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Managers Motivate and Retain Best Employees by Rewarding Performance

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By Daniel Casciato

Six months ago, Brad Caldwell, CEO of Action Industrial Paramedic Services in British Columbia, eliminated traditional performance reviews in favor of a pay-for-performance system that linked his employees' compensation to the accomplishment of individual and organizational goals.

While Caldwell has many dedicated employees, some of them were not meeting the expectations of the organization as a whole. "We needed a system that was better able to communicate who the key performers were," he said. "For us, a pay-for-performance system accomplishes just that. It better ties in an employee's performance to our company's goals."

Throughout the emergency services community, managers like Caldwell are questioning the traditional notion that links pay to longevity, seniority and subjective annual evaluations. "These types of evaluations are not only popular now, but I would say it's rampant," said Mike Taigman, an EMS systems consultant.

Emergency Medical Services Authority (EMSA) COO Tom Wagner, whose agency serves Oklahoma City and Tulsa, said that one problem with annual performance reviews is trying to evaluate employees on their performance throughout the year when the supervising evaluator rarely, if ever, interacts with the employee.

"Nobody focuses on their behavior or performance for the previous 11 months," Wagner explained. "I always thought that's been an employee disincentive. Employees really resent leaders when they do that, and it takes some of the credibility away from the management team."

Instead, pay-for-performance encourages organizations to define performance standards that are consistent with their strategically defined goals and objectives. Employees are then rewarded for meeting or exceeding these standards.

Fair and Objective

According to the US Merit Systems Protection Board, when a pay-for-performance system functions properly:

- Outstanding performers receive the greatest rewards to acknowledge their superior contributions and motivate them to continue high performance;
- Average performers receive substantially smaller raises, which may encourage them to work harder to achieve larger raises in the future; and
- Poor performers receive no increase, which is intended to persuade them to improve their performance or leave.

Wagner said that within their system, EMSA awards points to workers based on a set of pre-established criteria. "One of the first things that negatively affects an organization is attendance," he explained. "We have a set standard for attendance. So people with a perfect attendance earn a certain number of points. People who don't have perfect attendance, but have attendance within our parameters, earn another set of points."

EMSA rewards employees with points if they earn CEUs and attend all their classes. There's also a clinical and a documentation component. If employees don't have any mapping errors related to a late call, in terms of compliance, they earn points. If their hospital drop-times are within a certain average, then they receive points for that as well.

Pay-for-Performance in Government

Not everyone likes pay-for-performance, and moving to this system in the federal government has been met with widespread concern. The Senior Executives Association (SEA) recently released the results of a survey that asked 850 federal career executives of the Senior Executive Services (SES) how they felt about pay-for-performance. SEA reported that while they believe that individuals should be held accountable for achieving agency goals and mission-related results, SES members said:

- There is pressure to reduce number of high ratings because of rating quotas or forced distributions;
- There is a disconnect between ratings and rewards;
- The new system had no effect on their performance or that of their peers; and
- The new system had negative effect on morale and motivation twice as often as they reported positive effects.

When the Bush Administration tried to institute a pay-for-performance system in the Department of Homeland Security, the unions balked, in part because labor leaders believe the government has a poor track record in designing performance-based management systems that are accepted by employees as fair and transparent.

Taigman said linking pay to performance can help increase an organization's effectiveness. "The ideal version of pay-for-performance is that it's 100 percent objective and it's totally under the control of the employee," he said. "The way to earn points is objective and under control of the employees. All the subjective stuff should be done separately."

Rewards Performers

Since the implementation of pay-for-performance, Wagner said that he has seen some beneficial impact. "The most beneficial impact is that we have put our team members in charge of their raise," he said. "They are in charge and are responsible for it and they can control it and have a say in it. It's very empowering. That's been the biggest upside to this."

