

PERFORMANCE – BASED PAY IN THE AUSTRALIAN PUBLIC SERVICE: EMPLOYEE PERSPECTIVES

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Abstract

This paper explores employee responses to the performance-based pay schemes introduced into the Australian Public service in 1998 and 1999. Many federal public sector employees were aware of the subjectivity and enhanced managerial discretion inherent in these schemes. In response, employees sought to ensure that performance indicators were specific and job-related. Employees were also aware of the importance of seeking regular feedback during the appraisal cycle. Nevertheless, the prime challenge for Australian public sector employees and their unions involved the development of an approach to performance management that would ameliorate the individualistic and competitive nature of individualised merit pay compensation processes. In particular, this involved the pursuit of increased procedural justice in the formulation and implementation of such schemes.

Introduction

'...most merit or performance-based pay plans share two attributes: they absorb vast amounts of management time and resources, and they make everybody unhappy' (Pfeffer, 1998a: 115)

This paper explores employee responses to performance-based pay schemes introduced into the Australian Public Service (APS) in 1998 and 1999 in conjunction with the first round of agency agreement-making conducted under the Workplace Relations Act 1996. As a consequence, of late, the federal public service has been at the forefront of experimentation with individual performance pay systems in the Australian public sector. A highly standardised and centralised approach to performance-based pay was evident between 1992 and 1996 under the former Labor government. This compensation scheme was limited to the senior executive service and senior officers (O'Donnell, 1998). Arrangements for merit pay under the Liberal/National coalition government elected in 1996, provided for greater experimentation with performance management and compensation processes at the agency level, and included all levels of APS employees.

Merit pay schemes emphasise the establishment of a clear link between individual effort and reward. The assumptions regarding employee motivation underpinning merit pay schemes involve a combination of expectancy and goal-setting theories. Expectancy theory comprises three central assumptions. First, that employees understand the performance goals and believe that they have the skills and abilities to achieve these goals. Second, that employees believe that if they perform to the level outlined by their performance goals, the performance rewards will be forthcoming. Third, that the performance rewards are believed by employees to be worthwhile to justify the extra effort, or change in work behaviour, required. Goal-setting theory maintains that merit pay will improve employee performance where goals are clearly specified, challenging and accepted by employees. It is believed that merit pay schemes can motivate employees and improve performance if they comply with the ideal assumptions for employee motivation underpinning both theories (Milkovich and Wigdor, 1991: 81).

Nevertheless, these ideal assumptions may not be evident in a public sector context. Marsden and Richardson's (1994) examination of the effectiveness of both theories, based on a survey of 2000 employees in the Inland Revenue in Britain, found that 81 per cent of employees believed that they were capable of achieving the performance goals laid down by the merit pay scheme. Nevertheless some 45 per cent believed that if they performed to the level required by the highest performance rating, this performance rating would not be awarded to them (40 per cent thought that it would). Moreover, merely 17 per cent perceived the performance rewards as worthwhile; some 71 per cent believed that the rewards on offer were inadequate. Thus only one of the assumptions of expectancy theory was supported in their survey. There was, at best, modest support for the assumptions of goal-setting theory: 43 percent of employees disagreed that merit pay had ensured that supervisors established clearly specified work targets, while 72 per cent disagreed that communication between employees and management had improved as a result of the scheme (1994: 253-4). Overall, this merit pay scheme was found to have limited motivational effect because of widespread employee concerns regarding the procedural fairness of the system. For example, many employees believed that a quota was imposed on the number of top rating scores, that there was favouritism in the allocation of ratings by supervisors and that the merit pay scheme had increased petty jealousies within the workplace (1994: 257-8).

The paper argues that employee support for performance appraisal and pay schemes in the APS is also being undermined by concerns over the procedural fairness and accuracy of the performance appraisal and pay system. Moreover, unless a concerted emphasis is placed on improving employee perceptions of the procedural justice of merit pay schemes within individual APS agencies, they are likely to have a detrimental effect on employee morale and motivation.

There is an extensive literature highlighting a range of strong procedural concerns regarding the effective operation of performance-based pay systems. The process of performance appraisal has been

viewed as too frequently subjective and too likely to be influenced by the biases of the supervisor to be viewed as fair, while the provision of critical feedback on work performance by supervisors is too often not attended to in practice. Performance ratings can also serve to demotivate rather than motivate staff if they are lower than expectations (Perry, 1995). The process of annual performance appraisals can encourage a focus on short-term outcomes and may undermine teamwork and increase unproductive forms of competition among employees (Gomez-Mejia, 1990; Kessler and Purcell, 1992; Ingraham, 1993; Pfeffer, 1998a). Budget limitations in public sector performance pay schemes may further undermine employee morale in as much as achieving a performance rating that equates to a bonus payment can only be done at the expense of other employees (Perry, 1995:110). Moreover, the OECD has questioned whether pay increments and bonuses represent a key form of motivation for public sector staff, particularly at the more senior levels (OECD, 1988; OECD, 1993).

