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# Managing Employee Performance

(case studies in both developed and developing countries)

# CONTENTS

# Preface

The term of performance management has extensive understanding in theoretical field. As a systemic process for improving organisational performance, it has a significant role in developing both individual and team performance. Any organisation, public or private, profit or non-profit, will need some tools to manage their employees. Performance management, then, is regarded as continuous process and much wider, more comprehensive and natural process of management that clarifies mutual expectations and emphasizes managers' roles to support it by acting as coaches and focuses on future outcomes. This book, therefore, provides some theoretical and empirical contributions which enrich academic literatures focusing on performance management areas in both developed and developing countries. US, Australia and Indonesia are countries elaborated here; represented by General Electric Company, Australian Public Service, Indonesian Public Service, and Bank Negara Indonesia (BNI) respectively. The analysis should help shed some light on this exciting performance management atmosphere, and should be especially valuable to professionals and academicians in human resource management fields.

# Part IV

## Performance Management

## and Reward System

# Understanding the Approaches of Performance Appraisals

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It is believed that performance has a major influence on the success for organisations. Performance is also considered as a vital means which affects to the results. Hence, controlling employees' performance implies to guiding an organization on the right track. Bourguignon (2004) argues that performance is intrinsically an object of evaluation. It should be measured precisely to ensure that each individual has accomplished numerous duties in the optimal way and integrated with the main organisational goal.

The essence of this essay is to examine some approaches to measure performance in organisations. There are five approaches which can be implemented in evaluating performance; namely the comparative approach, the attribute approach, the behavioural approach, the results approach, and the quality approach. Referring to that purpose, this essay will be organised into several parts. Firstly, it introduces the concept of performance management in general area. Secondly, it explores and examines five approaches to measure performance. Thirdly, it will discuss the potential sources for distortion of performance appraisals and look at the solutions to reduce those problems.

Performance management is "the art and science of dealing with employees in a manner intended to positively influence their thinking and behaviour to achieve a desired level of performance" (McConnell, 2004). In simple terms, Cieri and Kramar (2005: 324) state that it is "a process which managers ensure that employees' activities and outputs are congruent with the organization's goals." Consequently, it should include an effective effort to create a work environment which supports people to perform in the best of their ability. An organization normally comprises a variety of types of people who have the same goal. Individuals in an organization tend to perform the job based on their own characteristics and styles. In fact, they frequently conduct tasks in the mixture of mood and emotion, so the quality of performance may fluctuate every time. Meanwhile, on the other side, performance seems to be a crucial part of achieving an organization's goal. It is defined as "the accomplishment of an employee or manager's assigned duties and the outcomes produced on a specified job function or activity during a specified time period" (Bowin and Harvey, 2001: 159). It is also believed to be "the ultimate life or death criterion of business" (Houldsworth, 2004: 74). Therefore, employees can not simply be oriented, directed with printed guideline, trained in detailed duties, and left them alone to accomplish the job on their own preferences; yet managers should control their performance to lead to the success in obtaining the most wanted results.

As a long and complex process, performance management covers five steps namely defining performance, facilitating performance, encouraging performance, performance appraisals, and feedback performance information (Cieri & Kramar, 2005: 324). It is quite often that some people incorrectly assume that performance management is related only with following regulatory requirements to appraise and rate performance. In reality, appraising performance and setting ratings of employees' record are only one part of the overall process. Performance management is a whole work system that begins when a job and performance are defined. It is most likely ended when employees completely finish the job or they leave the workplace (US Office of Personnel Management, 1997). Above all, performance appraisal is a crucial subject in performance management system. Given that statement, this paper will focus only on the fourth step of the long process, which is emphasized in how to appraise staff's performance and underline examining several approaches in measuring their performance.

Furthermore, performance management system is evaluated by five criteria. It comprises strategic congruence, validity, reliability, acceptability, and specificity. Strategic congruence is dealing with how the performance management system matches with organization's goals. Then, validity refers to the content validity. It means that the measurement only assess all the relevant aspects of performance. Meanwhile, reliability is used to the consistency of the performance measurement; and acceptability is applied to ensure a fairness that each individual who use the performance measurement accept it. The last criteria, specificity will provide a specific guidance to employees about how what is expected of them and how they can meet the expectation (Cieri & Kramar, 2005: 332-335).

