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Where We Stand

by Albert Shanker President, American Federation of Teachers

It Doesn't Work in Business, Says V.P.

Supervisors Sabotage Merit Pay

"Merit pay systems tend to be divisive. There must be a simpler, fairer way." If you think this is the statement of a member of the education establishment or a teacher union leader, you're wrong. It's the position of a business executive, Edward Mandt, vice president for personnel at Maccabees Mutual Life Insurance Company (Southfield, Michigan), in an article, "Who Is Superior and Who's Merely Very Good?" in the April issue of *across the board*, the magazine of The Conference Board.

Mand says, correctly, that the current debate over merit pay for teachers "assumes that business actually has a rational system of paying according to performance. The truth is business merely acts and talks as if it does."

When businesses were relatively small, extra reward—merit pay—was given (when the company was making money) on the basis of the personal knowledge and judgment of the top managers. "As businesses grew and became more complicated," Mandt says, "it became impossible for top management to make sound decisions about the worth of subordinates several rungs lower." This resulted in "objective" systems, evaluation manuals, etc., but, "Unfortunately, broad-based merit-pay programs simply do not work."

Mandt cites other authorities who came to the same conclusion as long as 30 years ago. One said, "Developing and implementing a merit-rating system, and making it work, is not an easy accomplishment; the skeletons of many systems that have failed and have been discarded are testimony to the fact that there are many pitfalls that the unwary (or even the wary!) can stumble into in the process." Another expert reported, "Managers and employees in many companies have come to dislike merit rating. In fact, this dislike has reached the point in some organizations where true merit rating has either undergone significant modification or has been completely abandoned."

One problem with merit rating is that as many as 80% of employees believe they are "above average" or higher. Merit rating will tell up to 40% that they are not nearly as good as they think they are. "To protect their self-esteem," says Mandt, "they will automatically accuse the company, their bosses, and the system of bias."

Mandt is not saying that everything is subjective, but merit ratings are mostly opinion. "In any organization it is relatively easy to identify the extremes—what some writers have called the 'stars' and 'dogs.' So far as the rest of the organization is concerned, the best we can do is to make some very rough estimates. As a result, we create unnecessary stress and dissatisfaction when we try to make salary adjustments based on imprecise and largely subjective evaluations. How can *any* supervisor be confident that the employee who is rated 'satisfactory' is truly performing slightly below one who is rated 'above average'? And, even if he could, how can the organization be assured that one supervisor's 'satisfactory' is equal to another's in a different department? . . . There's nothing wrong with my having an opinion that one of my subordinates is doing a satisfactory job and another performing at a slightly above-average level. Where I'll get into trouble is when I then decide to give one a 5 percent raise and the other 7 percent."

Mandt's most surprising point is that merit pay plans don't work because *"Nobody has faith in them.* Supervisors, in particular, are disbelievers, and are continually undermining the system. Let's face it, the typical competent supervisor is a team builder and a team leader. He knows the strengths and limitations of his team. He also knows that it's dangerous to highlight any of the weaknesses in a formal performance appraisal if these will be reviewed by anyone else in connection with salary decisions." To maintain the support and loyalty of their teams, most supervisors will not follow merit guidelines established at the top level. Rather, they will fight for their own people, "negotiate" for them, give them higher ratings than the top brass called for. "What's important to remember," writes Mandt, "is that in this process the supervisors and their subordinates regard themselves as being *outside* the company. In effect, they are all competitors in a game of Monopoly, scheming to get as much as they can. It's not *their* money; it's the company's. If they fail, [supervisors] can always tell their subordinates that they did their best and show the inflated ratings as proof."

When it's all over, if it comes to pass that one supervisor did a better job of delivering merit raises than another—the latter loses face. And the system falls into total disrepute when "it further turns out (as also invariably happens) that some of the 'winners' in the game are not highly regarded by the 'losers.' "

In rejecting merit pay Mandt is not saying that it's all hopeless and the quest for excellence must be abandoned. On the contrary, he supports setting up "a performance appraisal system that focuses on performance not pay." And, he says, "it's critical to the plan that the company take an uncompromising stand with regard to poor performers. Poor performance must be quickly upgraded or terminated." Mandt outlines a compensation program which aims to attract competent personnel, to provide incentives for performance and for individual development and to recognize long service. His proposals deserve serious study, and his demolition of merit pay ought to settle the question once and for all. Of course, it won't—because even though it's unworkable, it's politically popular.

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