

## **CHAPTER 7**

### **INTRODUCING PERFORMANCE-BASED REWARDS**

(This chapter sets out the Consultant's findings, the consultation feedback and the Task Force's views in relation to introducing performance-based rewards)

#### **Introduction**

7.1 When we discussed the development of the civil service pay system in Hong Kong in Chapter 2, we highlighted the fact that since the 1990s, the public has expected more from the civil service, in terms of value for money, efficiency, etc. We pointed out that a rigid regime which is seen to reward performers, under-performers and non-performers indiscriminately will not be acceptable — not only to the general public, but even increasingly among civil servants themselves.

7.2 The inclusion of performance pay as one of the five areas to study in this review may be premised on the following considerations. First, the private sector has successfully introduced performance-linked factors in remunerating their staff, resulting in good performers being awarded and non-performers being sanctioned. Second, it is the Administration's observation that linking performance to pay in the civil service is practised more and more by developed countries with some success. Therefore, doing the same in Hong Kong would be consistent with the practices of the private sector, and would increase productivity of the civil service and motivate better performers. In this chapter, we will look further at these assumptions.

## **Experience in Surveyed Countries**

7.3 In its Interim Report,<sup>1</sup> the Consultant has pointed out that a common thread in all the countries surveyed is to link pay more closely to performance. As we have discussed in Chapter 5, the replacement of automatic annual increments on fixed pay scales by more flexible pay ranges (which enable different pay and increases to be given on the basis of performance) has been a significant step towards implementing performance-related pay in these countries.

7.4 In varying degrees, some of the surveyed countries have consolidated individual performance bonuses into base pay. Others prefer to administer them in the form of one-off payments either as a token for a good year's work or a reward for contribution to a project. The rewards have so far focused on senior civil servants, and do not form a major element in the pay structure (ranging from 5% in one country to over 30% in another). As regards more junior civil servants, many are not eligible for performance-based rewards. Where they are, the amount is usually less than 10% of salary.

7.5 Team-based performance rewards are less common, and are normally associated with completing a particular task or project, or achieving a prescribed performance target.

7.6 The success of any performance-based reward scheme depends very much on a credible supporting performance management framework that is fair and consistently applied. Adequate funding is also essential to allow meaningful rewards to be provided as a means to motivate staff.

7.7 The introduction of performance-based reward schemes takes time as well as commitment from both management and staff. Securing buy-in is crucial, particularly in convincing and training senior staff before they are prepared to introduce such schemes to their own staff.

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<sup>1</sup> Consultant's Interim Report, Pages 24-25

7.8 In some countries, efforts to link civil service pay more closely to performance “have met with considerable resistance from Trade Unions and staff, particularly in the early stages of implementation”.<sup>2</sup> Implementation has not always been as successful as one would hope.

### **The Hong Kong Experience So Far**

7.9 The Hong Kong Government’s experience in introducing performance-based pay is very limited. The proposal to progressively introduce elements of a performance-based reward system into the civil service first appeared in the Civil Service Reform Consultation Document published in March 1999.

7.10 A pilot scheme was implemented in six departments in October 2001 to test whether team-based performance rewards can be distributed fairly, and to secure buy-in among departments and staff sides. The results of this pilot scheme will not be known until later in 2002.

### **Results of Public Consultation**

7.11 Consultation feedback indicates that management in the civil service are generally aware of the merits of performance pay, i.e. in improving flexibility, motivating staff and reinforcing a performance culture. However, they are also concerned about problems in implementation, especially when many of them do not see the present performance appraisal mechanism as operating satisfactorily. The satisfactory operation of the mechanism, in turn, depends much on a change in culture or mindset amongst both appraisers and appraisees.

7.12 Some management would like to see the concept of linking pay more closely with performance extended to the power to sanction. A common theme that has emerged in the consultation is that the lack of effective powers to sanction non-performers, particularly in terminating their employment, has been frustrating to management and demoralising to other staff.

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<sup>2</sup> Ibid., Page 25

7.13 Other respondents from management in the civil service are concerned about the possible adverse impact of introducing performance pay. Such impact may include upsetting the stability of the civil service, multiplying the burden of complaints and appeals, breeding a flattery culture and developing unhealthy rivalry within work teams.

7.14 Staff side bodies have expressed very similar views. They agree that performance pay is good in principle, but difficult to implement, with the danger of creating more problems than it may solve. Some express reservation about change, saying that they prefer to continue to rely on promotion as reward.

7.15 Management and staff associations of the disciplined services are more against performance pay. Apart from sharing the reservations of their civilian counterparts, they stress the importance of team work in the disciplined services. It would neither be easy nor fair to give individual rewards in this light.