Based on those criteria, performance appraisal can be done by focusing on five approaches. They are the comparative approach, the attribute approach, the behavioural approach, the results approach, and the quality approach (Cieri & Kramar, 2005: 336).

First of all, the comparative approach consists of techniques that require the appraisers to compare an individual's performance with that of others' (Cieri & Kramar, 2005: 336). Generally, it assesses the overall of an employee's performance and put into some ranking within groups. In this approach, managers can use several techniques such as ranking, forced distribution, and paired comparison.

In the ranking method, individuals are assessed and classified from best to worst on performance criteria. More complicatedly, the paired comparison allow managers to compare one subordinate with every other subordinate in the workgroup, then giving a highest score for those who have a high number in prevailing other's score (Bowin and Harvey, 2001: 164; Dessler et al, 2004: 263).

These techniques virtually reduce problems of leniency, strictness and central tendency. Leniency and strictness are a propensity to rate all subordinates either high or low, while the central tendency is a tendency to rate all workers the same way in the middle of rating scale which is usually an average rating (Dessler et al, 2004: 274). In addition, those techniques are helpful to be used in making administrative decision, such as pay rises and promotions. Another advantage is

they are easy to develop and tend to be acceptable for every worker (Cieri & Kramar, 2005: 338).

Even so, as Cieri and Kramar (2005: 338-39) indicate, the comparative approach lacks specificity for feedback purposes. By using this approach, individuals are completely unaware of what they must do to improve their ranking. There is no guidance for employees to develop their ranking. Managers merely issue the result of ranking and less concentrate on to find out an employee's performance problem.

Secondly, the attribute approach focuses on the extent to which individuals have certain attributes believed to be beneficial for the firm's success. The assessed attributes are such characteristics or traits as leadership, knowledge, communication, teamwork, initiative, creativity, managerial skill, and so on. Inside this approach, managers can utilise some techniques such as graphic rating scales and mixed standard scales (Cieri & Kramar, 2005: 339).

Linked with performance management criteria, the attribute approach has a low level in the term of strategic congruence, validity and reliability. Moreover, it tends to be very low in the specificity due to the fact that there is no detailed direction on how employees achieve company's target. Yet, it still has strength in acceptability criteria because it is easy to be implemented and developed. For that reason, this approach is regarded as the most popular method in some organisations (Cieri & Kramar, 2005: 341). In rating scales method, each employee's rated traits will be formed in a scale which managers set the degree for assessing performance (Nankervis et al, 1993: 323). Particularly in graphic technique, it just lists traits and a range of performance values. From this point, appraisers will rate every employee by circling the most suitable score based on the performance (Dessler et al, 2004: 261).

Thirdly, the behavioural approach shows how managers assess employees through the behaviours they demonstrate in carrying out the job. It includes various techniques such as critical incidents, behaviourally anchored rating scales (BARS), behavioural observation scales, organisational behaviour modification and assessment centres (Cieri & Kramar, 2005: 341-345).

Critical incidents are somewhat of a unique technique due to it forms a narrative style of performance appraisals. Operationally, it records some incidents related with employees' performance as soon as they happen (Bowin and Harvey, 2001: 166). The accumulation of incidents, which is negative or positive, has advantages to explain and identify the example of good and bad performance. Moreover, this technique is very helpful to be combined as an element of another technique, BARS (Dessler et al, 2004: 266).

By examining another techniques, Cieri and Kramar (2005: 341-345) claim that the behavioural approach seems to be an effective tool because it can link with company's strategy and usually be able to reach high validity and reliability. Furthermore, the behavioural approach also provides specific guidance and feedback so employees can improve their performance after being appraised. For example, in behavioural observation scales technique, managers assess their staff with giving a paper of evaluation containing sentences with scores like "Listen to the employee's concerns". Another model in BARS technique shows how

managers measure employees with sentences such as "Always early for work, gather all necessary equipment to go to work, fully dressed, and so on". Indirectly, those ways provide assessment for employees as well as present some guidance in how to finish the job properly. However, the behavioural approach may be well-matched to implement in less complex jobs where the best way to achieve is clear. It could be least suitable to complex jobs where there are multiple ways to obtain the goal (Cieri & Kramar, 2005: 345).