Wagner has also seen some movement and performance in the right direction. "But the reality is at the end of the day, like most organizations, there's a bell curve," he admitted. "You have your top performers, you have a bulk of people that do a good job, and then you have people who straggle at the end. This doesn't eliminate that, but it does allow you to do a shift of the monetary rewards to those who are really performing and recognize them. They get a sense of having control over what they're making and know that if they continue to perform well, they will get rewarded."

Caldwell said that pay-for-performance is an effective way to put the onus on employees to do their best. "What I like about it is that it gets the employees involved in their own evaluation," he said. "It's been a great tool for us."

His company uses a Web-based compensation planning software by Success Factors to help automate its performance review processes. Vice President of Success Factors Andy Cohen said that his software allows organizations to establish goals and post them online so all employees can see how their individual goals relate to the organization's goals.

"It sounds pretty simple, but most organizations don't do a good job of setting goals and then paying against those goals because they usually just have scraps of paper they put in a filing cabinet," he explained. "Our system is online so they can clearly see what their goals are."

Cohen said that pay-for-performance has become popular because more organizations want to lower their turnover and hang on to their best workers. "It's becoming harder to find good people, so pay-for-performance improves your retention rate," he said. "It rewards employees for achieving their goals and makes them feel more appreciated. It's a huge boost to morale."

Careful Implementation

While there are many benefits to having a pay-for-performance system, it can be a complex process and require a significant investment from organizations. Any flaws in the design, implementation and operational phases can diminish its effectiveness.

"Organizations will require more planning if they adopt this system," Cohen noted. "You'll need to consistently set your team and individual goals at the beginning of the year. And when it comes time for the evaluation, it makes the reviews more objective because employees are being measured against pre-set performance."

To ensure a successful implementation of a pay-for-performance program, there are six steps to be followed:

Make sure your employees are on board. "Sit down with the employees and get their buy-in," advised Wagner. "It's really about them driving this process, and I found if you sit down with the workforce, 99 percent of the time, they want the same things the company wants. We're all in this together and have the same goals. So if you lay out what you want to accomplish, they will steer you in the right direction."

Align employee performance expectations with well-defined organizational goals. "To make this work, you need to set clear, smart, measure-oriented and achievable goals," Cohen said. This step will help employees see the connection between their daily activities and organizational goals and encourage them to focus on their roles and responsibilities to help achieve those goals.

Your pay-for-performance system has to be 100 percent objective. "It has to be measurable and objective because that's what lends credibility to it," Wagner said. "If there's any subjectivity, it becomes problematic. It's easy to say, we really want to judge employees on X, but unless X is really objective, that's a pitfall. I would caution people about that."

Make it positive. Wagner said that he has seen organizations start with the program being positive, and then managers want to take points away for negative incidents, such as crashing an ambulance. Instead, he said, "We address it from the positive side. If

you don't have an accident, you gain points. It's a nuance, but I think that it's a nuance that's important because it puts the process in a positive light. It's not a punitive tool; it's supposed to be a positive tool."

Provide feedback more often. Taigman recommended monthly feedback to your employees about their performance. "No matter which evaluation system your organization has in place, there is often a delay that is built in from the time you take an action until you receive feedback on your performance," he said. "When there is delay between the actions that are taken and feedback is provided, it makes it almost impossible to fine-tune your performance. Theoretically, performance evaluations are about helping people improve performance, but they happen once a year. This is one of the downsides."

Evaluate the system annually. Your pay-for-performance system should be evaluated yearly to determine when changes are needed as the organization and the pay system evolve. Caldwell and Wagner said that pay-for-performance programs should not be looked upon as driving performance, but more of a motivator for the workforce.

"It's been very positive for us," Caldwell said. "We've found that it has motivated our workers to perform better."

"I really would encourage organizations to take a look at it, whether or not you see a shift in the performance line is really only part of this equation," Wagner added. "The big part is putting the control in the hands of the employees. In the industry if we move into that direction, we will ultimately see shifts in performance."

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