



Miami-Dade County Public Schools

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# INFORMATION CAPSULE

## Research Services

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### PERFORMANCE PAY FOR ADMINISTRATORS

#### AT A GLANCE

*An increasing number of school districts are implementing compensation systems that hold administrators accountable for their performance. Performance pay systems help districts clarify their priorities and establish a performance-based culture that rewards innovation and improvement. Although there is no one specific formula for implementing a successful performance pay system in all school districts, studies indicate that performance pay systems can succeed when performance goals are tied to the priorities of individual school districts and when key issues that have direct implications for the success of the system are taken into account. Since M-DCPS policymakers are currently considering implementation of a pilot incentive pay plan for selected MEP employees, this information capsule examines factors that should be considered before implementing a performance pay system for administrators.*

Performance pay practices have been linked consistently with improved organizational performance in the private sector. Companies such as 3M, American Express, General Motors, IBM, Microsoft, and Nordstrom have improved their financial performance by implementing performance pay plans that link pay to employee performance (Partnership for Public Service, 2002). Performance pay systems are also being used in the health care sector, where hospitals and doctors are given cash incentives for improving the quality of health care and cutting costs. For example, *Bridges to Excellence* is a growing collaborative effort started by several large employers, including General Electric and Verizon Communications that supports physicians to encourage better performance and reduce inefficiency (Bridges to Excellence, 2005; Rosenthal, 2005). Because of the positive results realized by private companies, many school districts around the nation are considering adopting performance pay plans for their employees.

The increased interest in performance pay systems for public schools coincides with state and national school reform plans that focus on measurable outcomes, greater demands from the public for accountability, and private companies competing to manage public schools (Hertling, 1999). Supporters of performance pay systems for administrators maintain that they improve districts' credibility with the community, help districts clarify their top priorities, create a set of clearly defined goals for districts to focus on, and establish a new performance-based culture that rewards innovation and improvement (Hertling, 1999).

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Critics of performance pay systems cite previous unsuccessful experiences with public school compensation systems. These experiences suggest that the failure of performance pay systems is usually the result of inconsistent standards, remote or authoritarian planning, arbitrary award determinations, or unanticipated budget limitations. Past experiences also demonstrate that performance pay systems cannot be imposed on any group of employees against their will (Young, 2003).

There is no one specific formula for implementing a successful performance pay plan in all school districts. Performance goals should be tied to the unique needs and priorities of individual districts; therefore, the criteria for rewarding administrators will not be the same at all school districts (Hertling, 1999; LaFee, 1999; Bushweller, 1997).

Research shows that performance pay systems can succeed in public schools if key issues that have direct implications for the success of the system are taken into account. Previous experiences with performance pay plans in public schools strongly suggest that addressing employees' concerns before implementing new systems enhances staff understanding and acceptance and increases the plan's chances of success (Young, 2003). A review of the factors that should be considered before implementing a performance pay system for administrators follows.

### **Communicating with Staff**

One of the obstacles in establishing new approaches to pay is that the uniform salary schedule with steps has been in effect for educators for so many years. Instead of being rewarded for accomplishing goals, administrators receive raises for the passage of time and not for their job performance. Most administrators have little knowledge of or experience with performance pay systems. Their limited awareness is usually based on informal discussions with peers, brief descriptions in association newsletters, or sessions at professional association meetings. When administrators hesitate to endorse a performance pay system, it is often because they don't have enough knowledge about the system.

Furthermore, confusion can result when administrators don't understand why they didn't receive a bonus or raise (Young, 2003; Greenhouse, 2002; Ramirez, 2001; Hertling, 1999).

The success of a performance pay system depends on the support of the staff who will be affected by its implementation. The criteria upon which the bonuses or raises will be based must be open and understood by all administrators. Communication with staff helps promote acceptance and understanding of the system and reassures administrators that the distribution of rewards is not biased by factors such as personality, friendship, politics, or religion (Greenhouse, 2002; Solmon and Podgursky, 2000).

### **Determining the Amount and Type of Rewards**

A fundamental component of performance pay systems is a reward structure that focuses on recognizing superior performance rather than penalizing poor performance. Many times, school districts use performance pay as a means of cost containment instead of performance enhancement. In a survey of administrators at six schools with performance pay compensation systems, Young (2003) found that employees were concerned about falling behind in their purchasing power and worried that they would be fighting over what had previously been called a cost of living increase. To address these concerns, Young suggests that performance pay systems include two types of increases: maintenance raises and advancement raises. Maintenance raises should reflect a cost of living increase and protect the purchasing power of an administrator who performs satisfactorily. Advancement raises should exceed the cost of living increase and enhance the purchasing power of the administrator who exhibits exemplary performance. In a true performance pay system, administrators who fail to perform satisfactorily receive no raises.