Fourthly, the results approach is one way to measure performance by evaluating the objective or the result of job which is the closest indicator of individual's contribution for their company. There are two techniques using the results approach; management by objectives (MBO) and the productivity measurement and evaluation system (ProMES) (Cieri & Kramar, 2005: 345-347).

It has been considered that the results approach has a plethora of strengths. According to Cieri and Kramar (2005: 347-348), this approach has strong coherence with performance management criteria. Especially for organisational goal, it can direct employees to connect constantly with the strategy and the main goal of company. It also minimises subjectivity, relying on objective, and quantifiable indicators of performance. Therefore, the results approach is highly acceptable for both managers and employees. Even so, the things which could be a weakness is that individuals tend to pursue only their high performance and how to reach the desired target while, on the other side, ignore the others. If the workers are set to focus on improving productivity, they usually pay attention less on how make an excellent service to consumers. In addition, the feedback which is given to employee seems likely just benefits to measure the results but not in how the employees learn, change and develop their behaviours for the next time.

In MBO, performance assessment is based on achieving goals which are made by both employees and managers. This technique concentrates on pursuing objectives rather than activities performed in accomplishing jobs (Nankervis et al, 1993: 327). From the beginning, the objectives should be established in measurable and quantifiable forms to make managers easier to evaluate. Feedback will be given by matching the result of job with the standard which set in the period of determining objectives. MBO is believed as a valuable technique because employees are viewed as real members of organisation which are forced to participate in setting objectives. However, it seems a costly process as a result of the process of making objectives usually needs several meetings. Theoretically, it looks like an excellent approach; but, in practice, "its effectiveness appears to break down" (Bowin and Harvey, 2001: 166). In the article of "Management by whose objectives", Levinson (1970 cited in Nankervis et al, 1993: 331) states that MBO is a myth, mainly when there are different ideas in establishing objectives between employees and managers, so the latter's initiative absolutely will be taken. Integrating two ideas is more likely just a written theory.

The last approach for performance appraisals is the quality approach. This approach contains two strong characteristics which are customer orientation and a prevention approach to errors. Improving customer satisfaction is the principal purpose of the quality approach. It is also suggested that the term of customer implies either internal or external to the company (Cieri & Kramar, 2005: 348).

Therefore, employee contentment becomes a crucial objective in this process. One indication of an effective performance appraisal is gaining the goal and developing employees' performance while finding out their happiness or problems when they are carrying out the job.

The quality approach depends on a combination of the attribute and the results approaches. It seems likely the most effective way to measure performance because it almost covers all criteria which are needed in performance appraisals. One of the quality approach's strong points is that it provides feedback for employees on two areas which are 'subjective feedback' that comes from managers, peers and customers about their quality of performance; and 'objective feedback' that is derived from the work process itself and also from statistical quality-control methods. In addition, within delivering subjective feedback, this approach emphasizes that performance appraisals systems should avoid providing overall evaluations of employees such rating as excellent, good and poor. It has been concerned that this categorising will probably encourage employees to perform in ways which are based on their ratings. Meanwhile, in objective feedback, it is valuable to apply such techniques as process-flow analysis, cause-and-effect diagrams, pareto charts, control charts, histograms and scattergrams (Cieri & Kramar, 2005: 349).

Furthermore, it seems possible that performance appraisals encounter some problems. It has been indicated that several problems which probably appear are unclear standards, halo effect, central tendency, leniency or strictness, and bias (Dessler et al, 2004: 271). Generally, these are caused by ineffective job analysis which does not provide clear principles to measure the job target or supervisors' personality who can not assess objectively.

Unclear standards may emerge if the terms used in performance appraisals can be interpreted variously. In graphic rating scales, for instance, such terms as 'good' or 'poor' could be understood differently; similarly, for the traits like 'quality of work' or 'creativity'. It is most likely better if managers try to illustrate and include descriptive phrase which define each terms (Dessler et al, 2004: 271). It means that not only writing 'outstanding', 'good', 'poor', and so on, but managers also express what exactly are meant by those vocabularies.

