

## Multitasking at work: Do firms get what they pay for?

Rewarding only one dimension of performance may result in employees ignoring other dimensions

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### ELEVATOR PITCH

To align employees' interests with the firm's goals, employers often use performance-based pay, but designing such a compensation plan is challenging because performance is typically multifaceted. For example, a sales employee should be incentivized to sell the company's product, but a focus on current sales without rewarding the salespeople according to the quality of the product and/or customer service may result in fewer future sales. To solve this problem, firms often increase the number of metrics by which they evaluate their employees, but complex compensation plans may be difficult for employees to understand.

### KEY FINDINGS

#### Pros

- + Performance-based pay can increase productivity.
- + In response to additional performance metrics employees adjust their behavior because they are no longer incentivized to focus on only a few measurable and rewarded tasks.
- + Nonlinear incentive plans attract highly motivated employees.
- + With nonlinear incentive plans, less productive employees are motivated to match the productivity levels of their more productive peers.
- + Experienced staff will be more likely to understand how to respond to multiple performance metrics.

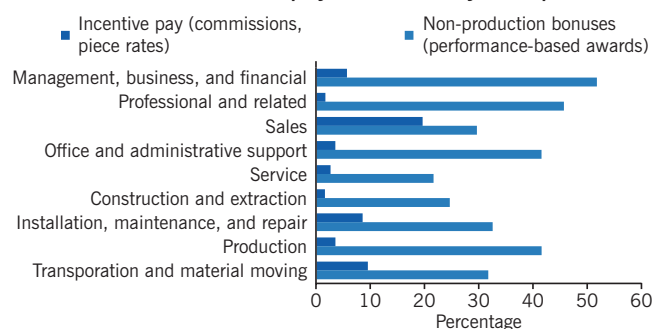
#### Cons

- In the absence of a broad range of metrics, employees will only focus on those tasks that are rewarded at the expense of other tasks that may also be important to the firm.
- Employees can attempt to "game" the system in pursuit of rewards, which can be costly to the firm.
- Adding more performance metrics may make the reward system too complicated for employees to understand.
- When subjective performance evaluations are used to reward hard-to-measure tasks, the firm is likely to incur significant costs managing this process.
- When multiple performance metrics are used, firms incur costs in the process of determining the appropriate weight for each metric.

### AUTHOR'S MAIN MESSAGE

Pay-for-performance plans should reward all dimensions of an employee's performance. If the firm only measures and rewards a subset of dimensions, employees will devote their efforts to those that are rewarded and ignore the others. This "multitasking" problem is more likely to arise in "knowledge jobs," which place a heavier emphasis on "non-routine" problem-solving tasks (e.g. managers, software engineers, lawyers, physicians, and academics). However, as firms design more comprehensive compensation plans, training programs will likely be necessary to help employees understand the metrics and how their behaviors can influence them.

#### Performance-related pay in the US by occupation



Source: Gittleman, M., and B. Pierce. "How prevalent is performance-related pay in the United States? Current incidence and recent trends." *National Institute Economic Review* 226:1 (2013); Table 1.