A further concern with performance-pay schemes is the potential to increase gender bias within the workplace by reducing the transparency of the pay structure. Such schemes increase the discretion over pay provided to supervisors. As most female workers are assessed by male supervisors, the increased discretion provided to supervisors may be used to hide discriminatory practices (Rubery, 1995). Discrimination on the grounds of age, sex, ethnicity and the like can be obfuscated and made to appear as an objective assessment of performance under the appraisal process (Lewis, 1998).

It has also been argued that employee motivation in the public sector may be more closely related to the intrinsic rewards resulting from a sense of accomplishment and intangible benefits of association with respected colleagues and/or clients that that employees receive from their work, rather than their level of pay. Gaertner and Gaertner's (1985) study of the merit pay scheme for managers introduced under the Civil Service Reform Act of 1978 found that public sector employees were more motivated by a sense of achievement than by pay. They concluded that rewarding the achievements of public service managers with increased status and greater recognition would be more successful to increasing employee performance, than a focus on merit pay.

The paper seeks to explore how employees within the APS responded to the variety of performance-related pay schemes introduced in 1998 and 1999 in conjunction with the first round of agency-level agreement-making under the Workplace Relations Act 1996. The observational evidence gathered for this paper is predominantly qualitative in nature. The study draws from a survey conducted by the Community and Public Sector Union (the major Australian Public Service union) of its members in December 1998 and January 1999, and from interviews conducted with employees, most of whom were workplace union representatives, trade union officials and representatives of management. Some 150 useable narrative responses to a request made for comments in the survey were received. These sources are used to outline employees' experiences with the first round of performance management under the Workplace Relations Act 1996. The survey was developed in consultation with two National Industrial Officers and five industrial officers of the Australian Capital Territory Branch of the

Community and Public Sector Union. In conjunction with the survey, personal interviews were conducted with twenty-four employees acting as union delegates, three national industrial officers (on four occasions), and five managers from several federal government agencies over an eighteen-month period. The interviews were semi-structured and they ranged in length from one to two hours.

The paper is structured in the following manner. First, the adoption of performance-based pay schemes in the APS by the previous Labor government and the current Coalition government is outlined. Second, the survey is analysed to examine the responses of employees to the performance criteria or indicators used, the willingness of supervisors to provide feedback on work performance and employee responses to the appraisal and rating process by which their work effort was assessed. Third, the views of employees on the linkage of such assessments to pay and the efficacy of appeal procedures are examined. A conclusion draws together the variety of employee responses to the range of performance management schemes introduced at an agency level in 1998 and 1999. A number of suggestions, drawn from the procedural justice literature (Greenberg, 1996), are outlined for ensuring procedural fairness and accuracy when undertaking appraisal and merit pay systems in the public sector.

The Australian Public Service

In 1997 the Australian Public Service comprised some 100 agencies, both departments of state and statutory bodies, with about 120,000 employees. For much of the century, pay determination, classification and employment conditions were centralised for all agencies and employees. Until 1987, the Commonwealth Public Service Board, and more recently the Department of Employment, Workplace Relations and Small Business (formerly the Department of Industrial Relations) performed the role of employer on behalf of the Australian government (Yates, 1998). The Department of Finance also played a role in setting classification standards, while the Public Service and Merit Protection Commission had the task of developing a wide range of human resource management and development policies (O'Brien, 1999). Until the 1990s the largely uniform standard pay conditions that applied were based on a classification systems operative across the entire service.

Beyond standard pay, the traditional system for rewarding Commonwealth public servants for superior performance lay within a comprehensive system of promotion through the classification system. This made available to most staff an extended internal labour market underpinned by extensive appeal rights (Caiden, 1965). While this system was modified in the 1980s for more senior public servants, with more external recruitment and less internal procedural protection for existing staff, for most Commonwealth employees orderly movement through increments and classifications was the principal means by which their performance was rewarded. After 1987 members of the senior executive service (SES) were expected to negotiate performance agreements with their supervisors, although these provisions were not linked to pay. Officers at this level had access to such benefits as government-maintained motor vehicles for private as well as work-related use. The ranks below senior executive,

the senior officer grades (SOG), were paid allowances to compensate for the lack of access to overtime payments. Payment more specifically linked to performance for senior executive service members was a logical extension of performance agreements.

