Attitudes of Transit Employees Toward Merit Pay

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Merit pay programs are the most widely used financial incentive program among urban mass transit systems. An attitude survey was conducted at a large transit system to determine how employees perceived the merit pay program in which they participated. Employee attitudes toward the merit pay system were mixed. Their perceptions of the accuracy of the performance evaluation were quite negative. However, employees as a whole favored a system in which pay increases are not based on seniority and are not general increases.

The declining growth rate of productivity in the United States relative to other nations is a matter of increasing concern in both the private and public sectors. Productivity, or the efficiency with which goods and services are produced, represents a means of maintaining economic growth, retaining foreign markets, reducing unemployment, and controlling inflation. Because the cost of labor is a major factor in the production of goods and services, increasing the output of human resources is a major element in reversing productivity decline. In view of the economic realities of our times, Americans are finding that a commitment to quality in addition to quantity is essential. To be unresponsive to this issue will ensure further erosion of the marketplace and even tighter resource constraints. Because urban mass transit provides direct service to the public and because it represents a major cost to state, local, and federal governments, it receives close public scrutiny when scarce resources are allocated.

In response to these pressures for increased productivity and better quality of service, private and public sector organizations are reexamining the use of financial incentive programs. A financial incentive in the generic sense is any program in which pay is contingent on individual or group performance. Unlike wages and salaries that are payment for satisfactorily performing a particular job (termed "position pay"), incentive pay is determined by how well the employee does on one or more performance criteria, usually judged in terms of quality and quantity of performance. These performance criteria may include supervisor appraisal of employee behavior or goal accomplishment, overall unit profits and earnings, realized labor cost savings, number of units produced, growth in sales, and so forth. Incentive pay is designed so that an individual's pay may increase or decrease over time on the basis of that person's performance or contribution to the organization's productivity.

A survey conducted by the Conference Board *(1)* found that over 90 percent of the responding companies used a merit pay program. A survey of the transit industry by Scott and Deadrick *(2)* found that merit pay was the most popular financial incentive program among transit authorities, with 30 percent of respondents reporting they had a merit pay program. There were numerous variations of merit pay plans, each of which evolved as organizations tailored the program for their own use. This wide adaptability of the plan has contributed to its popularity.

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Financial incentive programs are not as common in the public sector, generally because of political barriers and such limiting factors as civil service policies and procedures. Much of the public sector employment policies are controlled by legislation and regulation, and thus the freedom to institute innovative employment programs has been limited. However, recent public sector interest in such programs may be attributed to the belief that the use of financial incentive programs such as merit pay plans represents an innovative strategy that can help contain costs and show taxpayers that high performance and productivity are of value to government.

Merit pay programs award pay increases to employees on the basis of their level of performance for a specified time period. Merit pay programs are designed to pay different amounts to individuals, depending on the degree of performance. In a typical merit pay program, the overall merit budget is established by top management and is based on either the past financial performance of the organization, expected future performance, or ability to pay. The merit budget is designed to reward only those employees who have performed at a high level during the past period. This is not a general increase that enables the organization to maintain competitive wages relative to the labor market or a cost-of-living adjustment to protect employees from inflationary pressures.

The overall merit budget is then divided among the organization's various departments, usually on the basis of a percentage of each unit's labor costs in wages and salaries. For example, if one department had 15 employees whose wages and salaries totaled $400,000 annually, a merit budget of 5 percent would be $20,000. Thus this department head would receive $20,000 to distribute among deserving and eligible employees through the individual supervisors. Under most merit pay plans, the merit reward represents a permanent increase in the employee's salary and thus represents a permanent increase in the organization's total labor costs.

Some method of measuring individual performance is required for merit increases. Performance evaluations or appraisals are conducted periodically and are usually supervisory judgments as to the level of employee performance. Behaviorally anchored rating scales (BARS), management by objectives (MBO), and graphic rating scales represent methods of measuring individual performance *(3)*.

