

REWARDING THE BEST – TURNING AROUND THE WORST

PAY IS ONLY ONE ASPECT

The issue of performance-based reward and recognition has long been a contentious one in public service employment. Many have considered performance reward only in the context of performance pay and debate rages over whether performance pay creates an overly competitive work environment. The research literature stresses that what is valued varies for individuals in differing circumstances and at varying stages in their life. It is unanimous, however, in stating that it is feedback and recognition that motivates rather than money per se.

Survey evidence points to a low correlation between performance and performance pay. It has even been claimed that for tasks requiring intellectual thought and creativity, the prospect of a performance pay assessment has a detrimental effect on the quality and scope of the outcome.

Studies in OECD countries have shown that most performance pay schemes for public sector managers do not have a strong perceived link between performance and pay, and do not have rewards which are patently equitable or large enough to motivate.

However, financial and other awards for excellent performance are increasingly employed within the public service. Performance-related pay may be the most contentious of the approaches, but has been widely adopted. Public servants, like all other employees, require recognition of their achievements to maintain their motivation in a demanding and fast-changing environment.

Performance awards have become a tool in the move away from the static, reactive notion of salary administration towards a more dynamic, strategic approach to rewards management. Bureaucratic payment systems, where people doing the same work are paid the same, are being replaced by more flexible and personalised reward structures which specifically set out to reward an individual's contribution.

Performance-related pay raises some particular risks:

- *Short-termism.* There is little evidence that extra payments do improve overall performance. Most motivational theories stress intrinsic motivation (i.e. the job itself) rather than extrinsic motivation (money and benefits). Performance-related pay schemes must avoid the risk that employers' long-

term targets will be replaced by short-term responses which trigger the rewards.

- *Inappropriate targets.* In setting explicit and well-defined targets, units and departments must avoid the risk of squeezing out broad public interest considerations which are less amenable to target-setting.
- *Weak methodologies.* Performance-related pay can be a contentious development and may be subject to some resistance within the public service. If it is to be credible and sustainable, it must avoid any risk of serious challenge to the performance appraisal methodology which underpins it.

OTHER FORMS OF RECOGNITION

Non-financial performance awards honour and reward public servants who have shown a willingness to make an extra effort in carrying out their duties or who have distinguished themselves in serving the public.

In the South African Public Service, the following performance-based compensation systems have been introduced and are currently utilised to grant special recognition to personnel who have distinguished themselves from their peers through sustained above-average work performance. This is expected to stimulate the initiative of personnel and to encourage them to be more efficient and effective. Components are:

Merit award system – applicable to all public servants. A cash amount, calculated at either 18% or 10% of basic annual salary, depending on the evaluation of results, can be made to an individual.

Special recognition by way of either cash payments or commendations can be granted to personnel for suggestions, inventions improvements, etc.

Department-specific award system where awards, bonuses or allowances may be granted to persons of exceptional ability, or to those who possess special qualifications utilised to the benefit of the employer and those who have rendered sustained meritorious service over a long period.

Introducing such awards requires a clear policy statement indicating the intention to recognise particularly meritorious contributions, the range of awards to be provided, and the means by which outstanding contributions are to be identified, including the development of performance appraisal systems.

In Canada the idea of using performance incentives was put forward in December 1990 as a part of Public Service 2000. The Government proposed to phase out performance pay and replace it with performance awards, to be given at the discretion of Deputies.

Departmental awards

Long Service Awards for significant years of service;

Merit Award to individuals or groups who have significantly exceeded what has been expected of them in their jobs – a certificate and a cash award of up to \$5,000 (up to \$10,000 for groups);

Special Awards programmes can be developed by individual agencies – non-monetary;

Suggestion Awards certificate and up to \$15,000 in cash (the Executive Group is not eligible for cash awards);

Corporate Awards

Awards of Excellence plaques for the best departmental Suggestion and Merit awards;

Outstanding Achievement Awards to no more than five senior officials every year – to recognise outstanding career accomplishments, distinguished service of national or international significance, and sustained commitment to quality service to the public. Presentation of a citation by the Governor General and the Prime Minister, a Canadian work of art and gold pin;

Senior Officer Retirement Certificates presented by the Governor General every year.

Non-financial awards may be at departmental level or service-wide and can cover groups or individuals only. The key to their credibility is that they are associated with recognition from the highest levels of the public service.

