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In this issue:

Why All the 'Obituaries' for Pay for Performance Are Decidedly Premature

A crisis of confidence in pay for performance is being reflected in the pages of a handful of widely read HR/ compensation publications. *Here's what we've seen:*

PFP is dead! "Pay for Performance Is Dead (and Stock Compensation Killed It)," declared consultant David Bisson of WestWard Pay Strategies, Inc. in his article for the third quarter 2001 *WorldatWork Journal* (Scottsdale, Ariz.; 480-922-2000).

In his view, "most companies' compensation programs have plenty of opportunity for higher pay; however, very few have effective mechanisms for reducing pay," which is certainly more

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How the U.S. Mint Has Profited From Gainsharing

Of all the unlikely subjects of a variable pay success story, *PFP* thinks the U.S. Mint's tale of gainsharing may win the prize. We learned a *lot* about this federal agency's rise from bureaucratic backwater to well-oiled moneymaking machine (literally and financially) thanks to the WorldatWork annual conference session, "Gainsharing: Empowering the Employees of the United States Mint," in Nashville. While there is no way *PFP* can describe all the design details presented in the hour-and-a-half session, we offer our favorites for your review.

The mess that was the Mint. Cindy Lonergan, who has been with the agency for about four years, provided an overview of the Mint's business and how dramatically it has changed since 1993.

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repairs to unsuspecting customers."

• **It's too subjective.** Wiscombe relates the experience of MetLife's Lisa Weber, executive vice president for HR, who admits that subjectivity is the most controversial aspect of her company's ratings process. "If one manager rates an employee 3, but his boss rates the same person 2, there's a lot of blaming. The manager goes back to the employee and says, 'I rated you 3, but so-and-so only gave you a 2.'"

Wiscombe also noted that subjectivity is at the root of lawsuits filed by "former and current employees at Microsoft, Ford, and Conoco, alleging that the forced-ranking systems used by those companies to award bonuses and weed out underperformers are biased against some groups of workers: white males over blacks or women, for example, or younger managers over older ones."

The governmental kiss of death. To cap things off, *PFP* was more than a little worried when it read that the government is embracing pay for performance wholeheartedly (see the sidebar, "The Government and Pay for Performance: An Idea Whose Time Has Come"). *Why worry?* By the time any business practice makes it to the public sector, the bloom is usually off the rose.

PFP is dead? Long live PFP! While Pfeffer and Bisson offer compelling arguments, every foible cited seems based more on poor plan design and execution than on the underlying premise of performance-based pay. The problem Bisson noted of companies denuding their pay plans by effectively removing the downside is largely due to a lack of will (perhaps courage) on the part of management, not a flaw in pay for performance itself.

For another example, Sears has revised its disastrous incentive plan to reward upswings in customer service scores. *The result?* According to Wiscombe's article, "Customer service improvements have been rapid because of bonus pay for performance." Even MetLife's Weber reports that her company is "thrilled" with its pay for performance plan: "It's been tough," she admits, "but it's been fabulous."

PFP was particularly taken with the following quote in Wiscombe's article, from consultant Jay Schuster of Schuster-Zingheim and Associates, Inc.: "The organizations that truly reward people consistently for performance outperform those that don't. My sense is, if you're not going to pay for performance, what are you going to pay for?" Indeed. ❑

The Government and Pay for Performance: An Idea Whose Time Has Come

According to the International Personnel Management Association's (IPMA; Alexandria, Va.; 703-549-7100; www.ipma-hr.org) 2000-2001 *Total Compensation Benchmarking Survey,* the U.S. government "is making a shift from paying workers based on seniority to paying them by performance." *Key finding:* 45% of responding government employers have variable pay programs in place. *Specifically:*

- 80% use pay for performance.
- 27% use skill-based pay.
- 20% use competency-based pay.
- 9% use gainsharing.

The payoff? Most survey respondents (91%) reported "their respective programs have helped their jurisdictions become higher-performing organizations."

