

8. PERFORMANCE RELATED INCENTIVE SCHEME

- 8.1 “Performance Related Incentive (PRI) is the variable component of the pay which is awarded ex-post, after individual/group performance is measured against pre-set (*ex-ante*) and mutually agreed upon goals for a given period of assessment. It is non-additive and non-cumulative. It is not an automatic default incentive which is given for the nature of duties and responsibilities or levels of difficulty (working conditions) for a certain rank/post. PRI is linked with respective organisations measurable outputs”.
- 8.2 The introduction of Performance Related Incentive into the Reward System tantamounts to ushering advance reforms initiatives in the public sector. It is so closely linked to outcomes that organisations under the scheme start restructuring operations, reengineering processes for greater productivity and improvements in service delivery.
- 8.3 In this Chapter, we are discussing the necessity to introduce a Scheme for Performance Related Incentive (PRI) while there is also the need to maintain the annual incremental movement in salary scales and payments of certain additional bonuses for implementing a system to improve efficiency and effectiveness in service delivery.

Link between Performance Management and Incentive

- 8.4 Performance Management is not inevitably associated with pay, although this is often assumed to be the case.
- 8.5 Our survey on the implementation of PMS revealed that more than 50% of organisations were of the opinion that there is need for some form of Performance Related Incentive.
- 8.6 Research shows that Performance Related Incentive is still an important element in many performance management schemes. This is because paying for performance is regarded by many organisations as desirable for three reasons:
- (i) it motivates people to perform better or to develop their skills and competences;
 - (ii) it delivers the message that performance and competence are important; and
 - (iii) it is fair and equitable to reward people differentially according to their performance on the grounds that people who perform well should be paid more than people who are less performing.

- 8.7 In reviewing the case for and against Performance Related Incentive, we took into account the doubts expressed by a number of Academics, Unions Members, Managers and individuals about the extent to which it can provide a direct incentive to improve performance.
- 8.8 In line with expectancy theory, motivation only takes place if people expect that their effort will produce a worthwhile reward. If people feel that the basis for assessing reward is unfair or inconsistent then their motivation will be reduced. If the rewards at the end are not worth having, then it is not going to motivate.
- 8.9 In reaching its conclusions on Performance Related Incentive, the Bureau considered its advantages and disadvantages as set out hereunder:

Advantages and Disadvantages of Performance Related Incentive	
Advantages	Disadvantages
Motivates	Not the only motivator
Lever for change	May trigger wrong change
Links reward to results	May be at the cost of quality
Delivers message on output and results are important	May concentrate on performance (activity)
Helps to attract and retain staff	Problems of measuring performance
Meets basic human need – to be rewarded for achievement	Relies on managerial judgement which may be partial
Makes service more challenging	Emphasises quantity at the expense of quality
Influences Behaviour	Prejudicial to teamwork
Recognises Contribution to Outstanding Achievements	May be discriminatory
Focuses on Key Results and Values	May not deliver value for money
Improves Accountability	May not be appropriate
Increases Pay Flexibility	Is too often taken on trust
Fits within the Wider PBB Context	PRI may be right in principle but it is hard to make it work in practice

- 8.10 The last disadvantage “it is hard to make it work in practice” in this list is an important one. The consensus of informed opinion based on research, observation and experience is that performance incentive is very difficult to manage well. It is also difficult to persuade staff that it is operated in a fair, consistent and equitable way.
- 8.11 For us, some form of Performance Incentive is desirable but the process of managing the system must be designed and operated with great care. This leads on to considering what the relationship **between performance management and incentive** should be.

Reconciling Performance Management and Incentive

- 8.12 Any incentive to reward performance requires a robust system of Performance Measurement. The process of measurement needs to be fair, equitable, consistent and transparent, so that pay decisions, on whatever evidence is not taken behind closed doors. Individuals should know how the assessment has been made and how it has been converted into an incentive payment.
- 8.13 There is evidence that rating for pay purposes seriously causes prejudice to the development of performance management. There is, therefore, a strong case for separating development and Performance Incentive by a gap of several months even if there is an inevitable read-across between the two (the performance being assessed as a performance review meeting is the same as the performance being assessed for reward).