Before implementing a performance pay system, school districts must closely examine their financial resources and identify any possible budget limitations. Most educators agree that

bonuses or raises should be capped below 10 percent of the administrator's base salary. In the majority of districts with performance pay systems, the size of the bonus or raise is no greater than five percent (Bushweller, 1999; Hertling, 1999).

Rewards must be meaningful before staff will strive to obtain them. A meaningful reward for one group of employees, however, may not be meaningful to another group, even within the same school district. Most districts add money to the employee's base salary, but responses to Young's survey suggest that districts may want to consider a differential rewards system. For example, in Young's study, a young employee, early in his administrative career, wanted his bonus incorporated into his base salary. An older employee, further along in his career, suggested that the money be placed in a retirement annuity (Young, 2003).

Another issue that districts must consider is whether to extend performance pay to all district employees. Most educators believe that if a district offers performance pay to one group of employees, it should make it available to everyone. Performance pay for all employees encourages a districtwide commitment to performance and sends the message that everyone is expected to contribute to students' academic success by emphasizing the importance of learning in their daily interactions with students (Bushweller, 1999; Graves, 1995).

### **Designing an Effective Evaluation System**

The evaluation provides the information upon which performance pay decisions are based. The challenge is to use an evaluation system that is valid, reliable, meaningful, useful, and "do-able" (Herman, 1993). Policymakers should be aware that outcomes that are measured as part of the performance pay plan will become district priorities (Graves, 1995). Ramirez (2001) suggests that, before implementing a performance pay system, school districts consider the unintended consequences of the new system. He cautions that organizational leaders think carefully about the results they will reward because outcomes that don't count toward bonuses or raises are less likely to be perceived as priorities.

The school district should utilize an evaluation system that is not excessively burdensome and operates efficiently. The district must have the information management capabilities to compile and produce data upon which bonuses or raises will be based and to track students' achievement over time (Ramirez, 2001).

Evaluations should be scheduled to take place so that data upon which the evaluation is based are available. Performance pay decisions must be made in a timely manner that fits within the budgetary and administrative procedures required by the school district (Ramirez, 2001).

### **Selecting Measurable Objectives**

In education, it is often difficult to objectively evaluate administrators' performance. While many educators see the usefulness in evaluating administrators on the basis of measurable, data-driven outcomes, education is a complex effort that cannot always be easily measured (Bushweller, 1999; Stanley, 1999).

In order for staff to support a performance pay system, it must be comprised of clear, objective criteria. If the criteria are vague, administrators won't know if they are meeting them or how they can improve (Magnuson, 1999). Even among supporters of performance pay, there is little consensus regarding which indicators should be included in administrator evaluations. Policymakers must decide what measures will be used to evaluate administrators, based on the district's individual priorities, and if test scores will be a major determinant of their performance pay package. Most educators believe that student test scores should be only one indicator in performance pay plans. Other indicators might include participation in staff development activities, improving student attendance and graduation rates, and maximizing parent and community involvement (Gessner, 2005; Hertling, 1999).

Many administrators believe that performance pay is too heavily linked to test scores. They question the fairness and accuracy with which student achievement gains are measured and feel they have only limited control over variables that affect students' performance on standardized tests. They contend that scores are only a one-

day indicator of students' performance and may not be a true reflection of their overall achievement. At the school level, some administrators believe principals at low performing schools have an unfair advantage and are more likely to receive bonuses than principals at high performing schools because there is more room for improvement when test scores start out low (Goodnough, 2002; Bushweller, 1999; Magnuson, 1999).

### **Designing Fair and Consistent Pay Systems**

The design and implementation of performance pay systems should be as fair and free of bias as possible (Ramirez, 2001; Stanley, 1999). In order for performance pay systems to be perceived as fair, administrators must be provided with the resources and support they need to achieve their goals (Hertling, 1999). Administrators are often concerned that performance contracts will unfairly hold them accountable for factors that influence student performance but are beyond their control, such as available resources in the community, class size, student mobility, and language proficiency (Solmon and Podgursky, 2000; Hertling, 1999). Opposition to performance pay systems can arise from suspicions that the criteria used are biased, too hard to measure, or inadequate for judging administrators (LaFee, 1999).