How the U.S. Mint Has Profited From Gainsharing

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For example, in 1993:

• **The Mint had a disclaimer on its financial statement.** "We couldn't validate the data," admits Lonergan. Part of the problem lay with the agency's crumbling systems. "Our computer systems were terrible," she reported. By 2001, however, the agency had enjoyed seven consecutive clean opinions.

• **The Mint worried about its shrinking customer/product base.** In 2001, however, thanks to the 50-state quarter program and the golden dollar coin, the Mint is enjoying record profits. In fact, the agency has nearly quadrupled them since the mid-'90s, from an average of more than $700 million between 1994 and 1996 to $2.6 billion in 2000. (You may be surprised that a government agency can make big bucks and keep them, but Lonergan pointed out that the Mint has returned $3.6 billion to American taxpayers in the past two years.)

• **Customer service (an oxymoron in this instance, perhaps) was summed up by one of the few measures kept in the early 1990s:** "Fifty percent of orders filled in eight weeks," reported a bemused Lonergan. She said that today, the Mint's customer service rating is world class—it recently earned an "84" (80 = world class) on a University of Minnesota customer service survey whose participants included for-profit organizations. In fact, in one recent survey, the Mint was ranked second only to Mercedes Benz for customer satisfaction.

Where pay-for-performance fits. With all of the change these improvements represented, the powers that be at the Mint recognized that some sort of pay plan would be needed to help "inspire" employees—particularly those who had been there a long time and who were set in their ways—to embrace even more change. While its first attempts at designing a plan ran seriously aground (see the sidebar, "Gainsharing: Tough Sledding at the Mint"), the Mint chose gainsharing as "the" plan for its purposes. *Its goals:*

- To have one program uniting all Mint employees around the agency's strategic vision.

- To support a process improvement methodology that was already in place.

- To eliminate employee entitlement around an annual "facility performance award" that was failing to deliver the sort of ROI the Mint desired.

- To empower Mint employees and connect them with the business.

A four-part approach. As co-presenter Brad Hill of the HayGroup noted in his remarks, his firm helped the Mint develop and implement a successful gainsharing system in four phases. *They are:*

- ***Phase one:*** **Gainsharing feasibility study.** In this phase, Hay helped the Mint determine the likelihood and level of success a gainsharing plan might have and develop three creative gainsharing plan alternatives.

- ***Phase two:*** **Gainsharing program design.** In this phase, a 24-employee design team was assembled to develop recommendations to senior management and union leaders regarding a gainsharing formula, a communication plan, and an employee involvement/process improvement methodology. Of the team members, all but two—a controller and an HR professional—were chosen at random. The main effort was to ensure that the team represented as broad a range as possible of Mint facilities and departments.

Hill offered conference attendees a look at the decisionmaking framework the team used when designing the gainsharing formula (see Figure 1, "10 Decisions Lead to a Gainsharing Formula"). *Their mission?* The team members had to pick one item from each category. Though most of these decision categories are self-explanatory, Hill offered the following explanations for some of the items:

— **Funding measures.** "Something quantifiable, usually financial or operational, where, if we have a gain, we can value it," he explained. This is crucial for the comfort of both management and taxpayers, so "if there's a payout, it's clearly deserved."

— **Modifying measures.** Many things are important to the Mint that are less quantifiable than the funding measures, observed Hill, so one of these will act to

Gainsharing: Tough Sledding at the Mint

Cindy Lonergan of the United States Mint offered a brief history of gainsharing at her agency during her WorldatWork conference session, "Gainsharing: Empowering the Employees of the United States Mint," in Nashville. For our readers who may be too discouraged to believe in the "if at first you don't succeed" school of management, *PFP* describes below the complicated history of the Mint's effort.

1997: The Mint began looking into gainsharing in conjunction with a revamped performance management system.

1998: It assembled a taskforce to develop a gainsharing link to its strategic plan. During the many taskforce meetings, a profit-sharing vs. gainsharing debate erupted. Irreconcilable differences required the task force to disband.

