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ABSTRACT

Since appraising managerial performance for salary purposes appears to be a common feature of many executive compensation plans throughout the business world, the author presents several emerging trends in these private sector compensation plans and suggests their possible application to the compensation of educational administrators. He reviews two of these trends--performance shares compensation and "cafeteria" compensation packages designed by the individual executive. (Author/WM)

APPRAISING MANAGERIAL PERFORMANCE FOR SALARY PURPOSES

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The question as to whether to appraise managerial performance for salary purposes continues to be a controversial subject in education and government. However, it appears to be a common feature of many executive compensation plans throughout the business world. After critiquing the ideas of AASA and Dr. George B. Redfern, Deputy Executive Secretary of AASA, on assessing managerial performance for salary purposes, several ideas from business executive compensation plans will be discussed.

AASA recently published Management by Objectives and Results--A Guidebook for Today's Executive. The book, an excellent treatment of MBO with applications for education, states:

> The relationship of appraisal by results to salaries paid and increments awarded remains a controversial one. Some of the resistance encountered in implementing MBO/R may be related to the fear not only of appraisal per se but of the appraisee. This fear among teachers may explain why some teacher organizations have gone on record resisting the introduction of MBO/R. There may be a propensity for school board members and other lay persons to consider MBO/R as the solution to the merit pay problem, but there is little in the experience thus far to warrant this view. The reverse may occur--that is, MBO/R may lose its inherent potential if it receives too much emphasis as a tool for determining the compensation of administrators.[1]

Dr. George B. Redfern, in his discourse, "Appraising Managerial Performance for Salary Purposes," affirms:

> The most formidable obstacle to designing and implementing a workable plan for differentiating the compensation of administrators and supervisors is an inadequate evaluation process. More merit pay plans have failed because of this deficiency than any other single factor. Yet, the search for better evaluation procedures goes on. The clamor mounts for abandonment of traditional, lock-step salary schedules for administrators and supervisors. Pressure increases to make pay and productivity more complementary. The key to a workable plan for holding managerial personnel more precisely accountable for good performance and paying them accordingly lies in finding a better way to evaluate that performance.[2]

After identifying our evaluation dilemma in education, Dr. Redfern notes key elements of an evaluation program utilizing the job target approach and reaffirms the previously cited AASA concern of the appraisee's fear of economic loss:

> In a development program, evaluation is primarily a tool used to improve the performance of the individual. Needs are diagnosed cooperatively by practitioner and supervisor, a plan for improvement is agreed upon, efforts are

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[1]AASA National Academy for School Executives, Management by Objectives and Results--A Guidebook for Today's School Executive (Arlington: AASA, 1973), p. 15.

[2]Dr. George B. Redfern, "Appraising Managerial Performance for Salary Performance" (speech given at AASA Convention, Atlantic City, February 24, 1974), p. 1.

expended for its attainment, and results are assessed. The amount of improvement may be minimal, moderate, or maximum. The objective, however, is to promote professional growth. If results fall below expectations, objectives are changed or modified, additional efforts are expended, and reassessments are made. Attaching a dollar value to the results of evaluation, in the context of development, may put pressure upon the individual to such a degree that motivation for improvement may be sharply lessened. In fact, anxiety about a raise in pay may override every other aspect of the total process, so that neither improved performance nor an increase in compensation results. Thus, one caution is to recognize that the desire to improve can be neutralized by apprehension that an increase in pay may be put in jeopardy by the evaluation process itself.[3]

The attendant obstacles in assessing managerial performance for salary purposes expressed by AASA and Dr. Redfern may be summarized as:

1. Inadequate evaluation systems are employed in the field of education.

2. Little evidence exists indicating a relationship between significant rewards and the improvement of performance.

3. Fear by the appraisee that he will suffer economic loss if salary is tied to performance causing him to resist such attempts.

4. Pressure internalized by the appraisee may become so great with the institution of such compensation plans that his motivation may decrease and anxiety increase to such an extent that little, if any, performance improvement occurs. Achieving the goals and objectives of the school system become jeopardized.

In spite of these formidable obstacles, Dr. Redfern notes that the small number of school systems using evaluation as a tool for helping to determine salary has been gradually increasing over the past several years.[4]

Attention will be shifted from education and the public sector as several emerging trends in executive compensation in the private sector are reviewed. The two trends--performance shares compensation and "cafeteria" compensation packages designed by the individual executive--may have possible application to the compensation of educational administrators.

Reporting on the emergence of performance shares as a method of executive compensation for the 1970's and 1980's, Mr. George H. Foote also notes the demise of stock options as an executive motivator prevalent throughout the 1950's and 1960's. The decline in the use of the stock option plan can be attributed to declining stock market values and the Tax Reform Act of 1969, which increased the maximum capital gains tax from 25 percent to 35 percent and decreased the maximum tax rate on earned income (salary plus bonus) from 70 percent to 50 percent. Mr. Foote stresses that no certain correlation exists between company performance and executive reward.[5] Statements and suggestions of the performance shares plan for

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[3]Ibid., p. 3.

