Superintendent Performance Incentive Program

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Performance Pay vs. Incentive Pay

Performance Incentive programs and Performance Pay programs are not the same. While both use increased compensation to motivate high performance, the timing of the payment and its effect on base pay differ. Performance pay is a reward for outstanding past performance. The decision to award performance pay and the amount of money available to fund performance pay increases is usually not known far in advance. Performance pay is usually added to base pay, permanently increasing it.

Performance Incentive programs are offered to employees before actual performance and are usually one-time payments that do not permanently affect the base salary. Incentives are tied directly to employee, building, or district performance goals. Incentive programs can be short or long term.

Performance Incentive Program Characteristics

Short term programs (usually a year in length) focus on targeted workplace outcomes. Workplace outcomes can be measured in terms of improvements on state student assessment scores, SAT/ACT scores, graduation rates, student participation in activities, customer (i.e. students, parents, community) satisfaction surveys, or operational issues such as submitting quarterly financial reports and correcting any deficiencies in the audit recommendations. The possibilities are endless. Long-term incentives tend to focus employee efforts on long-term organizational goals and objectives.

Typical performance incentive systems set 10% to 20% of base salary as the performance incentive. Specific measurable goals are established and a dollar amount or weighting is assigned for each goal. The “weighting” of the goals should reflect the district’s organizational priorities. The specific parameters of the goals are quite important. Goals should reflect district plans incorporated into the Consolidated District Improvement Plan (CDIP) and the School Improvement Plans (SIP) and the annual district/superintendent goals.

There are generally two options for developing a performance incentive program. First, the performance incentive may be a bonus program where a one-time payment over-and-above the base salary. Second, a pay-at-risk program may incorporate a portion of the base salary into the actual incentive program. For example, a pay-at-risk program may start with 95% of the base salary with a maximum performance incentive of 120% of base salary. Thus 5% of the person’s salary is “at-risk” if targeted work outcomes are not met. This system allows for a bonus payment when the objective is exceeded. The board

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1 Incentive Performance Programs for administrators, on the other hand, should reflect building goals. This performance incentive program can be easily adapted for building principles.
needs to determine whether to use a pay-at-risk format or a bonus program. For an initial program, I would recommend the simplicity of the bonus program format.

The program should be simple and easy to understand. One of the reasons that incentive programs fail in the private sector is that they are not clearly understood by the participants. Since this program is new to the district, three to five objectives should help keep the focus on the issues that matter most. The setting of the actual objectives should be viewed by the board and the superintendent as both attainable and objectively measurable.

**Setting Goals and Objectives**

There is the possibility that all objectives have been set unrealistically high or are low. Care should be taken in setting the actual objectives. For example, when setting an objective on student achievement based on the percent of students meeting or exceeding standards, the history of grade performance in the subject areas should be examined. One way of setting the objective is to do a simple trend analysis and then set the goal slightly higher.

Another method of controlling this situation is to require that any objective have a minimum achievement level. For example, in an objective for a 10% increase in students meeting or exceeding standards there would have to be at least a 7.5% increase in order to qualify for 75% of the bonus amount. An increase of less than 7.5% would not yield a payout bonus. If there is an increase of 12% or more, then the maximum payout would be limited to 120% of the bonus amount.

Specific objectives for the performance incentive program need to be tailored to your district with participation of the superintendent. We also suggest consultation with OSBA for assistance in developing program specifics. The setting of specific objectives should be part of a collaborative process with the board and the superintendent. Particularly in the early years of the program it is important to review the goal setting process results to motivate sustained performance. Board members should receive inservice training on these processes as well as the workings of performance incentive programs.

A performance incentive program is a legal contract that is binding but some flexibility for yearly goal review and renewal. Both the board and the superintendent need to understand the relationship between incentive measures and outside forces necessitating changes in direction. Goals and objectives may change from year-to-year depending upon new legislation, changes in the revenue stream, or a changing student population, and other external forces. These changes should be expected by the parties.

**Example Goals & Objectives**

For purposes of illustration, here are some examples of a *menu* of possible goals/objectives.

1. **Student Achievement: Progress towards meeting standards**
   
   A. Based on the 1999-00 statewide assessment the district will increase the percent of 10\textsuperscript{th} grade students meeting or exceeding mathematics standards from 32.2% in 1998-99 to 42.2%.

   B. Based on the 1999-00 statewide assessment the district will increase the percent of
Despite the objective measures in the Performance Incentive program, sometimes there is a provision for a subjective incentive bonus that may be awarded at the sole discretion of the board. This type of goal links an exceptional rating on the superintendent's annual performance evaluation to a performance incentive payout.

2. **Student Attendance**

   A. The 1999-00 student dropout rate will be decreased by ____% over the calculated 1998-99 drop out rate as reported to the Oregon Department of Education.

   B. The attendance rate will be increased by ____% over the calculated 1998-99 attendance rate as reported to the Oregon Department of Education.

3. **District Report Card**

   A. No school within the district shall receive a “low performance” or “unacceptable performance” rating from the Oregon Department of Education for 1999-00. There will be no payout if there are any of the above ratings.

4. **Student Achievement: Student activities**

   A. The percent of students participating in activities (e.g. organized sports; clubs such as drama, debate, chorale, etc.; extra-curricular academic programs) will be increased by ____% in 1999-00 over the percent of students participating for 1998-99.

   B. The percent of students completing advanced placement courses will be increased by ____% in 1999-00 over students completing courses in 1998-99.

5. **Student Safety**

   A. No “major incidents” as defined in the student handbook will occur for the 1999-00 school year. There will be no payout if there are any incidents.

