . .

1. . . .works best within a range 5%-15%
2. . . . . works best when employee expectations are met
3. . . .is facilitated effectively by procedural justice

WHAT IS *IMPACT*?

>**I**nvestigating **M**erit **P**ay **A**cross **C**ountries and **T**erritories

- A global study of employee reactions to **merit pay***
  *increases to base pay tied to a measure of performance

  - the *GLOBE* of rewards research?

- more than 50 countries and territories currently involved
- more than 60 researchers (local-country research partners) currently involved

WHAT IS *IMPACT*? – Questions and Goals

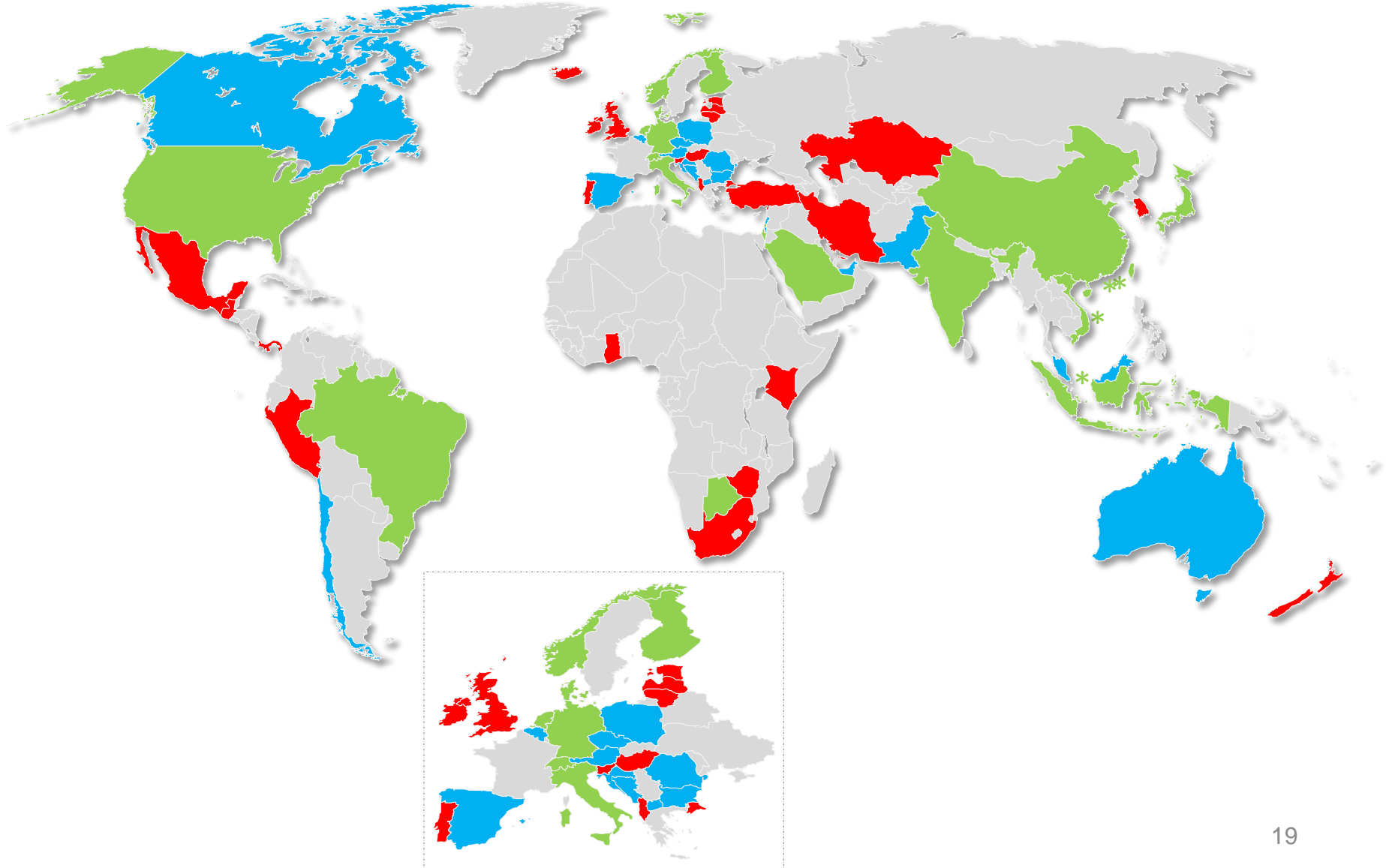Do minimum thresholds and pay reactions vary across countries?

How do increases relate to immediate effort and "attitude" changes?

Establish national, cross-nation, and regional benchmarks

Provide company-specific, nation-level, and international feedback

HOW IS IT GOING?

(DATA COLLECTED OR SCHEDULED, PROGRESS BEING MADE, PARTNER BUT LITTLE PROGRESS)

HONG KONG NEEDED!!

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QUESTIONS?