1999: The Mint put strategic-business unit heads, who were largely responsible for the 1998 debates, in charge of developing a program. A second taskforce was created to conduct a benchmark study, but floundered soon thereafter. The Mint then turned for help to a consultant, who developed a program with the blessing and cooperation of the Mint director. When the program was presented to the National Partnership Council for approval, it was rejected (apparently the members were miffed that they were less involved in the program than the director had been).

2000: Realizing they had a problem, the Mint again turned to consultants—HayGroup this time around, because of its reputation for a high employee-involvement approach.

2001: By April, a gainsharing plan had been successfully implemented.

increase or decrease the fund based on Mint performance.

— **Basis of comparison.** This choice will answer the most pressing question regarding process improvements, according to Hill: "Improvements over what?"

— **Organization protection.** This is in place to protect the Mint from the phenomenon of two great quarters followed by two poor ones.

— **Employee protection.** In the spirit of fair play, the

Figure 1. 10 Decisions Lead to a Gainsharing Formula

Fund — *Modifier* — *Individual Payout*

Performance improvement fund →

Rating	*Multiplier*
5	200%
4	125
3	100
2	75
1	25

→ Payout pool → Employee's gainsharing check $

1. Funding Measures

Coins/payroll $
Coins shipped
Controllable cost/coin
Losses/million $ reserves
Profit margin
Revenue/FTE
Revenue growth
Unit cost/coin
• ____________
• ____________

2. Modifying Measure

Absenteeism
Coin inventory
Customer satisfaction
Lost-time accidents
Number of new customers
Number of re-activated customers
OSHA recordables
Overtime
Scrap/re-work
Security consulting hours
• ____________
• ____________

3. Individual Payout Factor

Attendance
Equal dollar
Equal percentage pay
GS level
Hours worked
Individual earnings
Individual safety
Performance rating
Process improvement ideas
Years of service
• ____________
• ____________

4. Participation

Hourly employees
Part-time employees
Summer employees
Supervisors/managers
Temporary employees

5. Eligibility

Minimum service
First day of period
Last day of period
Date of payout
Attendance
Retirees

6. Performance Period

Weekly
Monthly
Quarterly
Semi-annually
Annually
Improvement-based

7. Basis of Comparison

Historical performance
U.S. Mint internal benchmark
Budget, plan, or target
Industry benchmarks

8. Organization Protection

Rolling payout
Year-end reserve
Loss recovery
Year-to-date gain
Sharing formula

9. Employee Protection

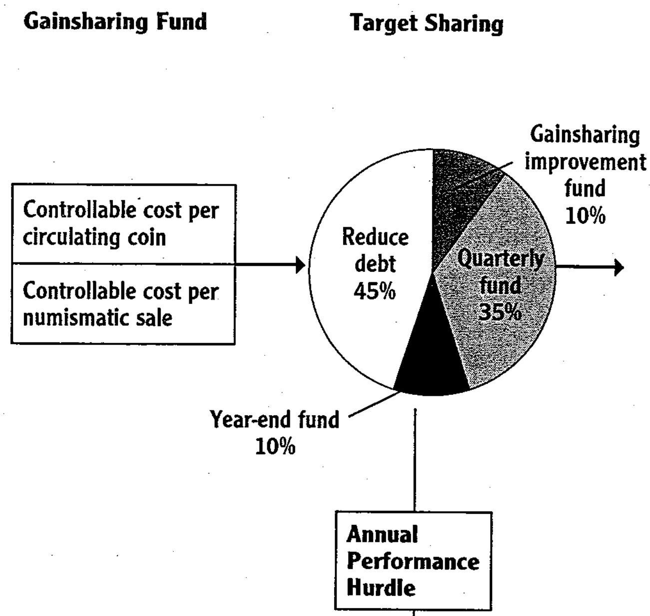
Roll gainsharing into base
Change sharing formula
Blend actual/baseline