Because an employee's merit increase becomes a permanent part of the employee's pay, distortion in the compensation system may occur. To retain an equitable relationship among the jobs and the employees holding those jobs, the compensation structure usually specifies pay ranges for each position. Once the person reaches the top of the pay range, he or she cannot receive another merit pay increase unless the pay structure is adjusted upward *(4)*. The midpoint of the pay range reflects the level at which an average, fully trained employee should perform *(2)*.

RESEARCH ON MERIT PAY

An extensive review of the theoretical and empirical literature on merit pay was conducted. Although space limitations preclude a detailed treatment of this large body of literature, a brief review of representative articles is provided to identify employee attitudes critical to successful merit pay programs and thus establish a basis for the scales used in this study.

A review of the literature uncovered 94 articles on merit pay. A majority of these articles were simply descriptive or conceptual in nature. At best, these descriptive articles suggest rules of thumb that outline certain conditions that must be present if merit pay is to elicit improved job performance. In these articles, it is suggested that for money to motivate improved job performance:

- Money must be a reward valued by employees *(5, 6)*.
- Money must be valued highly relative to other rewards *(7)*. [Although money may be important to an individual, it may not be the primary motivating force. For example, an individual may be more highly motivated by the nature of the work itself or need for affiliation then by money *(8)*.]
- Workers must perceive that pay is tied to performance *(9, 10)*.
- Employees must believe that effort will lead to successful job performance *(5, 11)*.
- Pay increases must be large enough to be meaningful *(11–13)*.
- Employees must perceive that performance can be and is accurately measured *(11, 14)*.
- High levels of trust are necessary if merit pay programs are to be accepted by employees and have the intended motivational effects *(6, 12)*.
- Good communication is essential to successful merit pay programs *(9, 15)*.

Only 16 articles empirically evaluated the effects of merit pay programs in use. Selected empirical studies are discussed in the following paragraphs. One important study by Marriott *(16)* focused on employee attitudes about merit pay plans. The most important finding was that the firm's performance appraisal system did not distinguish among workers' levels of performance, and most employees were dissatisfied with the pay program.

In a study of 31 engineers and 33 nonprofessional workers, Giles and Barrett *(17)* investigated the relationship between merit increases and individual satisfaction. Their findings indicated that each additional dollar increase in merit pay had additional value to employees. Greene and Podsakoff *(18)* conducted a field study in which a merit system was discontinued in a plant. The satisfaction of the higher performers greatly decreased, whereas the low performers became more satisfied and more productive. In a study of 1,165 nonsupervisory, white collar employees, Kopelman et al. *(19)* examined the linkage between performance and rewards for various merit pay programs. It was found that having a wide range of available rewards increases overall performance. Strong linkage between performance and rewards resulted in high achievement.

The literature reviewed suggests that pay must be linked to performance if money is to motivate improved job performance. However, the fact that pay is linked to performance is no guarantee that employees will perceive this to be the case. Employee perceptions of performance appraisal fairness and accuracy should be positively related to employee perceptions that pay is linked to performance, a precondition for successful merit pay programs. In this study, employee perceptions of the performance evaluation system and the merit pay plan are examined.

RESEARCH METHODOLOGY

Research Location

A large number of transit authorities were considered for the current research project. Site selection criteria included (a) a merit pay program that had been functioning 2 years or more, (b) a large organization that would yield sufficient sample size to perform the required statistical analyses, (c) a performance appraisal system that quantified individual performance scores, (d) the availability of pay and performance data for a 2-year period, and (e) the transit authority's expression of strong support for the research study and willingness to commit employee time to the study.

On the basis of the evaluation of a number of potential candidates, a large transit authority located on the West Coast was chosen as the research site for this project. This transit authority has over 3,000 employees, approximately 1,000 of which participate in the merit pay plan. During Fiscal Year 1984–1985, this transit authority maintained a fleet of over 1,000 buses and carried in excess of 200,000,000 passengers.