Criteria for Effectiveness

- 8.14 In considering the introduction of the Performance Related Incentive Scheme, the general criteria for effectiveness are:

Criteria for Performance Related Incentive Scheme (PRIS)	
1.	Individual or teams should know the targets and standards they are required to meet. There should be clarity about objectives and deliverables.
2.	The reward should be clearly and closely linked to accomplishment or effort.
3.	People should know what they will get if they achieve targets or standards and can track their performance against them. They should know what they will get additionally when targeted performance levels are exceeded.
4.	Fair and consistent means are available for measuring or assessing performance, competence or skill. PRIS is run with the support of PMS.

Criteria for Performance Related Incentive Scheme (PRIS)	
5.	People must be able to influence their performance by changing their behaviour and/or they should be able to develop their competences and skills.
6.	It should be known to all that PRIS is not an assured entitlement for all employees. That it is based on performance assessment.

Conclusion

8.15 The considerations listed in the table above underlie the Bureau's admonition that the introduction of the PRIS must be **well planned. Successful implementation will depend on properly trained managers, explicit guidelines, a well established Performance Management System, and careful monitoring of ratings and rewards to ensure that these are consistently and equitably applied.**

Setting up of Committee

8.16 There is a Standing Committee on Performance/Productivity Related Reward (P/PRR) to look into the Reforms initiatives, implementation of Performance Related Reward, payment of additional increment/bonus, among other things. We still hold the view that the Committee should be maintained with additional roles and responsibilities.

Recommendation 1

8.17 We recommend that:

- (i) **the Standing Committee on Performance/Productivity Related Reward (P/PRR) under the chairmanship of the MCSAR and comprising representatives of the Ministry of Finance and Economic Development (MOFED) and the Pay Research Bureau be maintained; and**
- (ii) **the Standing Committee on P/PRR may co-opt such representatives of Management and the staff side, as it deems appropriate.**

Recommendation 2

8.18 We recommend that as a matter of priority, the Standing Committee should evolve a **Performance Related Incentive Scheme (PRIS)** for the Public Sector and submit same to the High Powered Committee for approval.

Recommendation 3

8.19 We further recommend that the Ministry of Finance and Economic Development should make a dedicated budgetary provision to reward public officers for their performance.

8.20 There are a few recommendations made in our 2008 PRB Report that have not been implemented. The main reasons put forward by the relevant authorities are that the PMS was not effectively implemented across the public sector and such recommendations cannot be implemented in certain departments only. We hold the view that a Performance Related Incentive can be implemented in Ministries/Departments/Organisations where PMS has become fully operational.

8.21 On this account, there are still strong reasons for the payment of the Performance Related Incentives, and we are maintaining same.

Recommendation 4

8.22 We recommend that:

- (i) annual increments provided in salary scales to the various grades should be awarded based on open and recorded performance assessment ratings; and**
- (ii) no increment shall be earned in case an officer is unfavourably reported upon.**

8.23 We further recommend that, subject to the approval of the Standing Committee on P/PRR and concurrence of High Powered Committee:

- (i) as from financial year January 2014, when both Performance Management and Programme Based Budgeting have become fully operational, the payment of a one-off bonus in a period of two years to employees as follows:**
 - (a) equivalent to one week salary in respect of an organisation that has successfully implemented PMS and has sustained it for over the preceding period of two years; and has met the targets set in respect of Programme-Based Budgeting for the same period; and**
 - (b) equivalent to three days' pay in respect of an organisation/section, which has been ISO certified and has maintained the ISO standards for the preceding period of two years;**

The above recommendation which would apply exclusively to employees who have individually performed to the satisfaction of Management shall be applicable pro-rata to employees who have worked for only part of the time during the two years required to earn the full bonus.

- (ii) more than one increment may be granted to an officer at a go, for continuous high level performance (very good) for two consecutive years; and
- (iii) officers drawing top salaries or flat salaries may be granted a lump sum of up to a maximum of one week's salary once in two years for continuous high level performance (very good) for more than two years.