10. Sharing Formula

Employee __%
Mint __%
Improvement fund __%
Charity __%

(Source for all figures: WorldatWork; Hay Group)

Figure 2. The Mint's Gainsharing Formula: An Overview



Sharing Adjustment

Quarterly Modifier

Numismatic Scrap Cost/Sale	Multiplier
Less than $.65	140%
$.65 to $.70	130
$.70 to $.75	120
$.75 to $.80	110
$.80 to $.85	100
$.85 to $.90	90
$.90 to $.95	80
$.95 to $.99	70
$.99 or more	60

Year-End Modifier

ACSI Customer Satisfaction Rating	Multiplier
.90 or more	140%
.89 to .90	130
.88 to .89	120
.87 to .88	110
.86 to .87	100
.85 to .86	90
.84 to .85	80
.83 to .84	70
Less than $.83	60

Payout

Quarterly payout pool

Year-end payout pool

team could choose from options designed to protect employees from ever-increasing-to-impossible standards.

— **Sharing formula.** While the employee-company split is common, Hill noted two innovations that the Mint and other clients have found helpful. The "Improvement Fund" category addresses the common problem of suggestion programs that elicit great ideas but have no budget to implement them. The "Charity" category is for contributions to local charities. Hill reported that a gainsharing program he oversaw at a meat-processing plant added this to its formula when its plan began to go stale after a few years. Donating 20% of its plan profits to charity gave the plant's program and its employees a big boost.

(For a snapshot of what the design team created, see Figure 2, "The Mint's Gainsharing Formula: An Overview.")

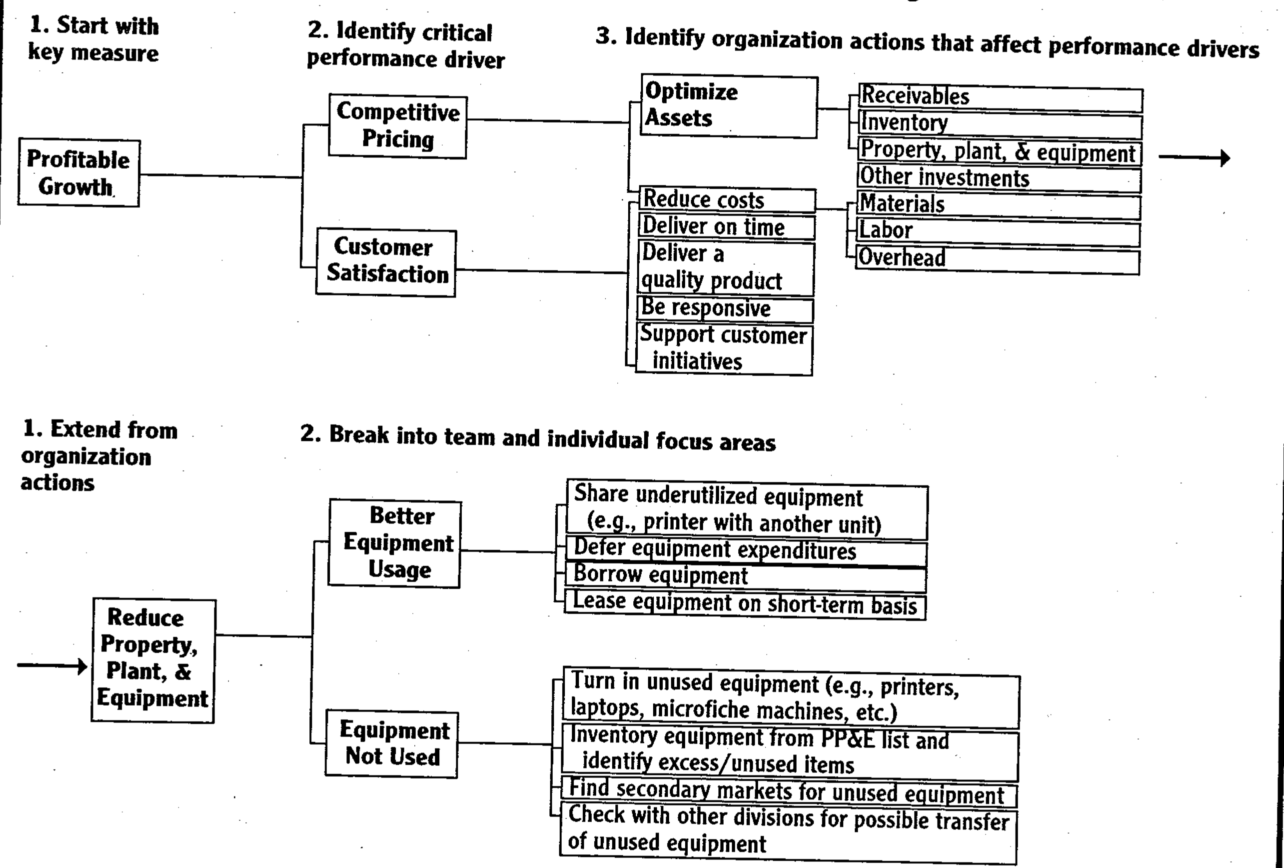
• *Phase three:* **Implementation and employee education.** The objectives of this phase included: institutionalizing improvement methodology, communicating performance metrics and the reasons they were chosen, and training employees on effecting change.