Performance Appraisal System

This transit authority has a merit pay policy that requires that a performance evaluation be completed annually for every nonunion employee. By policy, these annual evaluations are to be completed by supervisors during the month of June each year. The evaluation requires the supervisor to examine the work habits of employees (i.e., attendance and punctuality, safety, and observance of rules and regulations) and employee performance on job-related tasks. The supervisor is required to combine this information into an overall judgment of performance. Individuals are awarded a performance evaluation along a five-point continuum including (a) unsatisfactory, (b) needs improvement, (c) competent, (d) superior, and (e) outstanding.

Merit Pay System

The merit pay system used in this research is similar to the general merit pay systems described previously. Merit pay increases at this transit authority were based on an individual's performance evaluation score and position in the wage structure. No general pay increases were given, and in only a few cases were structural adjustments made to an individual's pay. There were structural changes in the pay ranges associated with the pay structure. Pay ranges were adjusted upward 8.5 percent in 1983, 3.5 percent in 1984, and 4.0 percent in 1985. It is again pointed out these were not general increases given to employees but were simply changes in the pay range, that is, changes in the amount an individual could potentially earn. To move up in the pay range, an individual must still get merit increases based on performance. The merit increases averaged 7.8 percent for 1983, 5.5 percent for 1984, and 5.2 percent for 1985. Employees receive the merit increase on July 1 each year.

Data Collection

On the basis of the review of the merit pay literature, a questionnaire was designed to measure employee perceptions of the merit pay process, the performance appraisal process, and other work-related issues critical to successful merit pay programs. This questionnaire was administered to nonunion employees who were eligible for merit pay increases. The Likert-type questions and responses are listed in Tables 1–6. Employees were presented with a statement with which they could strongly agree (SA), moderately agree (MA), somewhat agree (?A), somewhat disagree (?D), moderately disagree (MD), or strongly disagree (SD).

The questionnaires were pilot tested at a transit authority located on the East Coast. Following the pilot questionnaire administration, a debriefing was held in which participants were asked to comment on any potential problems with the questionnaires. On the basis of information obtained in the pilot study, several small changes were made in the questionnaires to improve clarity and employee understanding.

A research team from Virginia Polytechnic Institute and State University administered the questionnaires. Employees were notified by memoranda from the personnel department of the transit authority and were requested to attend one of the scheduled sessions to fill out the questionnaires. Eighteen 1-hr sessions were scheduled; although participation was not mandatory, it was strongly encouraged.

Sample Characteristics

Of the 1,425 employees eligible to participate in the study, 842 completed the employee questionnaire for a participation rate of 59 percent. The sample consisted of white collar and supervisory nonunion employees who were eligible to participate in the merit pay program. The age of respondents ranged from 26 to 67, with a mean of 44.8 years. Length of service of respondents ranged from 1 to 44 years, with an average tenure of 13.5 years. Some 78 percent of the respondents were male, and 22 percent were female. A wide variety of ethnic backgrounds was represented in the sample. Some 26 percent were black, 55 percent were Caucasian, 7 percent were Asian or Pacific islanders, and 13 percent were Hispanic. Respondents also exhibited a varied educational background, with 8 percent having high school diplomas, 43 percent having some college, 21 percent having a college degree, 11 percent having some graduate work, and 15 percent having a master's degree or higher. Only 1 percent of the respondents had less than a high school diploma.

Importance of Pay

To assess the value that respondents attached to pay, individuals were asked to rank the importance of seven different job characteristics. The average rank assigned to the seven job characteristics in order of importance (1 was most important) was 2.4 for wages or salary, 3.2 for type of work, 3.3 for job security, 3.4 for opportunity for promotion, 3.9 for recognition for good work, 4.3 for working conditions, and 5.3 for friendly coworkers. Of the seven job characteristics investigated, money was on average the most valued reward among study participants.

Attitudes Toward Performance Evaluation

Performance evaluations are a vital part of merit pay systems because it is the performance evaluation that drives the recommendation for a merit increase for an employee. A series of questions was asked to try to understand how employees feel about the performance evaluation process. One of these questions asked the employee to indicate how satisfied they were with their last performance appraisal (Table 1, Question 1).

