Appraisal, Pay and Rewards

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Introduction

WHEN I WAS Queensland Premier from 1989 to 1996, the government was very keen on developing and performing the State’s public service. Our party had been in Opposition for 32 years. We followed an agenda based very broadly on “new public management” but, for important reasons, we balked at introducing a comprehensive system of performance appraisal and performance based pay.

This short paper will explain why.

Managing the performance of employees is a key challenge facing the public sector in Australia.

Performance management is intended to improve the overall performance of an agency by encouraging employees to achieve objectives that are critical to the furtherance of the organization’s strategic direction (Marshall in Turberville and Barett 1999:3).

This paper will examine the use of appraisal and performance pay mechanisms to motivate public servants and raise the standard of public management. These methods come to us from the private sector. Governments in Australia and throughout the Organization for Economic Cooperation and Development (OECD) have attempted to utilize them, first for senior managers, and then more widely. I will argue that the implementation of performance pay program has not been successful, as they have been costly and difficult to operate fairly due to the inherent difficulties associated with appraising the contribution of individuals to public sector productivity. In short, while performance pay is a worthwhile private sector initiative, it has not been successfully implemented in the public sector. The reason is not lack of good faith or ability, but the poor fit between private and public sector objectives. If fails to take into account the specific nature of public work, principles of equity and fairness, and the different, non-monetary motivations of public officials. This paper, thus, presents a skeptical point of view on the merits of performance pay in government. I will first give the background and rationale for performance appraisal and pay, then talk briefly about the Australian experience, before outlining some alternative strategies for motivating public servants and encouraging best practice.

Background

Appraisal and remuneration issues go to the heart of the “new public management” thrust for efficiency and effectiveness, emphasizing individual choice, performance and competition (Turberville and Barrett, 1999:2).
Performance appraisal in the APS aims to “link individual performance to corporate goals, improve communication between senior officers and their superior and identify senior officers’ training needs” (O’Donnell 1998:30).

It “is the process of identifying, evaluating and developing the work performance of employees in the organization, so that organizational goals and objectives are effectively achieved while, at the same time, benefiting employees in terms of recognition, receiving feedback, catering for work needs and offering career guidance” (Landsbury in Turberville and Barrett 1999:4).

The key element of appraisal is feedback. However managers are often reluctant to criticize their staff, and are unable to evaluate individual contributions to a team’s outcome. Feedback has been described by one author as ‘a crucial stimulus that effects motivation and performance since behavior that is rewarded (eliciting positive feedback) tends to be repeated, while behavior that is not rewarded (eliciting negative, irrelevant or no feedback) tends not to be repeated’ (Gomez-Mejia in O’Donnell 1998: 31). The aim is to systematically improve the quality of an individual’s output through feedback.

Appraisal also provides the basis for determining performance based, or performance related pay (PBP or PRP).

The rationale behind performance based pay schemes, and their appeal for politicians and advocates of public sector reform, lies in the unambiguous assertion that individual public servants will be motivated to work harder where their pay is linked to performance (O’Donnel 1998: 28).

Performance related pay is based on an underlying view of motivation which suggests that employee performance is improved through the establishment of a “clear” link between effort, as formalized and measured through specified, individual criteria or targets, and reward (Kessler and Purcell in O’Donnell 1998: 28-9).

Government expects PRP to “deliver a range of benefits, including: strengthening accountability for performance; strengthening the belief that rewards are linked to performance; forging a closer link between individual job goals and organizational goals; helping to contain salary costs; enhancing job satisfaction and the belief that rewards are distributed fairly; and reducing turnover among high quality staff” (OECD 1993a:83).

A 1993 OECD Report (1993a: 84-5) across participating countries found the following broad characteristics of PRP systems:

- Coverage of schemes is extremely varied;
- Performance pay awards are typically based on an annual appraisal rating on a five-point summary rating scale which, in some cases, may be supplemented by other considerations;
- The most common forms of performance payments are a combination of merit increments and lump-sum bonuses;
- The potential sizes of merit increments and bonuses vary widely across the schemes surveyed but maximum awards payable tend to be greater for bonuses than for merit increments;
The degree of central control and standardization of schemes across different departments and agencies also varies considerably across countries;

Although performance pay schemes have spread rapidly in recent years, their introduction has not always significantly modified traditional public service pay systems.

For PRP programs to be successful, the OECD Report found the following essential elements were required: “significant positive between performance and pay awards and a clear understanding of the relationship on the part of staff; equal rewards for staff who perform at the same level so that rewards are perceived as equitable; and, rewards of sufficient value to motivate the recipient” (OECD, 1993a: 85-6).

