



June 13, 2003

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**TO: BOARD OF DIRECTORS**

**THROUGH: ROGER SNOBLE** *RS*  
**CHIEF EXECUTIVE OFFICER**

**FROM: CAROLYN FLOWERS** *CF*  
**EXECUTIVE OFFICER OF ADMINISTRATION**

**SUBJECT: PERFORMANCE BASED COMPENSATION SURVEY  
FOR NON-CONTRACT EMPLOYEES**

### ISSUE

The Executive Management Committee at its January 2001 meeting approved the implementation of the Performance Based Compensation Program (PBC) for all non-contract employees with the provision to return with a report after two years of the program's performance. The action was taken to ascertain the program's fair and equitable compensation and reward system.

### DISCUSSION

An independent survey was established to generate baseline measurements and designed to measure non-contract employees' overall level of satisfaction with the new performance compensation program. The survey was conducted in April 2002 (FY01) and January 2003 (FY02) with results compared respectively.

The process involved Human Resources and Organizational Development & Training departments providing mandatory training to all managers and supervisors in the following areas: (1) the Performance Based Compensation Program; (2) the Performance Appraisal Planning Process; (3) Coaching and Counseling; and (4) the Performance Appraisal Policy. In FY01, the Human Resources Department conducted Brown Bag briefing sessions for employees who were interested in knowing how the new performance based compensation program would be implemented and how the program would impact employees who receive performance reviews.

There is a range of opinions in the Human Resource community about pay for performance systems. The survey of MTA employees reflected similar results (see attachment). The survey results were consistent over both periods and reflect the statistical norm reported in most HR studies concerning employee's perception of these programs.

Although the concept of pay for performance is not new, *Workforce Magazine* has stated that measuring performance is one of the most challenging issues in the area of Human Resources. Fundamentally, performance must be assessed to determine if business needs are being met. Proponents of pay for performance systems indicate these systems offer an effective method for continuing to improve the workforce and for retaining the best people. Janet Wiscombe also stated in an article for *Workforce Magazine* entitled, “*Can Pay for Performance Really Work?*” that it is important to evaluate people on a regular basis so that they know how they are doing so that they can make adjustments.

In an article in *HR Magazine* entitled “*Fixing Performance Management: Wish You Had Already Done It*” by Pat Zingheim and Jay Schuster, the authors provide suggestions for process improvements including performance measurements, evaluating current and best practices, customizing the process to fit an organization, training the raters and ratees and providing communication feedback and coaching. Several of these same themes were identified in the survey comments made by employees regarding MTA’s PBC program. These comments and further assessments of the program by HR offer management an opportunity to make improvements to the existing Performance Based Compensation Program.

### **NEXT STEPS**

Industry-wide, pay for performance systems are continuing to be refined. MTA management has determined that there are modifications and improvements that are required based on the Performance Based Compensation survey results. The focus will be on the individual’s performance within the framework of the supporting the agency’s goals. The performance instrument has been modified to incorporate the goal setting and alignment with the recent implementation of the strategic plan. The revised evaluation instrument focuses on the agency-wide strategic goals and core values that will be communicated and cascaded throughout the agency. The agency is revising its performance appraisal program to include an Individual Performance Plan. Training on the new instrument and performance program will be provided for all managerial/supervisory personnel and employees.

Questions regarding the PBC program should be directed to Marion Colston-Fayyaz at 213/922-2260.