Performance pay was introduced as part of more comprehensive changes in the wage bargaining process introduced by the federal Labor government in 1992 (O'Brien, 1994; O'Brien, 1995; O'Donnell, 1998). It was restricted to members of the senior executive service (SES) and those employed in the senior officers grades. The motive for these developments was as much political as industrial. The Labor government needed to demonstrate that its moderate program of decentralised industrial relations could work for its own employees in the face of the opposition Liberal/National Coalition's more radical program of decollectivisation and individualisation of workplace relations (O'Brien, 1995).¹

In 1992 the Joint Committee of Public Accounts expressed some reservations about the concept of performance pay and the impact of agency-level bargaining within the APS. It recommended that both initiatives be reviewed after two years of operation (Joint Committee of Public Accounts 1992: xx). An initial inquiry into the operation of the performance-based pay scheme was undertaken by the Senate Standing Committee on Finance and Public Administration (SSCFPA) in 1993, following the first round of performance appraisal and pay (SSCFPA, 1993). This followed an initial report in 1990 that was skeptical of the need for a performance-based pay scheme limited to members of the senior executive service in the APS (SSCFPA, 1990).

Concerns raised in submissions to the 1993 Senate inquiry included: the potential for performance-based pay to increase the politicisation of the public service; that performance assessments were inherently subjective; and that the performance of public sector organisations and staff were influenced by issues beyond their control (SSCFPA, 1993: 19-26). Performance-based pay was also perceived as divisive, introduced at a hurried pace and costly in terms of time and in the use of scarce administrative resources (SSCFPA, 1993: 49-57). The Committee was of the view that there were 'fundamental conceptual problems with the system of performance pay adopted in the APS.' The system rested on 'assumptions about motivation and the nature of work in organisations which were not perceived as valid or appropriate for much of the APS'. It noted that the system 'was widely seen as destructive of team effort and recommended that it be abandoned no later than the expiry of the APS bargaining agreement in December 1993 (SSCFPA, 1993: 57).

¹The conservative Liberal and National Party Coalition parties proposed to supplement the awards and agreements negotiated between unions and employers with a system that would provide for the making of agreements between employees and employers without union involvement, together with a provision for formal individual contracts between individual employees and employers. These latter contracts were called Australian Workplace Agreements. See Liberal and National Parties, 1992.

While the Senate Committee's objections to performance pay were primarily conceptual, the Auditor General's office found serious flaws with the implementation of various compensation schemes in a number of agencies. The report cautiously conceded 'that it may be too early to expect a definite result regarding the achievement of the stated objectives of the performance appraisal and pay [scheme], [but] it was unable to verify that any progress towards the achievement of those objectives had occurred at either the agency level or for the APS' (Golightly & Major, 1993: xi).

Subsequent research into performance-based pay in the APS from 1992 to 1996 found that supervisors often rewarded their 'favourites' with the highest performance ratings, while senior managers and those working in high profile areas also tended to receive the highest ratings (O'Donnell, 1998: 33). Conversely, staff working in lower profile areas, such as corporate services or in regional offices, tended to receive lower ratings. Moreover, many agencies rated all eligible officers at three or above (using a scale ranging from one ('unsatisfactory') to five ('outstanding')) to avoid damaging team cohesion (O'Donnell, 1998: 33-4). In the 1993-94 performance-based pay round, of 16751 senior officers assessed, 91 per cent received a performance bonus at a cost of \$35.8 million (Department of Finance, 1994: 4). The Auditor-General noted that some 90 per cent of agencies paid 90 per cent of senior officers, with \$2358 representing the average bonus payment (Golightly & Major, 1993: 5).

Despite the apparent limitations of the performance pay system that operated during the Labor government period, the Liberal/National Coalition government elected in 1996 was determined to introduce a rationalised classification structure linked to performance appraisal, with some measure of performance-based pay embedded in the new classification / compensation system. In its discussion paper *Towards a Best Practice Australian Public Service*, the government argued for a radical shift to more devolved arrangements for agreement-making within the APS. This shift was linked firmly with the government's broader industrial relations agenda of introducing both individual agreements (Australian Workplace Agreements) and collective agreements for employees that would not necessarily involve them being represented by unions. These new arrangements were seen as holding the potential for enhancing the performance of APS agencies, improving client service, as well as delivering better pay and conditions for employees (Reith, 1996; Yates, 1998). The parameters for agreement-making developed by the Department of Workplace Relations and Small Business, and issued by the government, insisted that all agency agreements contain a commitment to develop flexible remuneration arrangements.

