

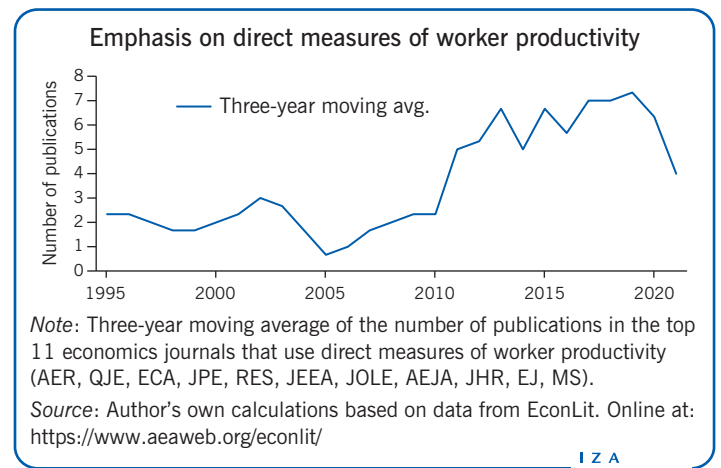
Performance measures and worker productivity

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

Keywords: worker productivity, performance measures, human resource management

ELEVATOR PITCH

Measuring workers' productivity is important for public policy and private-sector decision-making. Due to the lack of a general measure that captures workers' productivity, firms often use one- or multi-dimensional performance measures, which can be used, for example, to analyze how different incentive systems affect workers' behavior. The public sector itself also uses measures to monitor and evaluate personnel, such as teachers. Policymakers and managers need to understand the advantages and disadvantages of the available metrics to select the right performance measures for their purpose.



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.
- + Automatization creates an increasing number of performance metrics across 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, measures of worker performance do not always capture all of its dimensions.
- If policies are based on the wrong performance measures, 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.