   B. There will be a ____% reduction in the number of incidents that results in student discipline of suspension or expulsion in 1999-00 over the 1998-99 number of suspensions and expulsions.

6. **Superintendent Evaluation**

   Despite the objective measures in the Performance Incentive program, sometimes there is a provision for a subjective incentive bonus that may be awarded at the sole discretion of the board. This type of goal links an exceptional rating on the superintendent's annual performance evaluation to a performance incentive payout.
A. In the sole discretion and subjective judgment of the board a bonus payout may be given if the superintendent is rated overall as “exceptional” in the 1999-00 annual performance evaluation.

7. Satisfaction Surveys

A. Survey yearly the satisfaction of all stakeholders in the district (students, parents, employees and community) who participate in and benefit from the educational process. The aggregate percent of satisfaction with the district will be increased by ___% in 1999-00 over the 1998-99 survey.

8. Financial Management

A. The board will receive at least quarterly financial reports showing the following data:

1. Actual year-to-date revenue and expenditures.
2. Forecast indicating expected revenue and expenditures through year end.
3. Forecasts anticipating fund balance at year end.
4. State School Fund estimates that track to current student membership.

B. Expenditures are within appropriations adopted by the board as confirmed through the audit.

C. Auditors suggestions/comments in their "letter to management" are resolved within 90 days of receipt of the letter.

Payout Determinations

Performance incentive systems usually set 10% to 20% of base salary as the performance incentive. Once specific measurable goals are established, a dollar amount or weighting is assigned for each goal/objective. The “weighting” of the goals should reflect the district’s organizational priorities.

Assigning a monetary amount to the objectives establishes the payout weighting ($1,000, for example). With a 75% minimum and a 120% maximum the range of the bonus would be from $750 to $1,200 per objective. For an initial program three to five objectives are recommended. Particularly important objectives could receive a greater “weight” than other goals, e.g. $1,500 to $2,400 per objective for one objective and $750 to $1,200 for other objectives.

Cost of Living Adjustments

A final determination that the board needs to consider is the issue of cost-of-living adjustments (COLA) to the superintendent’s salary. There are two basic options: (1) either add a COLA to the base salary and run the bonus program on top of the base salary; or (2) let the bonus program stand alone without a COLA. There are, of course advantages and disadvantages with both approaches. The first option’s major drawback is cost. Generally, COLAs do not drive behavior or motivate performance.
Unfortunately, they can create an expectation of entitlement irrespective of market position or job scope. Most private sector programs incorporate COLA within the performance incentive program.

**Help in Designing Performance Incentive or Performance Pay Programs**

OSBA can assist the board in developing and negotiating a performance incentive pay program with the superintendent. Questions should be directed to Ron Wilson at OSBA (1-800-578-6722) or rwilson@osba.org

**Examples of Superintendent Performance Incentive Program Payout Calculations:**

**Objective #1:** Based on the 1999-00 statewide assessment the district will increase the percent of 10th grade students meeting or exceeding mathematics standards from 32.2% in 1998-99 to 42.2%.

**Objective #2:** The percent of students participating in activities (e.g. organized sports; clubs such as drama, debate, chorale, etc.; extra-curricular academic programs) will be increased by 10% in 1999-00 over the percent of students participating in 1998-99 (40%).

**Objective #3:** Based on the 1999-00 statewide assessment the district will increase the percent of 10th grade students meeting or exceeding reading standards from 38.3% in 1998-99 to 45%.

Base Salary: $70,000

Payout per objective: $1,000

Range of goal payout: $750 to $1,200 per goal

Minimum achievement level: 75% of goal:

Goal #1: A 75% increase is the minimum needed to receive any payout, i.e. an increase from 32.2% to 39.7% (distance to goal = 10%; calculation is: .75 x 10% plus 32.2%).

Goal #2: A 75% increase is the minimum needed to receive any payout, i.e. an increase from 40% to 47.5% (distance to goal = 10%; calculation is: 10% x .75 plus 40%).

Goal #3: A 75% increase is the minimum needed to receive any payout, i.e. an increase from 38.3% to 43.3% (distance to goal = 6.7%; calculation is: 6.7% x .75 plus 38.3%).

Maximum achievement level: 120% of goal

Goal #1: The maximum payout will be 120% of the goal or an increase from 32.2% to 44.2% (distance to goal = 10%; calculation is: 10% x 1.2 plus 32.3%).

Goal #2: The maximum payout will be 120% of the goal or an increase from 40% to 52% (distance to goal = 10%; calculation is: 10% x 1.2 plus 40%).

Goal #3: The maximum payout will be 120% of the goal or an increase from 38.3% to 46.3% (distance to goal = 6.7%; calculation is: 6.7% x 1.2 plus 38.3%).
Sample performance:

Goal #1: 40% of 10th grade students met or exceeded mathematics standards.
Goal #2: 53% of students participating in activities (e.g. organized sports; clubs such as drama, debate, chorale, etc.; extra-curricular academic programs).
Goal #3: 41% of 10th grade students met or exceeded reading standards.

Goal payout based on sample performance above:

Goal #1: $780 (calculation: 40% - 32.2% = 7.8%; 7.8/10 = 78%; .78 x $1000 = $780)
Goal #2: $1,200 (calculation: 53% > maximum payout of 52%; 1.2 x $1,000 = $1,200)
Goal #3: $0 (calculation: 41% < minimum payout of 43.3%; no payout)

$1,980 Performance Incentive Program total payout
$70,000 Superintendent base salary
$71,980 Total annual salary