Attachment

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# ADMINISTRATION DEPARTMENT

## Performance Based Compensation

### Survey Results Comparison 2001 & 2002

| <b>STATISTICAL OVERVIEW</b> |             |  |
|-----------------------------|-------------|--|
| <b>2001</b>                 | <b>2002</b> | <b>SURVEYS</b>   |
| 1060                        | 1129        | Non-contract employees issued surveys  |
| 594                         | 535         | Completed surveys returned   |
| 56%                         | 47%         | Percentage return rate   |
| <b>2001</b>                 | <b>2002</b> | <b>FAIRNESS/EQUITY (questions 14 &amp; 18)</b>   |
| 58%                         | 63%         | Employees surveyed agreed their performance evaluation reflected their performance                                       |
| 39%                         | 37%         | Employees surveyed could agree the Performance Based Compensation process was fair and equitable                         |
| <b>2001</b>                 | <b>2002</b> | <b>INSTRUMENT (questions 9, 10, 32)</b>  |
| 61%                         | 66%         | Employees surveyed agreed access to the intranet form was user-friendly  |
| 59%                         | 34%         | Employees surveyed agreed the Performance Based Compensation form was easy to complete                                   |
|                             |             | The satisfaction ratings for the performance appraisal instrument were as follows:                                       |
| 24%                         | 28%         | Satisfied  |
| 46%                         | 52%         | Neutral  |
| 30%                         | 20%         | Not satisfied  |
| <b>2001</b>                 | <b>2002</b> | <b>PERFORMANCE BASED COMPENSATION PROGRAM (questions 34-36)</b>  |
|                             |             | The overall satisfaction rating for the Performance Based Compensation Program was as follows:                           |
| 22%                         | 23%         | Employees surveyed could agree they were satisfied with program  |
| 21%                         | 22%         | Employees surveyed could agree the program accomplished its intended purpose   |
| 17%                         | 16%         | Employees surveyed could agree the program improves employee morale  |
| <b>2001</b>                 | <b>2002</b> | <b>RATING (questions 8 &amp; 33)</b>   |
| 28%                         | 28%         | Employees surveyed changed their initial performance rating  |
|                             |             | Satisfaction ratings for individuals' performance ratings were as follows:   |
| 32%                         | 38%         | Satisfied  |
| 31%                         | 33%         | Neutral  |
| 37%                         | 29%         | Not Satisfied  |
| <b>2001</b>                 | <b>2002</b> | <b>TRAINING (questions 4, 5, 12)</b>   |
| 63%                         | 70%         | Employees surveyed agreed they were given adequate training notification   |
| 57%                         | 65%         | Employees surveyed agreed they had sufficient time to participate in the training  |
| 23%                         | 19%         | Employees surveyed attended either mandatory, coaching & counseling or brown bag Performance Based Compensation training |

The themes identified in the 2001 PBC written comments were almost identical to the themes found in the 2002 PBC written comments. Other comments are shown in *italics*.

### **Equity & Fairness**

- Performance Based Compensation encouraged favoritism
- Forced distribution curve is unfair
- No base increase for top salary range is unfair
- Perceived as more favorable towards managers
- Too subjective/biased
- Bell curve does not work in this process
- Perceived as being inequitable across and between departments

### **Monetary Increase**

- Disagreed with amount of actual increase per ratings
- Unfair to long-term top performers
- Insignificant percentage increase
- Increase does not motivate one to work hard
- Not in line with other agencies
- Lower than inflation
- Not based on cost of living
- Funds not distributed according to size of department
- Pay difference between contract and non-contract
- Budget driven

### **Survey Instrument**

- Poorly designed survey instrument
- Too many questions
- Not user friendly
- Not representative of departmental or individual goals
- No reliable criteria or standards
- *Form is the same (2001 and 2002)*

### **Performance Based Compensation Appraisal Process/Rating**

- Rating changed by upper managers to lower ratings
- No recourse to upgrade rating
- Lack of appeals process
- No base increase for employees at top of salary ranges
- Top – down process
- Changed overall rating w/no explanation
- Rating not consistent with actual employee performance
- Too time consuming; delay in return timeframe
- No feedback available to or from employee
- No feedback to employees prior to final rating distribution approvals

### **Training**

- Training should be for all employees
- Need more notice before training
- Training should include more emphasis on how to set goals
- Better visuals/handouts
- Managers request guidance