

Performance measures and worker productivity

Choosing the right performance measures can inform and improve decision-making in policy and management

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ELEVATOR PITCH

Measuring workers' productivity is important for public policy and private-sector decision-making. Due to a lack of reliable methods to determine workers' productivity, firms often use specific performance measures, such as how different incentives affect employees' behavior. The public sector also uses these measures to monitor and evaluate personnel, such as teachers. To select the right performance measures, and as a result design better employment contracts and improve productivity, policymakers and managers need to understand the advantages and disadvantages of the available metrics.

KEY FINDINGS

Pros

- ⊕ Performance measures provide detailed information about worker productivity.
- ⊕ To inform about a wide range of questions, such as how incentives work, how peer effects operate, or how workers accumulate human capital, performance measures can be useful.
- ⊕ Reliable performance measures are needed to design appropriate contracts and improve productivity.
- ⊕ Performance measures are increasingly available for low- and high-skilled jobs, as well as for jobs in the private and public sectors.

Cons

- ⊖ There is no universal definition of worker productivity; measures of worker productivity typically depend on the setting in which they are collected.
- ⊖ Worker productivity is usually multidimensional, but it is generally not possible to measure all dimensions.
- ⊖ If the wrong performance measures are chosen to evaluate workers, distortions can create negative effects on worker productivity.
- ⊖ For settings in which performance is only observable at the team level, it is not always possible to estimate individual contributions to team productivity.

AUTHOR'S MAIN MESSAGE

Measures of worker productivity can give important insights into how workers perform and how workplaces should be organized. Direct measures of productivity are used to study a range of questions, such as the effects of incentives on workers' productivity, the influence of peers on behavior, or the accumulation of human capital on the job. For these and related questions, it is important to select appropriate performance measures. This choice is critical, as relying on inappropriate measures can lead to the design of inefficient incentives, poor employment contracts, or wrong policy conclusions.