7.16 Feedback from the consultation also indicates that members of the public would like to see more competitiveness and better efficiency amongst civil servants. Nevertheless, they are concerned about problems in implementation, mentioning again the fear of breeding a flattery culture.

7.17 Articles in the press agree that there are merits in introducing performance elements to pay. However, they also caution against upsetting the stability of the civil service. They suggest the need for clear performance targets. They also touch on fiscal constraints on the ability to introduce performance-based rewards.

### **The Task Force's Views**

7.18 We agree that serious study should be given to linking pay more closely with performance as an important component in modernising the civil service pay system. In terms of the operation of the civil service, a properly designed and implemented system of performance pay should, in principle, help to better motivate staff and reinforce a performance culture. In terms of the expectations of the public as well as civil servants, it helps

to address the criticism that the existing system is rigid and is seen to reward performers and non-performers indiscriminately. The concept is therefore in line with our vision set out in Chapter 3 (see paragraphs 3.2(c) – (e) and 3.4).

7.19 In studying the experience of the countries surveyed, however, we note the varying degree of success in implementing performance pay. We note further that the performance-based element typically makes up a relatively minor component in the pay structure. Base pay is never put at risk. In two of the five countries, performance pay is confined to senior civil servants.

7.20 We are also mindful of the concerns expressed by management and staff in the civil service, particularly the references to the lack of a good staff appraisal system and the fear of breeding a flattery culture. We accept that the measurement of performance in the civil service is likely to be more problematic, given the difference between profit-driven private sector practice (with more easily defined performance targets) and public sector service (the quality of which is not readily quantifiable). We also note the emphasis which the disciplined services place on team work and the difficulty in singling out individuals for awarding performance pay.

7.21 The subject of introducing performance pay in the Hong Kong civil service has been studied in an academic article in September 1999.<sup>3</sup> The article points out that –

*“While the case for reform and for putting more emphasis on performance is quite overwhelming and the notion of performance pay is certainly attractive to reformers in concept, the efficacy of performance-related pay in practice is still mixed with both encouraging as well as negative experiences. There are several claims in favour of performance pay which need to be evaluated with more*

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<sup>3</sup> Anthony B. L. Cheung. “Moving into Performance Pay for Hong Kong Civil Servants: Conceptualization and Implementation Problems”, in *Public Administration and Policy*, September 1999.

*vigour before they should be accepted as givens with open arms: that the civil service can easily follow what private firms do in rewarding performance; that a performance pay system is more objective and fairer than the existing pay system; that managers welcome performance pay as a preferred tool of management; and even more critically, that performance pay is an important motivator of performance.”<sup>4</sup>*

7.22 Clearly there are still many issues which require further study, but they do not mean we should drop the idea of performance pay which is not limited to the performance bonus type of reward that is being experimented by the Administration for some departments. Taking a broad interpretation, the award of annual increment through the current pay scale should be considered as a type of performance pay, provided that the award is more systematically linked to performance achieved. In this context, performance pay is not something so far away. Indeed, many members of the public consider that civil servants should not be awarded increments automatically regardless of their performance. This type of performance pay may be an area that merit further study in Phase Two of the review.

7.23 In addition, we suggest that a more detailed study should also be conducted on the feasibility of applying performance pay to senior civil servants at the directorate level initially in selected departments which conduct tradable businesses (e.g. “trading fund” departments). This should take into account the experience gained in the team-based pilot scheme, the results of which will be known later this year. The study should be conducted in Phase Two of this review.

7.24 Although the detailed study should initially focus on senior civil servants at the directorate level, there may be a case to review the principle and feasibility of performance pay (or other rewards) for the civil service in general in due course, while recognising that performance rewards are small for junior civil servants in the countries surveyed.

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<sup>4</sup> Ibid., Page 12

7.25 In the meantime, we would advise the Administration to take a radical look at the staff appraisal system in terms of its design and operation, with a view to ensuring reliable performance measurement. It is crucial that the system with its operating mechanism should be acceptable to management and staff. Hence there is the need to involve them extensively in the design and to secure their buy-in at an early stage. The Administration should also explore the issue of defining clear work targets and performance indicators for the purpose of increasing objectivity in performance appraisals.

7.26 Until the above have been achieved, the introduction of performance pay, including the bonus type of performance pay to middle and lower ranking staff, should be put on hold.

### **Directorate Level**

7.27 We consider that after the above issues have been fully addressed, a pilot scheme on performance pay may be introduced at the directorate level in a few selected departments.

### **Disciplined Services**

7.28 In view of the unique work nature of the disciplined services, we agree that, in the context of performance pay, this group of civil servants warrant separate consideration. After assessing the results of pilot schemes in due course, further consideration may be given to whether (and, if so, how) the system should be extended to the disciplined services.