As a result of this federal government initiative, the previous system of almost automatic movement of staff through incremental ranges was replaced with one based on some measure of performance. This change provided the potential for employees to be rewarded with performance bonuses in conjunction with advancement through a classification structure. Agency management perceived the linkage of classification structures to performance management as being central to a 'cultural change' process that emphasised linking individual work performance to the achievement of agency business plans

(O'Brien and O'Donnell 2000). This process was viewed as a central element of a fundamental realignment of Australian Public Service values and processes (Public Service and Merit Protection Commission, 1997; The Australian Bureau of Statistics, 1998; Australian National Audit Office, 1998; interviews with management representatives, the Australian National Audit Office, 23 February 1999; the Department of Foreign Affairs and Trade, 25 February 1999). In the Australian Bureau of Statistics, for instance, the explicit agenda of management was to develop 'a performance based culture' as well as simplifying longstanding employment practices, although it was recognised that some staff regarded such an approach as being primarily directed towards enhancing management control (interview with management representative, Australian Bureau of Statistics, 1999).

Performance criteria and indicators

Performance-based pay in the Australian Public Service is underpinned by an established performance appraisal process. A central objective of performance appraisal, from a managerial perspective, is to locate and highlight the link between individual performance and agency goals and to improve workplace communications between employees and their supervisors. Management also aims to ensure that employees through performance appraisal process have a clear appreciation of the tasks that they must complete and the level of performance required of them when undertaking these tasks. A well-functioning process of performance appraisal can also lead to the identification of the additional training needs of employees, and in all cases requires supervisors to provide employees with regular and constructive feedback regarding their work performance (Gomez-Mejia, 1989; Lewis, 1998). Under the process of performance appraisal in the Australian Public Service, a performance agreement is to be negotiated between a supervisor and employee at the commencement of an appraisal cycle, normally lasting one year. That agreement would contain a range of performance indicators to be used to assess an individual employee's work effort at the end of the appraisal cycle.

According to the literature, there needs to be agreement between the supervisor and individual employees regarding clearly defined performance objectives for employee acceptance of the performance appraisal process to occur (Lewis, 1998, p. 76). Feedback on work performance also needs to focus on tasks over which the employee has control (Gomez-Mejia, 1990). Respondents to the survey emphasised that before employees began to negotiate their performance agreement with their supervisor, they needed to document the tasks that they carried out, including both those over which they had control and those largely outside of their control. Most survey respondents (over seventy-five per cent) preferred specific and explicit performance indicators clearly linked to their work tasks, although a minority noted the need for more general criteria. This view is illustrated in the following observations:

You need to have specific responsibilities agreed/outlined to protect yourself from the possibility of supervisors coming up with various unrelated duties/expected outcomes at assessment time (Administrative Service Officer, Department of Foreign Affairs and Trade).

[A specific performance agreement]... keeps you focussed on your job and forces you to quantify your position. The latter is a useful tool for your supervisor in understanding and appreciating your particular work. This is especially important in the research area when the supervisor is expert in a different field (Research Scientist, Australian Antarctic Division).

In the opinion of many respondents to the survey, and also characteristic of those employees who were interviewed, it was important that performance indicators clearly stated the major tasks and job responsibilities required of employees. In the interviews employees frequently reiterated the requirement for supervisors to clarify any ambiguous performance indicators contained in performance agreements. For instance, staff in the Department of Finance and Administration were assessed on their 'Creativity' and 'Will to Win' and, more broadly, their willingness to conform to the new 'can do' workplace culture being articulated by senior management. A number of employees expressed concerns that such criteria was too ambiguous and provided too much discretion to supervisors to make arbitrary judgements regarding employee behaviour and work performance (Interviews with employees of the Department of Finance and Administration, 1998, 1999). Employees emphasised the importance of supervisors providing guidelines to staff regarding precisely what was expected of them for each performance indicator (Interviews with employees at Ausaid; Department of Employment, Training and Youth Affairs, 1998).

