

Group Therapy: The Answer to Merit Pay



by Steven Waldman

A few years ago I came upon a small company that seemed to provide a strong rebuttal to the *Monthly's* longtime support of merit pay. Instead of basing salaries on individual performance, it paid everyone the same—clerical workers, professionals, sales reps, accountants, even the artists. The exception was the owner and his assistant, but that seemed fair because they earned much less than other CEOs. I expected the system to engender internal bitterness since the work schedule was particularly brutal. When you're working Saturday nights you damn well want to get paid more than those who don't. But, on the contrary, this unusually egalitarian system forced employees to measure their performance by other standards—praise from the boss or customers, personal yardsticks of achievement, public recognition, and the general success of the enterprise. Pay was mostly irrelevant.

Granted, this company, *The Washington Monthly*, is not a typical workplace. In most reputable small companies, boss and worker don't communicate through a 2 a.m. "drop off" at the owner's home mailbox. Few companies flirt so regularly with bankruptcy. (Senator Jay Rockefeller, who was a *Monthly* investor in the late 1960s and early 1970s, said it all in his federal financial disclosure report, which cited stock in major corporations worth millions. It also listed 215 shares in The Washington Monthly Publishing Corp. with a sad notation explaining that the stock "to the best of our knowledge has no value.")

But when I left the *Monthly* in October 1987 and went to a more traditional company, I realized that the *Monthly* Management System had some advantages. Long a glazed-eyed believer in the sentimental notion that people should not measure their "worth" by how much they earn, I now, for the first time, find myself doing just that: Do I deserve a raise? Am I getting less than the guy down the hall who doesn't work as hard? That is, of course, what merit pay is supposed to do. By making me ask those questions it's supposed to motivate me to work

harder. It didn't, but it did give me a whole new set of worries.

Obviously there are tremendous advantages to giving individuals a direct financial stake in performing well. But as I mentally multiplied my own neuroses by the entire work force I became convinced that the challenge is to devise pay systems that provide strong incentives but also confront the perils of meritocracy.

American mythology endorses pay for performance: Horatio Alger built success not through a good union contract but through hard work and smarts. No one who's ever bought a 50-volume encyclopedia or a 25-year supply of Avon lipstick can doubt the effectiveness of the commission system for sales reps. And managers increasingly hail pay-for-performance too. One recent survey found that 70 percent of U.S. firms now offer some sort of performance incentive. They include traditional "merit pay" (permanent salary increases based on a worker's individual performance), one-time bonuses, profit sharing, group incentives, or commissions. It seems like the perfect tonic for the American economy—both effective and true to our sense of fairness.

But this ignores an important fact about human beings. Merit pay rewards excellence—but not everyone is excellent. There are lots of average employees who perform adequately or worse. Most, however, do not believe they are merely average. Management surveys consistently reveal that about 80 percent of American workers believe they are better than the norm. There is, therefore, a natural demoralizing effect to many merit pay plans based on individual performance. Workers are regularly told they're just not good enough, an assessment that they all too often take home. Conversely, arbitrariness is an underappreciated force. True, it seems unfair when a good worker and bad worker earn the same amount. But both can blame "the system" and avoid judging themselves by their paychecks.

To reduce resentment, jealousy, and accusations of favoritism, some managers base evaluations on easily quantifiable factors. This works well for some jobs. Number of chairs produced X bonus = merit pay. Other jobs are more difficult. If ever a teacher deserved a merit raise, it was Michael D. Reynolds, a science teacher in Jacksonville, Florida. He always

Steven Waldman, an editor of The Washington Monthly from 1985 to 1987, is a correspondent in the Washington bureau of Newsweek.

**IN THE BEGINNING
THERE WAS KAYPRO**



GOOD MOVE

New York City's police headquarters is suffering leaks, trapped elevators, and other maintenance problems. In 1973, it abandoned its old headquarters, a neo-baroque building, now a luxury condominium, where apartments cost up to \$2.5 million.

"I THINK IT'S WORSE BECAUSE IN MANY WAYS THAT POODLE, THAT DAMNED POODLE, WAS SYMBOLIC OF MY MOM."

A Postal Service memo in Columbus, Ohio read: "Five Columbus letter carriers were bitten by dogs in the month of July. . . . The Postal Service will seek to recover damages and to provide counseling to carriers who have been bitten. . . ."

THE LIFE OF THE MIND

Books prominently featured in a recent ad for "The Literary Guild":

Moonwalk by Michael Jackson
Till We Meet Again by Judith Krantz
Rock Star by Jackie Collins
Inheritance by Judith Michael
Numerology Has Your Number
Mickey Mouse: The Movie Stories
The Low Cholesterol Oat Plan
Jennifer Fever: Older Men, Younger Women
Check List for a Perfect Wedding
Diana: The Princess of Wales
The Mormon Murders
The Successful Woman by Joyce Brothers
The India Fan by Victoria Holt
Daddy's Girl by Clifford Irving
Marilyn Among Friends (Marilyn Monroe Pictures Book)
The Total Garden

THE FEW, THE PROUD, THE BELLHOPS



GOLD DUST

Manville Corp. claims its fees for lawyers, investment bankers, and accounting firms for its six-year bankruptcy proceedings will cost \$94 million.