The most startling observation about the results of this question is that employees appear to fall into two extreme groups. There is a substantial proportion (21 percent) who are highly satisfied with their last performance evaluation; however, there is also a substantial proportion (28 percent) who are highly dissatisfied with their performance evaluation. Clearly, employees are sharply divided in their attitudes toward satisfaction with their performance evaluations.

Further insight into employees' attitudes about the performance evaluation process can be gleaned from two additional questions that were asked. One of these questions asked if employees felt their last performance review was consistent with actual job performance (Table 1, Question 2). As with satisfaction with the performance evaluation, employees are strongly divided in their attitudes toward the accuracy of the evaluation process. Some 21 percent strongly agree that their last review is consistent with actual performance, whereas 28 percent strongly disagree with the statement.

A second way to ask the same question is to ask employees to react to whether their evaluation was too high or too low (Table 2, Question 3). Consistent with earlier questions, it is again apparent that employees are about equally split between those who think their performance evaluations were about right

TABLE 1 SATISFACTION WITH PERFORMANCE APPRAISAL

Question	Frequency of Responses[a]						
	SA	MA	?A	?D	MD	SD	NA
1. I am very satisfied with the last performance evaluation I received.	174 (21%)	144 (17%)	103 (12%)	72 (9%)	78 (9%)	228 (28%)	30 (4%)
2. My last performance evaluation was consistent with my job performance.	172 (21%)	143 (17%)	105 (13%)	80 (10%)	72 (9%)	229 (28%)	32 (4%)

[a]Percentages do not add to 100% because of roundoff error.

TABLE 2 ACCURACY OF PERFORMANCE APPRAISAL

Question	Much Too High	Too High	About Right	Too Low	Much Too Low
3. Compared to your actual level of performance, do you believe your performance rating was:	5 (1%)	10 (1%)	363 (45%)	348 (43%)	75 (9%)

[a]Percentages do not add to 100% because of roundoff error.

TABLE 3 FEEDBACK

Question	Frequency of Responses[a]						
	SA	MA	?A	?D	MD	SD	NA
4. I received enough feedback concerning the quantity of my output on the job.	148 (18%)	158 (19%)	163 (20%)	134 (16%)	100 (12%)	121 (15%)	10 (1%)
5. I am provided with sufficient feedback on the quality of my work.	154 (18%)	167 (20%)	163 (20%)	145 (17%)	88 (11%)	113 (14%)	6 (1%)

[a]Percentages do not add to 100% because of roundoff error.

TABLE 4 MERIT PAY

Question	Frequency of Responses[a]						
	SA	MA	?A	?D	MD	SD	NA
6. Merit increases accurately reflect an individual's job performance.	58 (7%)	63 (8%)	107 (13%)	131 (16%)	111 (13%)	356 (43%)	10 (1%)
7. This organization gives pay increases on the basis of job performance.	53 (6%)	79 (10%)	151 (18%)	116 (14%)	117 (14%)	302 (36%)	12 (1%)
8. My last pay increase was consistent with my job performance.	77 (9%)	99 (12%)	107 (13%)	118 (14%)	108 (13%)	296 (35%)	34 (4%)
9. I was very disappointed with the size of my last pay increase when I think about what other employees received.	190 (23%)	82 (10%)	125 (15%)	133 (16%)	112 (13%)	125 (15%)	69 (8%)
10. I am very satisfied with the last merit increase I received.	63 (8%)	114 (14%)	124 (15%)	115 (14%)	105 (13%)	274 (33%)	43 (5%)

[a]Percentages do not add to 100% because of roundoff error.

