case study 1

Pay-for-Performance: Lenox Hits Some Problems

Merit pay programs continue to be one of the more popular pay-for-performance compensation strategies. Yet, as compensation specialists note, these programs often fail to achieve their intended objective and can "backfire" when not adminstered properly. Consider the experience of Lenox Technology when it implemented a merit pay program for its managers.

There is no debate among industry analysts that the electronics industry is fiercely competitive. Therefore, strategic compensation programs tied to organization objectives are common and prized for improving employee performance. Furthermore, as one industry executive noted, "Compensation budgets are not always large and we need to get as much 'bang for our buck' as possible."

Lenox Technology, a five-year-old company based in central Florida, had traditionally given its managers annual increases based on the consumer price index for the company's metropolian area plus general across-the-board salary increases. This payment philosophy allowed all managers to maintain their standard of living while guaranteeing them a yearly raise. However, the biggest complaint with the pay program—as voiced by company officials—concerned the lack of motivation to increase employee performance, as all managers received the same annual increases regardless of individual performance.

In June 2002, Lenox, in what was described by one manager as a "shocking" announcement, implemented a merit pay incentive plan. Across-the-board increases and cost-of-living raises were eliminated. Annual salary increases were now to be based solely on individual performance. As Joe Tittle, compensation manager for Lenox stated, "The days of entitlements are over."

While some top-performing managers welcomed the merit raise program as a way to "finally get ahead," overall the new pay plan met with general dissatisfaction. Both managers and their immediate supervisors complained about the philosophy behind the program and its administration. What was once viewed by Lenox as a strategic way to maximize the salary budget and spur managerial performance has become a headache for company officials.

QUESTIONS

1. Identify and discuss concerns managers might have with Lenox's merit pay plan. What are the advantages for starting a merit pay program?
2. Why might supervising managers resist a merit pay program?
3. Develop a program to introduce a pay-for-performance plan in an organization. Consider what should be covered, who should be involved, and so on.
4. Develop a merit pay guideline chart based on the following levels of performance evaluation: superior, above average, average, below average, and poor. Use