Over the last decade, there has been strong support for PRP in OECD countries in line with economic rationalist principles (OECD, 1993a: 83). In Australia, enterprise bargaining has facilitated the experimentation with PRP, at the Federal Government level, first under Labor (1993-1996) and then under the Coalition Government (1996). Salary packaging and a bonus system were conducted for the Senior Executive Services (SES) of the Australian Public Service in 1989 after lengthy negotiations throughout the 1980s. PBP was then instituted in December 1992 after extensive negotiations between government and public sector unions dating back to the 1980s. The performance management system was contained in the 1992-94 Australian Public Service Agreement which aimed to: “improve individual performance against corporate goals; foster employee’s understanding of his/her work responsibilities; enhance communication between managers and employees; identify training and development needs; encourage adaptability and flexibility of officers; provide a basis for awarding performance pay; and facilitate the weeding out of unsatisfactory staff” (Turberville and Barrett, 1999: 8).

The experiment did not last long. By 1994 PBP had been discarded in a number of agencies as a result of votes taken on the continued use of the program. A revised PBP scheme was instituted in the 1995-1996 APS Enterprise Agreement which limited bonuses to senior public servants receiving “superior” or “outstanding” grades (O’Donnell, 1998: 36-7).

After the Coalition’s 1996 Federal election win and the change of government, the Workplace Relations Act of 1996 facilitated more flexible agreement processes which saw the adoption of bonuses, performance pay, and annual increases based on performance (PSMPC, 1998:5-6). That same year also saw the introduction of performance appraisal for Senior Executives and Senior Officers, new ways to recognize and reward valued performance, and improved ways to manage underperformance (PSMPC, 1996:1). The responsible minister, Peter Reith, outlined the rationale for the 1996 reforms when he argued: “The culture of the Australian Public Service does not sufficiently promote high performance or drive innovation, and the important contribution of individual public servants is often overlooked or stifled” (Reith in Turberville and Barrett, 1999: 9-10).
But, in Australia and elsewhere, performance pay has not been the answer. In my home state of Queensland, a review undertaken in 2000 examined the centralized pay structure and found the system lacks the flexibility to accommodate the specific needs of agencies or the ability to differentiate performance. Agencies have been frustrated with the centralized system and its inability to reward outstanding performance or provide disincentives for unsatisfactory performance. But for reasons which I will now examine, the inquiry also uncovered significant problems with PRP in practice. The Report counseled against a widespread program that dealt with junior or middle-ranked officials.

**Difficulties**

There are numerous reasons why the importation of private sector performance management techniques has not been successful in the public sector. Performance agreement and appraisals have been criticized for their subjectivity, and there are inherent difficulties involved in attempting to quantify the effectiveness of an officer in securing a policy outcome. A study in Queensland found “a central problem with the operation of PRP schemes lies with the criteria used for assessing performance. This can be particularly problematic for certain types of work such as policy development and advice where performance indicators can be difficult to define and measure. PRP schemes are more applicable to operations with quantifiable outcomes that can be linked to organizational targets” (DETIR, 2000:37-8).

The process is seen as merely a bureaucratic exercise, with little thought or effort put into proper evaluations.

A whole raft of other problems also needs to be considered. Appraisals reinforce managerial prerogative and create inconsistencies in marking; grades are often moderated by more senior officers removed from the work groups in question.

Performance appraisals can also have a de-motivating effect, for example when officers receive a grade lower than expected. So again we need to come back to the important difference between the management of public and private organizations.

The nature of public sector work makes the valid and reliable measurement of performance difficult (DETIR, 2000:37).

Coupled with the problem of appraisal is the subsequent difficulties associated with performance pay—often a by-product of the appraisal systems examined here. These schemes have generally failed to create a clear relationship between performance and pay.

The Australian experience coincides with that of the OECD. A 1990 Senate Report found the following problems with PRP: it had not worked well overseas; there were important subjectivity and equity issues; there was a failure to promote team work; and a lack of coordination or implementation planning (Turberville and Barrett, 1999: 7).

The central agencies responsible for PRP development were criticized for designing an unworkable mode. Implementation was said to be hurried which meant managers had little understanding of its operation (Turberville and Barrett, 1999: 9).
A subsequent Senate Report (1993) found more problems with performance pay when a committee re-examined the evidence in 1993. It highlighted the following concerns: there is a potential for increased politicization; performance assessments are subjective; performance is often beyond the control of individual staff; and the scheme is divisive, costly and time consuming (In O’Donnell, 1998: 30).

These problems were attributed to teething difficulties associated with the introduction of the policy. But by October 1996, a vote taken amongst managers in the Australian Public Service indicated an overwhelming desire to drop performance pay altogether.