TABLE 5 SUPERVISOR ALLOCATION OF PAY INCREASES

Question	Pay Increase Factor	Average Rank
11. The purpose of this question is to find out what you think were the most important factors determining your last pay increase. Please rank the five items listed below according to how important you think they were to your supervisor in determining your last individual pay increase. Place a 1 by the item you feel was most important, a 2 by the item you consider the second most important, and so on.	My friendship with the supervisor.	3.3
	My length of time with the supervisor.	2.6
	My length of time with the organization.	2.6
	My performance.	1.7
	My economic need.	4.2

TABLE 6 EMPLOYEE PREFERENCE FOR ALLOCATION OF PAY INCREASES

	Frequency of Responses[a]						
Question	SA	MA	?A	?D	MD	SD	NA
12. In my job, all employees should get the the same percentage pay increase.	205 (25%)	58 (7%)	76 (9%)	132 (16%)	95 (11%)	262 (31%)	10 (1%)
13. To be fair, everyone in my job should get the same percentage pay increase.	167 (20%)	50 (6%)	74 (9%)	135 (16%)	98 (12%)	297 (36%)	10 (1%)
14. Pay increases should be based primarily on length of service.	51 (6%)	63 (8%)	105 (13%)	165 (20%)	118 (14%)	331 (40%)	3 (0%)
15. In my job, the largest pay increases should go to the most senior employees.	37 (4%)	41 (5%)	66 (8%)	176 (21%)	120 (14%)	387 (46%)	9 (1%)

[a]Percentages do not add to 100% because of roundoff error.

(45 percent) and those who think that their performance evaluations were too low (43 percent).

Still another way to obtain insight into employees' attitudes toward the performance evaluation process, in general, is to ask employees if they receive enough feedback from their supervisor. Two such questions were asked; one dealing with quantity of output, and another dealing with quality of output (Table 3, Questions 4 and 5). Employees are also strongly split over the amount of feedback they received about both the quantity and quality of their output. Over half of the employees tend to agree that they receive enough feedback, but a substantial minority (over 40 percent) tend to disagree that they receive adequate feedback.

The information on employee attitudes toward the performance evaluation process suggests that a sizable minority is dissatisfied with the appraisal system. Further, that sizable minority appears to believe that they do not receive adequate feedback in terms of quantity or quality of output.

Attitudes Toward Merit Increases

Employees were asked whether or not merit increases, in general, were linked to performance level. This question was asked of employees in two different ways, as indicated in Table 4, Questions 6 and 7. The responses to these two questions provide startling results: 72 percent of the employees disagreed with the statement that merit increases accurately reflect an individual's job performance. Further, 43 percent strongly disagreed. Employee responses to Question 7 in Table 4 reflect similar patterns of responses, indicating that employees strongly disagree with the assertion that merit raises reflect job performance.

Employees were also asked if their last pay increase was consistent with their performance (Table 4, Question 8). On the basis of the responses, it is clear that most employees disagree with the statement that their last increase was reflective of job performance. Some 62 percent disagreed to one degree or another with the statement. Further, 35 percent strongly disagreed with the statement, whereas only 9 percent strongly agreed with the statement.

The questions discussed so far have asked the employees to give their opinions about merit increases and performance. Yet another way for employees to assess their merit increase is to ask them to think about their merit increase relative to other employees (Table 4, Question 9). Interestingly, there is not the same kind of consistency of results when employees compare their own raises to those of other employees. In fact, employees are highly dispersed all the way from strongly agree (those who are disappointed with their raises) to strongly disagree.

Finally, employees were asked to share their attitudes about satisfaction with their last merit increase without specifying a relationship to performance or how other employees came out in the pay increase process (Table 4, Question 10). Some 59 percent of the employees expressed a degree of dissatisfaction with their last merit increase and one-third of the employees strongly disagreed that they were satisfied with their pay raise. These responses suggest that something may be wrong with the merit pay system because such a large proportion of employees are so dissatisfied with the merit pay increases they received.

Supervisor Decision Rules for Pay Raises

Earlier employee opinions indicate that there is considerable dissatisfaction with their last pay raises. The responses also indicate that employees do not feel their last performance evaluation reflected their true performance level. It is therefore worth exploring what criteria employees felt their supervisors used in making pay increase decisions. Question 11 in Table 5 poses this issue to employees. The results in Table 5 are surprising, considering that employees are so dissatisfied with their performance appraisals an pay increases. Respondents were asked to rank which factors were most important for determining pay increases (the smaller the number, the higher the ranking). The data suggest that employees do believe that supervisors used performance as the most important criterion in making pay increase recommendations.