[4]Ibid., p. 7.

[5]George H. Foote, "Performance Shares Revitalize Executive Stock Plans," Harvard Business Review: The Magazine for Decision Makers (November-December, 1973) p. 121.124.

executive compensation which may have application for dollar rewards to educational administrators, include:

1. Participation should be limited to executives who really have a significant impact on organization progress; i.e., about 0.25 percent to 0.5 percent of total employees.

2. Depending on the interval between management decisions and measurable results, the reward period must be determined. The award period varied usually between four and six years depending on the interval. Some organizations have a special payout provision at the end of the second year with the four-year award period. Award periods may be initiated during different years for different executives causing overlapping.

3. The amount of the award in some organizations has been 100 percent of salary for the chief executive down to 30 percent of salary for the lowest level participating managers based on a two-year special payout period.

4. The performance target should focus on corporate performance and not on operating unit performance whether or not it is coupled to corporate performance. It is difficult to set long term performance targets for operating units. Management transfers in operating units also mitigate against successful management of the incentive program for operating units.

5. Establishing performance targets requires analysis of past and planned corporate performance, performance of other companies in the particular industry, and the performance of other companies in general. For instance, the performance target may range from 8 percent to 12 percent growth in earnings per share for each year.

6. Should the data indicate the performance target is significantly exceeded, no extra compensation is awarded. Should the data indicate the performance target was not met yet exceeded some minimum level, the award may be scaled back to reflect some percentage. The payoff is usually a mix of cash and shares of stock with each performance unit worth so many dollars and so many shares of stock. Payoffs are forfeited if termination occurs.

7. Performance shares as executive compensation should not be used in an organization which does not have a clear idea of its goals and objectives or lacks historical perspective and planning skills. Caution should also be exercised for companies which are people intensive because the costs of the plan would constitute too large a share of earnings.

8. To protect shareholders, the performance targets should be sufficiently demanding if full payout of awards is to be achieved and have respectable minimum levels below which no layouts are made.[6]

If resources are available, it is conceivable that the performance shares concept can be adapted to a school system which has been successfully employing a management by objectives (MBO) approach for a number of years. Successful implementation of MBO requires the institutionalization of long-term goals as well as short-term and intermediate objectives capable of assessment. It also demands that the guidelines and criteria for the selection, development, and evaluation of personnel mesh and coordinate with the school system goals and objectives. The problem

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[6]Ibid., pp. 125-130.

demanding resolution would be the establishment of the performance targets for the Superintendent and selected associates and the securing of the necessary resources for payout of awards if the performance targets are achieved.

The other study to be reviewed focuses on business executives' preferences for compensation plans. Wilbur G. Lewellen and Howard P. Lanser demonstrate the need for a "cafeteria" approach which enables the executive to design his individual compensation plan.[7]

Selected findings of the study follow:

1. The executives who participated in the study differ in their desires for certain compensation devices according to personal and situational influences.

2. The typical executive overvalues (highly values) non-cash and deferred compensation arrangements.

3. Pensions, deferred pay, profit sharing, and vacation time are overvalued (highly valued) by the typical executive.

4. The ambivalence and lack of enthusiasm of the typical executive for stock options prevent any firm conclusions for this compensation device.

5. Life insurance, medical insurance, and a company car are undervalued (little valued) by the typical executive.

6. Executives advocate the implementation of a "cafeteria" approach which would enable them to partake of extra helpings of some compensation devices which would be offset by a corresponding decrease or omission of other "helpings." They also indicate a willingness to engage in the deliberating necessary to "tailor-make" the compensation package according to individual needs.[8]

Numerous school systems across the country provide certain compensation devices such as life insurance, retirement benefits, and medical insurance. Usually, these devices are directly related to the teachers' benefits. There are, however, certain school systems which provide additional and supplemental life insurance, retirement benefits, and medical insurance over and above the benefits which would normally accrue to the administrator because of his status as a school system employee or certificated employee. It may be speculated that such supplemental compensation features are increasing for educational administrators. The payment of moving expenses, a one-shot compensation device, is becoming increasingly prevalent. Longer and greater flexibility in vacation time is becoming apparent. Thus, educational administrators are gradually accumulating a significant number of compensation devices which could be developed into a "cafeteria" approach. Extra "helpings" of one or more would, of course, have to be offset by decreasing portions or no portions of others once the approach becomes operational with sufficient resources to support it. In addition to the prevalent cost-of-living increases and supplemental compensation devices, the future compensation of educational administrators will likely include a "cafeteria" approach for tailor-making the compensation package to fit the administrator's needs and desires. Also in the foreseeable future, it is felt that educational administrators will increasingly be compensated for achieving performance targets reflecting the goals and objectives inherent in the successful operation of a management by objectives approach. It must be kept in mind that the compensation for achieving the performance targets must be in addition to the cost-of-living increases so that the fear of economic loss is minimized.

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[7]Wilbur G. Lewellen and Howard P. Lanser, "Executive Pay Preferences," Harvard Business Review (September-October, 1973), pp. 115-116.

[8]Ibid., pp. 117-121.