The Australian Public Service PRP scheme encountered difficulties in establishing performance indicators that adequately measured the contributions of individual officers from different agencies. The APS performance pay scheme was intended to facilitate a performance culture. However it is widely perceived that this has failed to emerge (DETIR, 2000: 37).

Major reasons for the failure of performance pay to improve public sector productivity are the differing motivations of public servants in their careers. PBP schemes are criticized in Australia on the basis that pay is not the predominant motivation for public servants. A North American study found that pay was ranked last on a list of eight priorities for public service staff (Gaertner and Gaertner in O’Donnell, 1998: 350). PBP is also seen as going against a traditional public service focus on equity and transparency (O’Donnell, 1998: 29).

Other Countries

What is the present position in other countries? I am told that in some countries in this region public servants are well paid in comparison to the market place. I also understand that in some countries while there is an annual appraisal system it does not have the credibility that many people would wish as there is no real link between the appraisal and the pay of public servants. I also understand that in some countries annual increments in pay are often based on length of service and the approach to appraisal is such that a very high proportion of public servants are at the maximum entitlement in terms of their pay scale or close to it.

Alternatives in Australia

So if performance related pay does not motivate public service towards higher standards, then what public servants-specific solutions can be found? If we want to improve public sector performance how do we do it?

At the macro level, defining the organization’s goals, devising tougher budgets that rely on productivity rather than incremental payments, and a recognition by elected governments that strategy matters are all sector-wide strategies and requirements that push agencies to be more productive. O’Donnell’s study of the Australian Public Service also found an expressed desire by managers and junior officers for feedback that is not quantifiable or comparable to other officer’s (O’Donnell, 1998: 37). Upwards appraisal of management is seen as another possible reform, so that the senior ranks can also be
evaluated on their management techniques. An example would be 360 degree evaluations, from an officers superiors, peers and those under their control. But other solutions can be found in non-remuneration based forms of rewards. These rely on the notion that public servants are committed to the ideal of “public service,” or are interested in policy-making and implementation for reasons other than money. Other incentives that are often used and which could be considered include: flexible work arrangements, salary packaging, employment security, professional development, mentoring, personal recognition, study leave, child care initiatives and items such as phones or computers.

Alternatives for Other Countries

It is not a simple matter for Hong Kong, Malaysia or Singapore to simply import mechanisms that operate in Australia, the United Kingdom, the United States or wherever. In the same way that it is not possible for Australia to simply import mechanisms that operate in other jurisdictions. However, we can all learn from studying what systems operate in other jurisdictions, what works well and what does not work well. Before considering changes however, it is important to also identify the factors that will assist the process of generating a change, not just in the processes, but in the desired culture of the public sector in the particular jurisdiction—whether that be Australia, Hong Kong or wherever. In some countries there has been a new determination over the last several years to promote a higher level of service to the community within the public sector. This can only be positive in its outcome. It will also be very positive in terms of generating community pressure for improved levels of performance within the public sector in whichever country. The principles of managing for performance and developing a culture of service will not only serve the community but ultimately serve the long term interests of the public sector as well.

So what are the alternatives by way of performance enhancement that will succeed in other countries? We know some people join the public sector for security. We also know that for many people money is important, particularly in a society such as Hong Kong which is very cash-based.

However between security and pure monetary reward there are many other schemes, incentives, mechanisms that can be considered and should be tried to identify what will work in the public sector of any particular country.

While security and financial reward are important to people, that many other initiatives can be very important as well. One that costs nothing but can improve both the performance of the individual and the division or department in which they work is public recognition of task well done and/or successfully meeting the objectives of the organizations.

Deloitte Touche Tohmatsu operates by a number of principles called our “seven signals” which are: (1) Recruit and Retain in the Best; (2) Talk Straight; (3) Empower and Trust; (4) Continuously Grow and Improve; (5) Aim to be Famous; (6) Play to Win—Think Globally; and (7) Have Fun and Celebrate.
Each month we call for nominations from within the firm as to staff who have performed well according to one of those Signals. At the end of the month all those nominated are announced as well as the winner who wins a monthly prize. The point I wish to make is that a study of what is used elsewhere and some lateral thinking can produce a wide range of options for consideration and trial whether here in Hong Kong or whichever country, to identify what works best in your public sector and in your culture.

Conclusion

In many cases the introduction of private sector management techniques into the public sector under the public of “new public management” have cast off the old inefficiencies of the “traditional” public service and instilled a dynamism not often associated with public agencies. But performance pay and quantifiable appraisal techniques, while sensible in the private sector, are not easily transferred to practice in the public service. The Australian experience and data from the OECD have shown that significant problems involving the evaluation of public sector productivity, transaction costs, and differing motivations of public servants make such schemes problematic in government. Governments must look to a wider range of options for motivating their employees and ensuring best practice in the public sector.

REFERENCES


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