Employees' Criteria for Pay Increases

One of the most important questions that needs to be answered when auditing merit pay systems is the following: "Do employees want pay to be based on individual merit?" Unfortunately, obtaining the answer to such a question is not easy because to disagree with the concept of merit is about as popular as disagreeing with motherhood and apple pie. Therefore, the method used was to ask a series of other questions, which appear in Table 6 along with employee responses. Questions 12 and 13 in Table 6 ask if all employees should get the same pay increase. Most employees strongly disagree with this statement. Questions 14 and 15 in Table 6 ask employees if they would like to have pay increases based on seniority. Again, the data indicate there is strong disagreement with using seniority for granting pay increases. Further, employees believe that supervisors use performance to make pay increase decisions (Table 5, Question 11). However, they apparently think the supervisors' evaluations are biased because they do not agree that their performance is reflected in their performance evaluation (Table 1, Question 2; Table 2, Question 3) or their merit pay increases (Table 4, Questions 6–8). These data suggest the need to train supervisors in performance evaluation and the need to better articulate how the merit pay program is administered.

CONCLUSIONS

The employee attitudes reported here suggest some interesting, albeit paradoxical, conclusions. First, employees at this transit authority definitely believe in merit pay as a concept. This attitude is reflected in the fact that they want their performance to be the basis for their pay increases. The strength of this association is also reflected in their rejection of both equal pay raises and seniority as possible pay increase criteria.

Second, these employees for the most part believe that their supervisor used past performance as a criterion for making pay increases. In other words, in the employee's mind it was performance, and not favoritism or other criterion, that their supervisor used in allocating pay increases.

However, this merit pay system is not functioning as effectively as it might because there is extreme dissatisfaction overall with the merit pay system, indicated by the 60 percent who express some degree of dissatisfaction with their merit increase. Several possible causes may be contributing to this dissatisfaction. A most probable cause is that employees disagree with their supervisor's assessment of their performance. This disagreement is reflected in the fact that the supervisor's rating of an employee's performance is frequently not consistent with the employee's own perceptions of his or her performance. It is also reflected in the fact that a sizable group of employees do not think that feedback from their supervisors is adequate. Furthermore, a strong correlation existed between satisfaction with merit increase and satisfaction with performance evaluation ($r = 0.675$, $p < 0.0001$). Thus, although employees believe in the merit pay concept, the merit pay program at this property is breaking down because of what the employees perceive as an inaccurate performance evaluation system.

A second possible explanation for the paradoxical nature of these data is simply that the size of the pay increase was so small that employees did not see it as reflective of their true performance. In any event, employees did not believe that the system rewards their performance. This fact undermines the entire concept of a merit pay system.

Finally, these data suggest that more work needs to go into training supervisors in conducting performance evaluations. The data suggest that supervisors need to do a better job of providing feedback to employees on the quantity and quality of their work. Frequent and accurate feedback allows the employee to know how he or she stands in the eyes of the supervisor at all times. Further, if the employee and supervisor then come to see the employee's performance in the same way,the satisfaction level with the performance evaluation process should increase. Such training will therefore result in a more effective merit pay program that should in turn result in higher employee and transit property productivity.

The results obtained in this research are generalizable to a variety of organizations. The research site involved in this study has a merit pay and performance appraisal system similar to those found in other public and private sector organizations. In fact, the research site was selected to ensure that the merit pay and performance appraisal systems were representative not only of other transit authorities but of industry in general.

Furthermore, numerous researchers have compared public and private sector employees with respect to reward preferences. Nowlin *(20)* compared factors that motivate public and private sector managers and concluded that money is a reward highly valued by both public and private sector managers. Newstrom et al. *(21)* compared reward preferences in a sample of 354 employees from business organizations and a city government. Results indicated that both public and private sector employees attached equal importance to pay as a reward. As such, in general, there is a great deal of similarity in reward preferences among public and private sector employees.

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