IMPLEMENTATION

Strategies for introducing financial awards, including performance-related pay, require:

- a determination to challenge the perceived right to automatic annual pay increases, irrespective of performance;
- a comprehensive dialogue with staff associations and other representative bodies;

- a full explanation to all affected staff; and
- a sound, tested and credible system for performance appraisal.

Performance pay is that part of remuneration to an individual which is linked to agency, group or individual performance. Main types include merit pay, pay for skills acquisition and one-off bonuses.

In 1994, the State Government of Victoria in Australia broadbanded its non-executive structure. The structure now comprises only five levels, with overlapping pay bands and the work-value level of each band set at the base. This allows for performance-based increases to be made to salary. There is also the capacity to pay a bonus (up to 15% as a one-off payment) for exceptional performance in particular circumstances – and to be reported in the organisation’s Annual Report.

Merit pay schemes link base salary increases to performance. In the most simple form of merit pay, the anticipated annual increment within a pay band becomes available only if performance is satisfactory and accelerated progression is available for outstanding performance.

Skill-based pay is used where the acquisition of particular skills by employees is an important issue for the organisation. Employees move through a range of grades on the basis of the demonstration of acquisition of certain pre-defined skills.

Performance pay schemes include payment of one-off bonuses in a range of configurations. The type of schemes which are seen as most successful in public sector environments are those which create many winners and few losers. Those seen as most successful, provide for performance bonuses for the whole organisation in a successful year, together with additional bonuses for successful teams, divisions and individuals.

The New Remuneration System came into effect on 1 January 1992 in Malaysia. Under this system, consideration for promotion, salary increments, training and placement of government officers is based on the officer's performance on the job and contribution towards the organisation and the civil service.

A significant aspect of the restructuring of the civil service was the re-classification of 574 schemes of service into 19 service classifications. These, in turn, were divided into three service groups: top management, management and professional, and support group.

The re-classification significantly reduced the number of grades in the public sector pay systems and consequently the civil service has a flatter organisation structure. A performance-related system was made possible through the introduction of the matrix salary schedule in which the pay increase of a civil servant is related to his or her job performance.

Panels, formed under each government agency, review job performance and decide on one of the four possible types of salary movements or increments:

- a. static (no increment);
- b. horizontal (normal, one increment);
- c. vertical (merit increment, ranging from greater than one to double the normal increment); and
- d. diagonal (merit increment, which ranges from double to triple increment).

The Government of Malaysia places great emphasis on giving due recognition to and expressing appreciation of civil servants. This appreciation is important to provide motivation to civil servants to improve their performance in line with the aim of providing quality services. Various other measures have been implemented in this area, among which is the Public Service Innovation Awards which recognises individuals for ideas to improve the quality of public service. A civil servant who has successfully introduced an innovation in the service stands to win a cash award of RM 1,000 together with a plaque inscribed "Public Service Innovation Award for the Year ..."

Another important measure is the presentation of Public Service Excellent Service Awards to individuals who have rendered services exceeding expectations and the normal responsibilities of the job. Such excellent services are examples to be followed and act as catalysts to diligence and creativity among other civil servants. The winner of the Excellent Service Award receives a certificate of excellent service, a souvenir of value not exceeding RM 300, bonus equivalent to a month's salary, and seven days' unrecorded leave with full pay. The name and photograph of the winner is displayed in the office at a strategic location or an area frequented by the public or visitors.

NECESSARY FOUNDATIONS OF PERFORMANCE-RELATED PAYMENTS

The following questions should be explored when examining the possible introduction of performance pay:

- Could generic standards for similar groups of staff be developed, particularly for lower classification levels?
- Is there equity in the amount and type of work allocated and targets set?
- Is there a moderation system to compare ratings and recommendations for performance pay allocation made by different managers within the same organisation?
- Could performance pay act as a disincentive if the actual performance pay received by the majority is less than they expected?
- Could the system diminish teamwork and co-operation?
- Could other incentives be used as effectively at no cost or less cost?
- Is there a risk that the performance pay or bonuses will reward staff for performing their usual work to a usual standard?
- Is the system supported by clear and motivating communication with staff?
- Does the system have an inbuilt or agreed review mechanism?

