Performance measures and incentive plans

It is critical for firms to find effective ways to measure the performance of their employees and to create systems of incentives that spur them to make decisions that increase profit. Yet performance measurement is typically a very difficult task, and economists have yet to fully understand incentive plans. "Performance Measure Properties and Incentive System Design" (*Industrial Relations*, April 2009, pp. 237–64), a recent article by Michael J. Gibbs, Kenneth A. Merchant, Wim A. Van Der Stede, and Mark E. Vargus, builds upon earlier work on this subject by constructing and analyzing a data set on the basis of survey responses from managers in auto dealerships.

The authors analyze four properties of performance measures: controllable risk, uncontrollable risk, distortion, and manipulability. Controllable risk is uncertainty to which the agent can react, whereas uncontrollable risk is uncertainty to which the agent is not able to react. Distortion occurs when an incentive encourages employees to misallocate their efforts—for instance, to focus on short-term rather than long-term goals. When an employee "works the system" and increases his or her reward from an incentive plan at the expense of the firm, the employee has taken advantage of the manipulability of the incentive plan. Most auto dealerships were found to use more than one type of performance measure. When determining the primary type of bonus to offer employees, firms typically placed the most weight on the performance measure that was the least flawed in terms of controllable and uncontrollable risk, distortion, and manipulability. The paper's authors contend that when firms implement additional bonuses, they do so in part to adjust for weaknesses in the primary measure of performance. The more that a performance measure is flawed, the less weight the measure is typically given.

In addition to objective evaluations of employees, the firms in the study generally had supervisors conduct subjective evaluations, allowing them to give implicit rewards or punishments that adjusted for problems with the numerical results of their subordinates' evaluations. For example, if it is determined that a sluggish national economy is the only culprit for reduced profits in a particular business unit, an employee in that unit may still receive a promotion. In contrast, an employee could be dismissed if it is determined that he or she fraudulently inflated profits. Overall, the article supports two main conclusions: that properties of performance measures are important to the balancing and strength of incentives, and that incentive plans are systems of implicit and explicit instruments that are meant to work together. ☐

Changes to the text sections of news releases

Starting in summer 2009, the Bureau of Labor Statistics (BLS) will introduce changes to the textual portion of some of its news releases. The objective is to publish releases with a tighter analytical focus, improving their utility to our data users. There will be no change in the data or technical documentation contained in the releases, only in the textual discussion about the data. The textual changes for some of the releases will be fairly modest, while for others the analytical content may be more noticeably different.

BLS will post examples of the revamped releases on its Web site prior to the first official publication for each. These changes are intended to improve and refresh one of the Bureau's primary communications vehicles, whose readers include journalists, analysts, researchers and data users of all types. Comments or questions on this activity may be directed to the BLS Press Office: (202) 691–5902 or **pressoffice@bls.gov**.