The normative merit pay literature also emphasises the need for performance measures to be objective, plausible and comprehensive (Lawler, 1990). However, in the public sector performance criteria and indicators often conflict with one another, and frequently are difficult to measure (Kellough and Lu, 1993: 47). As a result, a number of employees preferred more general performance agreements:

I selected [the specific performance agreement option in the survey] reluctantly because events outside my control (eg change of Minister, change of Government) could make the outcomes impossible to attain within the given timeframe (Senior Officer Grade C, Department of Transport and Regional Services).

Employees interviewed also emphasised that job responsibilities and work tasks could change over the course of the appraisal cycle and as a consequence would require the employee to initiate a renegotiation of the performance agreement to make certain that it was up to date (Interviews with employees at Department of Foreign Affairs and Trade; Ausaid, 1998). Moreover, it was often difficult to quantify and measure the contribution of individuals via performance agreements and performance indicators in the APS. This was particularly the case for those working in policy areas. This highlights the dangers of using individual merit pay schemes for employees engaged in relatively complex and interdependent tasks that require cooperation among team members; an accurate assessment of the contribution of an individual employee in such circumstances will be difficult to determine (Milkovich and Wigdor, 1991: 83; Pfeffer, 1998b: 207).

Performance feedback

The manner in which feedback regarding work performance is provided to employees has a crucial impact on their behaviour. Therefore, the quality and frequency of performance feedback provided to staff by supervisors is central to the success of the appraisal process (Gomez-Mejia, 1990: 22). In short, supervisors and those being appraised need to develop a relationship that enables them to discuss constructively work processes, workplace conditions employee performance, and the training and developmental needs of staff on a regular basis throughout the appraisal cycle. Employee acceptance of performance-based pay was found to increase where the emphasis was on providing employees with performance feedback, was systematically collected from a number of sources, and was discussed in a constructive and sensitive manner (Lewis, 1998: 75).

The feedback provided to employees by supervisors during performance appraisal interviews might be detrimental to the individual and the organisation however, where it adversely affects an employee's self-esteem (Perry, 1995: 109). Supervisors are also often reluctant to provide employees with critical feedback on their work performance because of a desire to avoid conflict during appraisal interviews. Staff can, moreover, respond negatively to criticisms of their work performance, even if constructively offered. Employees may also be defensive where criticisms of work performance are raised for the first time during the appraisal interview. As a result, many supervisors complete the appraisal interview as quickly as possible and with little detailed discussion of employee work performance (O'Donnell, 1998). The potential for defensive reviews is heightened where appraisal and feedback are linked to a pay increase rather than the training and developmental needs of employees (Gomez-Mejia, 1990: 21-2). Gaertner and Gaertner (1985: 18) found that performance appraisals that emphasise the developmental needs of public service managerial employees had considerable potential to increase employee performance.

The potential for performance appraisal to increase the level of feedback on work performance provided by supervisors was viewed by a number of respondents as the most significant contribution that appraisal could make to improving both individual and organisational work performance. Staff responses to the survey documented examples of constructive and regular feedback from supervisors:

In a lengthy face-to-face interview - twice per year (up to a couple of hours). My supervisor gets input from all others whom I have worked with and communicates that to me with her observations. Any problems are identified and discussed. Further assistance that I require is discussed. My concerns for training etc are discussed. I have found it an extremely useful system - much due to the quality of my supervisor and the effort she puts in (Australian Government Solicitor, Legal Officer, Level 2).

However, other respondents thought that supervisors lacked the necessary communication or interpersonal skills to discuss employee work performance in a constructive manner:

My supervisor has problems communicating with his staff and is not interested in performance management (Senior Officer Grade B, Department of Health and Aged Care).

Many supervisors maintain that they do not have the time to undertake detailed appraisals with all their staff, and they note that they experience considerable work pressures that constrain their ability to provide staff with regular feedback. As a result of these pressures they perceive the performance appraisal process as a largely formal requirement to be completed as quickly as possible (Gomez-Mejia, 1990). Supervisors were also perceived by survey respondents to be experiencing considerable work pressures that affected their ability to provide regular feedback:

Supervisor doesn't have the time. The scheme was only ever ... seen as a way of introducing performance pay into the Department and once it served this purpose, rather than any purpose relating to skills development, it was promptly ignored (Administrative Service Officer, Department of Health and Aged Care).

Where supervisors were unwilling to provide feedback on work performance prior to the mid-year review, employees interviewed strongly encouraged fellow employees to take the initiative and to demand ongoing performance feedback. For instance, employees could request performance feedback after the completion of any substantial work tasks and at regular intervals during the appraisal cycle. Employees could also demand to know how they could attain more than a 'satisfactory' rating. They could also document any written feedback they received from 'customers' regarding their performance. At the end of the appraisal cycle, employees needed to insist on a detailed discussion of their actual work performance and a report that accurately documented their achievements (Interviews with employees at Department of Finance and Administration, 1998).