While the steps taken in this phase are themselves worthy of a newsletter, *PFP* was most impressed with the "Personal Impact Map" that each employee was given. This offers a graphic overview of the connection between an individual employee's job and the Mint's gainsharing formula (see Figure 3, "Connecting Mint Employees to the Gainsharing Formula," for an excerpt).

Hill also reported that employees participated in extensive training and were given a written role description—i.e., what each job can do to effect savings.

• *Phase four:* **Continuous improvement.** Since nothing's perfect, each year the Mint will measure em-

Figure 3. Connecting Mint Employees to the Gainsharing Formula



ployee commitment to the agency, ensure that the plan is driving customer service success, and alter the plan to meet new/changing business objectives. Since the Mint's gainsharing plan has only been in place since April, neither Hill nor Lonergan had much to share on this front.

For more information: As we mentioned above, this article contains but a few highlights from a very thorough WorldatWork presentation. If your company is looking into or already engaged in a gainsharing program, you might want to peruse the handout that accompanied the presentation. It's on the WorldatWork Web site (www.worldatwork.org/handouts2001conf/generic/html/conf-2001-handoutframe.html). Click on the compensation-related link and look for session C30T1. Lonergan also invited session attendees to visit the Mint's Web site (www.usmint.gov) for more information about the agency and its mission. ❑

PFP calendar:

Performance Appraisal and Management, New York City, Oct. 4-5. Contact: Cornell University, NYSILR, Management Programs, 16 East 34th St., New York, NY 10016-4328. 212-340-2801; Web site: www.ilr.cornell.edu/mgmtprog

Fundamentals of Compensation, Long Island, N.Y., Oct. 9-10; New York City, Oct. 25-26, Dec. 6-7; Dec. 10-11; and **in 2002:** Jan. 24-25, March 5-6. Contact: Cornell University, School of Industrial and Labor Relations, MD/HR Programs, 16 E. 34th St., 4th Fl., New York, NY 10016-4328. 212-340-2802; Fax: 212-340-2890; Web site: www.ilr.cornell.edu/mgmtprog

Strategic Communication in Total Rewards: Making Sure Employees "Get It," Boston, Oct. 15-17; New York City, Oct. 22-24; Chicago, Nov. 12-14; Seattle, Nov. 26-28. Contact: WorldatWork, P.O. Box 29312, Phoenix, AZ 85038-9312. 877-951-9191; Fax 480-483-8352; Web site: www.worldatwork.org