



District
Management
Group

MANAGER'S TOOLKIT

How to Design a Performance Pay Program

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This toolkit is designed to assist districts in assessing the fit of key performance pay program design parameters with local district priorities and context in mind.

How to Design a Performance Pay Program

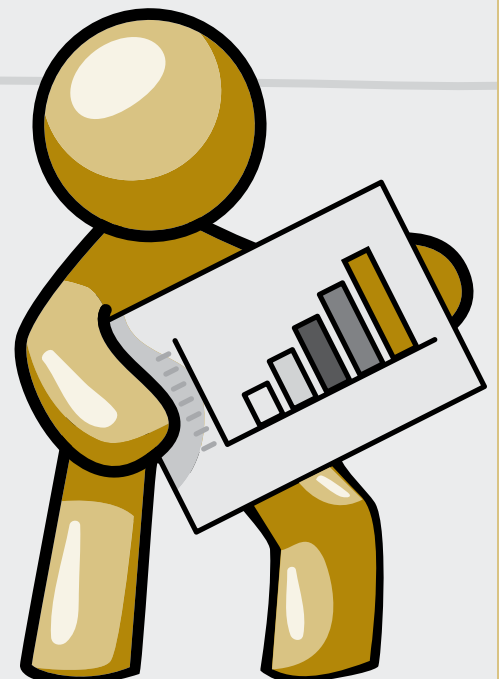
Beginning with alignment toward clear district objectives, successful incentive compensation plans are characterized by a few guiding principals. The integration of these principles into performance pay programs is an important step toward designing a successful program structure and planning for implementation. Based on our work with performance pay programs,

DMC recommends the following:

- Align program design with the organization's strategic objectives and local context
- Simplify the program as much as possible to facilitate broad understanding
- Utilize performance indicators that are objective and measurable
- Create sufficient flexibility in the program to respond to new challenges
- Provide rewards large enough to motivate employees to excel
- Ensure that the program has consistent and sufficient funding

This toolkit is designed to assist districts in assessing the fit of key design parameters with local district priorities and context in mind.

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How to Design a Performance Pay Program

Program design can be distilled to three significant and largely independent design parameters. Based on Susan Moore Johnson and John Papay's basic framework on performance pay design, DMC offers the worksheet below as a means for school districts to evaluate key design parameters and assess their fit with district context.

Who? Why? What?

Who Gets the Award?

Choosing Award Participants

- Which individuals receive financial incentives at the end of a given period?
- Will it be a relative ranking that limits rewards to a certain number or percentage of eligible teachers?
or
- Will it be a standards-based "bar" that can be reached by anyone?

"WHO" Design Concept	Description
Relative Ranking	<ul style="list-style-type: none"> ○ Establishes a rank order treatment of individuals ○ Establishes a cutoff at a predetermined level ○ By definition, limits number of possible awards
Standards-based	<ul style="list-style-type: none"> ○ Establishes a fixed bar for performance ○ By definition, imposes no limit on number of awards
Combination	<ul style="list-style-type: none"> ○ May use both of the above methods by: <ul style="list-style-type: none"> -Mixing vehicles -Elevating relative rankings to county, state

Why is the Award Given?

Performance Pay Defined

- How should we define what performance levels are worthy of financial incentives?
- Should we focus on student achievement only? If so, how do we treat non-tested subject areas?
- Do we do performance evaluations? If so, is our evaluation system robust enough to handle this?

"WHY" Design Concept	Description
Student Achievement only	<ul style="list-style-type: none"> ○ Uses student achievement outcomes to set measures for performance outcomes ○ Includes possible achievement and growth (value-added data) approaches
Professional Evaluation only	<ul style="list-style-type: none"> ○ Uses professional evaluations to set measures for performance outcomes using subjective and objective performance observations
Combination	<ul style="list-style-type: none"> ○ Multiple offerings (e.g. Denver) ○ Career ladder design

What is the Award?




Reward Structure Design: Individual, Shared, or Combination

- At what level should awards be calculated and awarded?
 - Individual -School
 - Program -District
- If awards are student achievement-based, how should we deal with non-tested subject areas at individual or program levels?

"WHAT" Design Concept	Description
Individual Awards only	<ul style="list-style-type: none"> ○ Individual teacher performance only
Group Awards (grade, school, district)	<ul style="list-style-type: none"> ○ Group/shared award only
Combination	<ul style="list-style-type: none"> ○ Combination of individual and group rewards to address different objectives
Bonus Size	<ul style="list-style-type: none"> ○ Determination of how much money will affect behavior sufficiently to achieve desired outcomes
Bonus Frequency	<ul style="list-style-type: none"> ○ Annual ○ In conjunction with testing cycles ○ Other



Why will a performance pay program make a difference in your district?