I usually ask within the first six weeks of a new supervisor and at intervals after that if necessary. Definitely ask for an assessment at the end of an assignment (Administrative Service Officer, Department of Finance and Administration).

Verbally on specific pieces of work. In a formal interview once or twice a year (Senior Officer Grade C, Department of Family and Community Services).

Regular discussion, feedback on specific projects, both written and oral (Senior Officer Grade B, Department of Foreign Affairs and Trade).

Some agency management representatives emphasised the importance of a capacity for subordinates to appraise the work of supervisors (Interview with management representative, Department of Foreign Affairs and Trade, 23 February 1999). In practice, a less favourable picture emerged. Because of fears of retribution, employees interviewed were often reticent about providing critical comments regarding their supervisor's performance. Senior management might also discourage staff from providing critical appraisal reports. Because of these concerns, employees interviewed suggested that it may be more prudent for employees to undertake such appraisals on a team rather than an individual basis (Interviews with employees at Department of Employment, Training and Youth Affairs; Department of Foreign Affairs and Trade, 1998, 1999).

Performance Ratings

Performance appraisal has been criticised for representing an inherently subjective process that greatly increases managerial discretion and control over employees. Although individuals are frequently involved in the assessment of their work performance, their supervisor is ultimately the final arbiter of their rating score (Kessler and Purcell, 1992: 23). Kellough and Lu point to problems with the assessment of employee performance under performance appraisal. On the one hand, there may be leniency in performance ratings and a tendency for supervisors to inflate rating scores to maintain working relationships with subordinates. On the other hand, ratings may reflect a ‘halo’ effect where employees are provided with the same rating score for all the indicators or criteria under examination (1993: 51). For Perry (1995: 109) the central problem in terms of performance measurement for supervisors in the public sector: ‘... is not with knowing who are the best performers, but in measuring and documenting performance differentials’. Concerns regarding favouritism, or that rating scores are likely to cluster in the mid-point of the range, have given rise to employee perceptions that the rating process lacks fairness (Proctor et al., 1993; Marsden and Richardson, 1994). Performance appraisal ratings also tend to demotivate those staff members who receive merely a ‘satisfactory’ rather than a ‘superior’ rating, undermining their sense of self-esteem (Perry, 1995). Such demotivational outcomes may be exacerbated where employees believe that performance management is being used to target ‘underperformers’.

A number of survey respondents commented that favouritism was evident under the agency-specific performance appraisal systems:

(1) Managers forget things you’ve done that meet the criteria. (2) Personality differences and differences in style affect manager’s decision making regarding ratings. (3) Sometimes rely too much on hearsay and not evidence. (4) Some managers lack the objectivity and intelligence to apply ratings fairly (Administrative Service Officer, Department of Family and Community Services).

Inadequate training in use of rating scales, inequitable application of ratings between sections, moderation of ratings by supervisors without explanation (Senior Officer Grade B, Department of Health and Aged Care).

Performance ratings may also be used by management to target individuals for dismissal on the grounds of underperformance or to facilitate staff reductions.

The FAS is keen to find out info on who the ‘underperformers’ are...an inherently unfair process given the subjectivity of the thing, with an agenda strongly hinting at getting rid of ‘deadwood’ rather than ensuring that skills development is pursued for those in genuine need of it (Administrative Service Officer, Department of Health and Aged Care).

Employees who had experienced the process of appraisal were all too aware of the need to document their own performance and to be prepared to defend their work performance in the face of subjective

comments from management during an appraisal interview (Interview with employees, Department of Finance and Administration, 1998).

Moderation of initial performance rating scores and appeal processes

Initial rating scores provided by supervisors may be moderated or standardised by senior management with the justification of ensuring consistency across the organisation. In many cases, however, the initial ratings are moderated downwards for budgetary reasons to limit the overall cost of the performance management scheme. Such outcomes merely enhance employee perceptions that performance-based pay is procedurally unfair. Moderation can also have a very negative impact on workforce motivation and morale, particularly where employees perceive that the rating provided by their supervisor is altered by a more senior manager who is not familiar with their work performance (O'Donnell, 1998):

The theory and the practice are very different. Those who make the decision (Secretary, Deputy Secretary and General Manager) do not know the real performance of most staff and yet they are the ones who determine the final rating (the 'moderators'), under the guise of 'consistency'. Hence the system is highly manipulative' (Senior Officer Grade B, Department of Finance and Administration).