The New Performance Appraisal System for the Public Service of Malaysia utilises a Countersigning Officer approach, as well as establishing Co-ordination Panels on Performance Appraisal and Salary Progression to ensure fair and just appraisals.

In his 1993/94 Report on 'Pay for Performance', the Australian Auditor-General noted in his key findings that:

"There is an urgent need for the PSC and DIR to make a clear statement on whether performance pay is to be used as a reward for performance above normal job requirements or as recognition for the achievement of an officer's normal job requirements", and

"The scheme is costly in administrative terms – \$52m for the initial cycle. However, a significant number of agencies did not expect any improvement against the majority of the objectives for performance appraisal and pay".

Remember that performance pay is an 'add-on'. The planning, efficiency and communication benefits of the system should be fully developed and non-pay-based reward and recognition schemes should be fully established before performance pay is considered. Some public service employers are

getting into difficulty by allowing performance pay to become a bargaining point in industrial negotiations and subsequently an entitlement rather than a reward for performance.

A CONTINUING DEBATE

The question of performance-related pay in the public service will not go away. In settings where it has not been introduced it will remain a source of continuing speculation. Where it has been introduced, it requires constant attention and adjustment. Appendix C provides a synopsis of a 1996 review of performance assessment and reward in the Victoria Public Service, Australia. It shows the continuing discussion that this issue generates.

In 1990, the *Australian* Government was considering introducing performance-related pay into the Senior Executive Service. However, a Senate Standing Committee concluded "(we) are far from convinced that it is desirable to introduce performance-related pay at all" and suggested a thorough cost-benefit analysis, piloting of various appraisal systems, and ascertaining staff acceptance of performance-related pay prior to implementation.

Performance-related pay has been introduced for the top three levels of the *Maltese* Civil Service, linking this to the notion of a three-year "Performance Contract". It is based on the assumptions of fairness and consistency, pay for performance, linking of individual and organisational objectives, participative leadership, and openness.

A Flexible Wage System was introduced into the whole *Singapore* economy in 1986 to attempt to overcome the contradictory pressures of the need for flexibility versus the need for security/stability of earnings. This was extended into the public sector in 1988 whereby variable payments could be made to civil servants depending on the performance in the economy. Additionally, the Flexible Wage System sets a guideline maximum of 20 per cent for the variable component of reward.

In the *U.K.*, the 1994 White Paper, *Continuity and Change*, proposed an extension to existing delegated pay and grading arrangements in order to establish a clear link between pay and performance. By 1996, responsibility for all staff below senior levels will be passed to individual departments and agencies. All pay increases are now made through performance-related pay systems.

TURNING AROUND THE WORST

The objective-setting and progress review processes of performance management provide managers with an excellent opportunity to bring under-performers up to organisational standards.

Goals and targets for the year are developed in agreement during the work plan development phase of performance management ensuring that there is a clear understanding of what must be done and the standard expected.

Progress reviews should ideally occur quarterly and provide the opportunity for any performance problems to be identified, causes explored and strategies for resolution developed.

If at the end of three progress reviews a problem still exists at the annual review, the manager, while giving a performance rating of unsatisfactory, should attempt to explore underlying causes. The manager might seek the assistance of experienced personnel experts in the organisation or referral of the employee to a professional counselling service. The full confidentiality of the performance management process should be maintained during these discussions.

If underlying causes are workplace-related, the manager should develop with the employee a Performance Improvement Plan. This plan should document agreed improvements, strategies to achieve improvement and dates for review. The Performance Improvement Plan should form part of the new work plan for the employee. The manager's manager or a personnel expert should take part in reviews of the Performance Improvement Plan. If, after six months of implementation of the Plan, performance is still unsatisfactory, consideration should be given to other remedial actions. These will depend on the nature of the performance problem, but include such actions as transferring the employee to another location, regressing the employee to a lower grade or commencing disciplinary action.

Details of strategies for dealing with unsatisfactory performance should be included in the appraisal guidelines.

Under-performance can be minimised through three features of the performance management system:

- developing a training plan in tandem with the work plan for each individual which ensures that the employee has the skills to complete the expected tasks;
- training individuals to negotiate realistic work plans;
- regular consultation, discussion and feedback sessions.

Formal Review Procedure used in the United Kingdom Tax Office to manage staff who demonstrate unsatisfactory attendance or performance