Pros 	Cons 	Key Questions 	Which is the best for your district?
<ul style="list-style-type: none"> Limits financial exposure Promotes competition 	<ul style="list-style-type: none"> Creates haves/have nots by definition Promotes competition Does not specify a performance hurdle 	<ul style="list-style-type: none"> What is your or your district's bias regarding competition? What percentage of staff should receive an award? 	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
<ul style="list-style-type: none"> Possibility exists for all teachers to receive award Promotes cooperation 	<ul style="list-style-type: none"> Difficult to determine appropriate hurdles Unclear financial exposure and risk 	<ul style="list-style-type: none"> How would you define the hurdle performance rates? 	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
<ul style="list-style-type: none"> Can address multiple objectives and mitigates competitiveness 	<ul style="list-style-type: none"> Increased complexity makes system difficult to understand for teachers 	<ul style="list-style-type: none"> What multiple objectives do you really want to target? 	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
Pros	Cons	Key Questions	Which is the best for your district?
<ul style="list-style-type: none"> Directly ties performance outcomes to financial reward 	<ul style="list-style-type: none"> Growth data is difficult to calculate and interpret, and can be "noisy" over time 	<ul style="list-style-type: none"> Are you concerned with "teaching to the test" or related arguments? Are your systems capable of handling this type of work? 	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
<ul style="list-style-type: none"> Allows non-tested subjects to be rewarded Requires less change to implement for most districts 	<ul style="list-style-type: none"> Not based on (and possibly not correlated with) student achievement outcomes 	<ul style="list-style-type: none"> How robust and objective is your evaluation protocol? Is performance differentiated enough to use for variable compensation? 	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
<ul style="list-style-type: none"> More precise alignment of incentives with desired outcomes 	<ul style="list-style-type: none"> Hard to implement— this is a massive change away from the status quo 	<ul style="list-style-type: none"> What manageable first step can we take? 	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
Pros	Cons	Key Questions	Which is the best for your district?
<ul style="list-style-type: none"> Can promote very targeted objectives 	<ul style="list-style-type: none"> Hard to measure and explain growth effect Data on individual growth effects can be "noisy" 	<ul style="list-style-type: none"> How will this fit with district culture and your objectives? 	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
<ul style="list-style-type: none"> Promote collaboration 	<ul style="list-style-type: none"> Harder to measure group effects Possible "free-rider" problem/moral hazard Allows non-tested subjects to be rewarded 	<ul style="list-style-type: none"> How will this fit with district culture and your objectives? 	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
<ul style="list-style-type: none"> Mitigates competition issues 	<ul style="list-style-type: none"> Can be confusing 	<ul style="list-style-type: none"> How do we preserve clarity on "what really matters"? 	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
<ul style="list-style-type: none"> Larger: increased motivation Smaller: broader applicability 	<ul style="list-style-type: none"> Larger: fewer resources to spread around Smaller: may not motivate 	<ul style="list-style-type: none"> Is there a "magic number"? 	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
		<ul style="list-style-type: none"> How often can we do this? Is annual the right frequency? 	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>

What Other Districts Are Doing...

Districts have implemented a wide variety of design approaches from the available options. While formal research has not yet yielded significant insights regarding one preferred structure, DMC believes that design approaches should be adjusted based on program objectives and district context. As the figure shows below, there is little consistency between the major programs around the country that have been implemented.

Design Parameter	Who?	Why?	What?
Description	Decision rule for which individuals receive award <ul style="list-style-type: none"> Relative-ranking? Standards-based? Combination? 	Definition & design of performance measurement <ul style="list-style-type: none"> Student Achievement? Professional Evaluation? Combination? 	Reward Structure <ul style="list-style-type: none"> Individual or Group?
Houston, TX	<ul style="list-style-type: none"> Relative: ASPIRE I, II, IIIA Standards: ASPIRE IIIB 	<ul style="list-style-type: none"> Student achievement only (value-added growth) 	<ul style="list-style-type: none"> Individual: ASPIRE II Group: ASPIRE I, III
Denver, CO	<ul style="list-style-type: none"> Combination of standards-based and relative 	<ul style="list-style-type: none"> Combination of student achievement and evaluation-based 	<ul style="list-style-type: none"> Combination of individual and group rewards
Douglas County, CO	<ul style="list-style-type: none"> Combination of standards-based and relative 	<ul style="list-style-type: none"> Professional evaluations only 	<ul style="list-style-type: none"> Combination of individual and group rewards Varied timing
Charlotte Mecklenburg, NC	<ul style="list-style-type: none"> All standards-based 	<ul style="list-style-type: none"> Student achievement Combination for retention incentive 	<ul style="list-style-type: none"> Individual: STAR Group: ABC (NC)
Hillsborough County, FL	<ul style="list-style-type: none"> Standards: Local plan Relative: MAP (FL) 	<ul style="list-style-type: none"> Combination of student achievement and evaluation-based 	<ul style="list-style-type: none"> Individual (MAP & local)
Guilford County, NC	<ul style="list-style-type: none"> Relative only 	<ul style="list-style-type: none"> Student achievement only 	<ul style="list-style-type: none"> Individual only
Minneapolis, MN	<ul style="list-style-type: none"> Relative: MnTAP (school), QPA Standards: MnTAP SKR 	<ul style="list-style-type: none"> Student achievement Combination for retention incentive 	<ul style="list-style-type: none"> Group: MnTAP (school), QPA Individual: MnTAP SKR

In Colorado, Douglas County’s performance pay plan has superimposed knowledge-, skill-, and group-based performance pay onto the district’s compensation structure. Denver’s ProComp, a program that gained significant national attention, supplanted a single salary schedule granting teachers automatic pay increases based on years of service and educational attainment with a new pay system providing teachers with multiple opportunities to augment their compensation. The district’s ProComp compensation program encompasses four separate components: (1) Student Growth, (2) Professional Evaluation, (3) Knowledge and Skills, and (4) Market Incentives. Houston Independent School District’s ASPIRE Program focuses entirely on student achievement and incorporates both an individual and group reward structure. The story of Houston is addressed in the DMC Case Study herein.

Source: S.M. Johnson and J.P. Papay, *Redesigning Teacher Pay* (Economic Policy Institute 2009), and DMC Research and Analysis.