...The fact is that moderation is widespread and is done for the wrong reasons; to save money not to standardise results. If you don't work directly for the Secretary then you don't have a chance (Senior Officer Grade C, Department of Finance and Administration).

Although the performance management schemes introduced into APS agencies are likely to contain appeal mechanisms, many staff were either unaware of the details of their appeal process or considered more senior managers unlikely to alter the rating decision of their supervisor.

Lack of information undermines access to (appeal) mechanisms. Training material mention taking appeals to higher level of management, but this is not helpful for many staff, who would not have any kind of relationship with the next level of management and would not be confident in making an approach (Senior Officer Grade B, Department of Health and Aged Care).

In appealing to your Manager you are appealing to Caesar! (Perhaps it should be a manager from an unconnected work area for some semblance of impartiality) (Senior Officer Grade C, Department of Finance and Administration).

Some employees surveyed also commented that they were reluctant to appeal their rating scores because it may undermine their prospects for career advancement:

Advised not to appeal - don't rock the boat. Senior manager will remember (Anonymous, Department of Finance and Administration).

The linkage of appraisal and pay

Performance pay has the potential to exacerbate the level of friction and conflict among employees as well as heighten tensions between management and labour (Kellough and Lu, 1993: 52). Performance

ratings may make the workplace more competitive and result in employees being less willing to share information. Moreover, it may result in employees focusing largely on those elements of their job that are weighed most heavily under the performance appraisal system to the detriment of other tasks that employees are required to perform (Pfeffer, 1998a). Performance pay also creates different classes of employees; entrenching divisions within the workplace that may further undermine the willingness of employees to cooperate with one another:

Most merit pay systems are designed to reward individual rather than group performance. Thus, merit pay systems tend to separate employees into two classes, 'stars' and 'also rans'. Unfortunately, far more employees fall into the 'also ran' category simply because of the need to limit the number of employees rated outstanding. As a consequence, merit pay may damage the self-esteem and loyalty of numbers of employees (Perry, 1995: 110).

Employee responses to the survey point to the potential for performance-based pay systems to increase conflict between management and employees:

The Secretary's view is that performance management schemes only work if they are linked to pay. The widespread cynicism and minimal compliance with the scheme to obtain the wage rise dependant on it by management and staff gives the lie to that. A major flaw of [performance] pay is that much of our work is team-based yet rewards are individual based. With supervisors, esp[ecially] Senior Officers, on perf[ormance] pay, their targets also mean a lot of extra work for ASOs [Administrative Service Officers] with no recognition or reward. This has a divisive effect at all levels of the supervisory hierarchy (Administrative Service Officer, Department of Health and Aged Care).

In response to these workplace tensions, a number of survey respondents advocated severing the link between appraisal and pay to minimise conflicts over performance appraisal and to encourage supervisors to provide constructive feedback on employee work performance:

It is good for a supervisor and subordinate to talk openly about work performance issues. In many cases this needs a formal requirement to make it happen. It works well in a non-threatening, non-pay related, environment (Senior Officer Grade C, Department of Transport and Regional Services).

I believe a performance appraisal should not be linked to pay or counseling or dismissal procedures. There should be no surprises; any concerns or issues brought up by the supervisor should be brought up when they occur, not left until an appraisal to spring it on the person. Negative criticisms should be backed up by evidence. It should be there purely for training and development needs and the employee should be able to feel completely comfortable about discussing their issues and concerns... (Administrative Service Officer, Human Rights and Equal Opportunity Commission).

Nevertheless, there were a number of employees who believed that without a pay bonus there was little incentive to undertake performance management:

Unless there is some monetary incentive or penalty the performance appraisal system will be ignored by the majority. This has always proved to be the case in the past (Administrative Service Officer, Department of Foreign Affairs and Trade)

There is some evidence that the Community and Public Sector Union is becoming conscious of the concerns of its members about the performance-based pay processes (CPSU, 2000). The union, however, seems to be giving priority to remaining the prime negotiating party on behalf of employees in a regulatory system that denies unions an automatic place at the bargaining table. In the first round of negotiations within the APS under the Workplace Relations Act about 70 per cent of employees were covered by agreements between agencies and public sector unions (O'Brien and O'Donnell, 1999: 458). In the current uncompleted round the CPSU has been party to agreements covering 90 per cent of APS employees (Caird, 2000: 78). Nevertheless the union remains undecided about whether it will simply oppose the concept of performance-based pay outright, or seek to regulate its implementation in each agency (Caird, 2000: 98). Indeed there is some concern within the union that members will be accused of being afraid of performance assessment if too hard a line is taken on the issue of performance-related pay (Interview with National Industrial Officer, CPSU, 1999).