### **Avoiding Morale Problems**

Educators have identified the following potential morale problems that can arise when performance pay systems are implemented. Policymakers should be aware of these issues when establishing a new performance pay system (Young, 2003; Hertling, 1999; Magnuson, 1999):

- If all employees are not eligible to receive bonuses or raises, it sends the message that some staff members are responsible for increasing student achievement, while others are not.
- Subordinates may feel they are being put under unreasonable pressure as their supervisors try to enhance their own performance.

- Small pilot programs that will be expanded later can cause resentment toward those initially selected to participate.
- Publicizing the names of staff who receive bonuses or raises can foster animosity between staff members and create embarrassment for those who were eligible for rewards but did not receive them.
- Morale problems can arise when administrators are held accountable for their job performance, but are not given some degree of discretion in their job responsibilities, such as control of their budgets and the selection of employees.
- Morale tends to be lower when administrators believe they have no control over the flow or volume of their work. Performance-based cultures assume that employees have some influence over their work flow and can adjust their efforts on assignments by choice, rather than in response to demand.

### **ProComp System in Denver, Colorado**

Although not affecting administrators per se, voters in Denver, Colorado recently (November 2005) approved a \$25 million allocation to fund the Professional Compensation System for Teachers (ProComp). ProComp is a compensation system that links staff pay to the school district's instructional mission. All members of the Denver County Teachers Association, including teachers, nurses, counselors, speech therapists, and social workers, are included in the incentive plan. The system was in development for six years and was designed by a partnership between the Denver Public Schools and the local teacher's union. ProComp is said to be a form of "results-based pay" rather than "merit pay" or "performance pay." Many states and school districts are tracking development of ProComp since it appears to be a new pay system that holds promise.

Staff will receive pay increases for improving student achievement, for working in schools and assignments with high risk students, for satisfactory performance evaluations, and for increasing their teaching skills and knowledge.

Enrollment into ProComp is voluntary for staff hired prior to December 31, 2005 who have seven years to opt into the new system or continue under the traditional compensation plan. Staff hired after January 1, 2006 will be paid under this new system. In fact, the traditional salary schedule will remain in effect for as long as there are individuals on the schedule. The entry-level salary for ProComp is the full salary earned under the traditional salary schedule. Cost of living adjustments will be made equally to staff under the traditional salary schedule and those participating in the ProComp system. For additional information, the interested reader is referred to the Denver Public Schools web site dedicated to the program ([www.denverprocomp.org](http://www.denverprocomp.org)).

### **On A Local Note**

Two forms of school site performance pay are currently in effect in M-DCPS:

- **Performance Pay** rewards the district's top performing schools, based on significant learning gains on the FCAT reading and mathematics exams. A bonus of five percent of employees' base salary is paid to instructional staff and administrators from the top three elementary schools in each regional center, the top middle school in each regional center, the top three senior high schools in the district, and the top magnet school in the district.
- **School Recognition Pay** is a bonus paid by the Florida Department of Education to schools that increase by one or more school performance grades or maintain a performance grade of "A" from one year to the next. These schools receive \$100.00 for each student enrolled. Bonuses are distributed to all employees at the school as lump sum payments (not a percent of the employee's salary). Determination of the bonus amounts each category of employee will receive is decided by each school's Educational Excellence School Advisory Committee (EESAC).

M-DCPS is currently considering the establishment of a Managerial Exempt Personnel (MEP) incentive pay plan. The incentive plan will be piloted with regional center superintendents, principals, and administrators in the Superintendent's Cabinet. MEP employees will be eligible to receive a bonus that represents between three and five percent of their base salary. Rewards will be based on the extent to which a series of objectives are attained. A scorecard will outline each objective, the measures used to determine the extent to which the objectives were achieved, and the corresponding weights and targets assigned to each measure. Scorecard measures will include indicators such as school performance grades, FCAT performance, graduation rate, staff and student attendance rates, health and safety, and School Climate Survey results.

### **Summary**

School districts throughout the country are adopting pay systems that hold principals and other administrators accountable for their performance. Research shows that performance pay systems can succeed in public schools if key issues that have direct implications for the success of the system are taken into account. Factors that should be considered before implementing a performance pay system include communicating with staff to promote acceptance and understanding of the system; determining the amount and type of rewards that will be disseminated; designing an effective evaluation system upon which performance pay decisions will be based; selecting measurable, data-driven indicators to objectively evaluate administrators; designing fair and consistent pay systems; and avoiding actions that may lead to morale problems. M-DCPS decision makers may want to consider these issues before implementing a pilot incentive pay plan for MEP employees.

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