Conclusion

The paper documents a range of employee responses to the operation of performance appraisal and pay schemes in the Australian Public Service in 1998 and 1999 from both quantitative and qualitative assessment of employee-generated sentiments. The findings reported in this paper suggest that employees tended to believe that the assessment of work performance against managerially-determined ratings scales was an inescapably subjective process. They noted that feedback on performance from supervisors was often infrequent, if entirely non-existent. The moderation of ratings by middle and upper management was also perceived by many employees to be procedurally unfair; initial favourable ratings were often downgraded by senior managers with little knowledge of the work performance of more junior staff. There was also a perception that moderation was undertaken for budgetary or political reasons. Moreover, linking appraisal to pay generated increased conflict between supervisors and staff, and often created tensions among employees who were 'stars' versus 'also rans' in work units. Many of those interviewed and surveyed were aware of the shortcomings of individual performance-based pay schemes and the potential, in an era of downsizing, for management to use appraisals to retrench 'underperformers'.

This growing awareness of the dangers of performance appraisal resulted in employees demanding specific performance indicators that were clearly job-related, and that documented their main tasks and responsibilities. Employees were also cognisant of the need to keep these indicators up to date throughout the appraisal cycle if their job responsibilities changed. Moreover, employees interviewed emphasised the importance of demanding regular feedback throughout the appraisal cycle, for instance after the completion of every major work task. Employees were also aware of the need to document evidence of success in completing tasks on time or to budget, including feedback received from other 'customers', both internal and external to the organisation. Hence, employees were sensitive to the

potential for bias in the appraisal process and the need to take the initiative and tie management down to clearly defined performance criteria and guidelines for achieving particular rating scores.

The main problem for employees was that they were seeking to impose procedural fairness in the face of an unequal power relationship with their supervisor and the managerial hierarchy within their public sector organisation. The challenge for public sector managers is to be aware of employee perceptions regarding procedural justice; where employees perceive the appraisal and pay system to be procedurally unfair and inaccurate this is likely to have a detrimental effect on employee morale and motivation (Greenberg, 1996: 176; Marsden and Richardson, 1994; Perry, 1995).

Therefore, procedural justice concerns are central to ensuring that employees perceive the process of performance appraisals, and the linkage of appraisal to pay, to be fair (Greenberg, 1996: 191). As a result, performance criteria needs to be unambiguous, clearly explained, relevant to the work tasks undertaken by employees and achievable. The criteria should not include factors beyond the control of the individual employee. Supervisors also need to be trained to provide regular, meaningful and constructive feedback. Employees should also be provided with appropriate training and development opportunities to overcome weaknesses in performance identified through the appraisal process. Such developmental feedback needs to be separated from decisions regarding the allocation of pay bonuses or advancement through classification structures.

The assessment of individual employee performance also needs to focus on evaluating employee behaviour and work performance and not the personality of the employee. Multi-source ratings need to be utilised to provide a more complete picture of employee performance. The evidence used to assess employees in the appraisal interview should also be fully documented in the form of diary records that detail performance over the course of the appraisal cycle (Greenberg, 1996: 199). Employees should be assessed solely on the basis of performance that is within their capacity to control. Supervisors and others responsible for rating need to be provided with adequate training to enable them to make detailed observations regarding employee work behaviour, to be aware of factors causing rater bias, and to ensure greater consistency between raters. Employees must also have the ability to contest evidence presented in appraisal interviews that they believe to be inaccurate or biased. To ensure that employee trust in the process is maximised, employees should be involved at all stages of the design, implementation and administration of the performance appraisal and pay system. Employee perceptions of procedural justice may be enhanced where they are involved in collecting information regarding work performance and in the appraisal interview (Greenberg, 1996: 181). Employees must also believe that ratings that they perceive to be unfair can be appealed, and subjected to independent review. Finally, the linkage between performance ratings and performance pay outcomes must be both consistent and transparent.

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Five delegates, Department of Foreign Affairs and Trade, 21 July 1999.

Union officials

Two National Industrial Officers, Community and Public Sector Union, 25 February 1999, 21 July 1999, 19 October 1999.

National Industrial Officer (Centrelink Division Secretary), Community and Public Sector Union, 16 December 1999.