However, the most common problems in performance appraisals probably come from the assessors themselves. Just because of their subjective personality or relations effect, the appraisers frequently make unfair assessments. Halo effect, central tendency, leniency and strictness, or biases sometimes occur. The halo effect means that managers rate employees on one trait which biases the rating of all other traits (Dessler et al, 2004: 273). Also, it is frequent for some appraisers to give unusually high or low ratings. This habit leads to the leniency or strictness error. Meanwhile, supervisors who are reluctant to assess either extremely high or low ratings commit the error of central tendency (Nankervis et al, 1993: 316). Basically, those problems appear due to the ways managers give assessment; which may imply that they do not want to present the complicated results of appraisals, so they just make a simple assessment. Also, it could be possible for managers to distort the rating upward because they desire higher salaries as bonuses for employees or just simple assumption if good assessment can make them look great

as managers. On the contrary, they also can assess bad performance easily if they want to dismiss disruptive employees (Nankervis et al, 1993: 323).

Another problem which occurs is biases that describe a tendency to allow individual differences such as age, race, or sex to affect the appraisal rating (Dessler et al, 2004: 274). Again, this case indicates that the sources of problems are frequently attributed to managers. From that point, it is said that "a weakness of many performance appraisal programs is that managers or supervisors are not trained adequately for conducting assessment and offer little meaningful feedback for employees" (Nankervis et al, 1993: 317).

Hence, there are at least three ways to minimise some problems in performance appraisals. Firstly, managers should understand the major problems of appraisals. Secondly, managers must recognise the accurate appraisal tool and use it effectively. It should be considered that each technique in appraisals has benefits and drawbacks. Thirdly, organisations should train managers or appraisers to reduce some problems particularly to avoid biases judgment (Dessler et al, 2004: 275). Training appraisers seems a critical thing to do because it influences powerfully to the accuracy of performance appraisals. Moreover, based on a survey conducted by the Wall Street Journal (2002), doing performance appraisals is the second hated job by top managers in the workplace after firing staff. It precisely express what Douglas McGregor (1957, as cited in Nankervis et al, 1993: 309) said, "Managers are uncomfortable when they are put in the position of playing God." That is playing a role to judge someone. Usually, appraisers tend to be reluctant to confront with employees particularly in giving assessment. Understandably, this process may generate conflict if employees are discontented about the result of appraisals. Thus, training appraisers is not only important to ensure performance appraisals on the right way, but also to avoid unexpected conflicts within an organisation.

In conclusion, performance appraisal is only one element of a long process performance management. It is a systematic review which has various approaches and techniques to measure employees' performance. At least, there are five approaches such as the comparative approach, the attribute approach, the behavioural approach, the results approach, and the quality approach. They are implemented by integrating with several criteria of appraisals like strategic congruence, validity, reliability, acceptability, and specificity. Inevitably, performance appraisals may meet some problems which occasionally distract the practice of assessment. In some cases, employees probably feel that managers do not provide fair judgment or biases evaluation. Also, they may think that the assessment they accept is not giving guidelines to improve their performance in the future. Nevertheless, as long as qualified managers can understand the source of problems and know how to choose the effective technique; those phenomena seems likely easy to be evaluated and solved. Finally, performance appraisals should not just assess the performance, but also assess the performance appraisers themselves.

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# Designing Organisational Reward Systems for Managing Performance

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Generally, job performance is considered as a vital aspect ensuring that organisational goals are achieved. Managing good performance is a critical part of a manager's core purpose to sustain business operations. However, how to increase employees' performance is a frequent further question emerging in the organisational practice. In other side, it is believed that organisational performance usually can be managed by using reward system in optimal way. The benefits of reward system are not only to attract and retain workers, but also to motivate their performance in conducting jobs. Moreover, the main function of reward system is basically to manage job performance in organisations.

Starting from that opinion, the essence of this essay is to elaborate how the reward system can be used to manage job performance in the workplace. Addressing that aim, this paper will be structured into three major sections. Firstly, it will explain the reward system itself. Next, the essay will try to identify the nature of performance and what its role within organisations is. Lastly, it attempts to find out how the reward system can be useful to manage job performance.

Principally, reward management is concerned with the design, implementation, maintenance and development of reward processes which help organisations to achieve their objectives. In a specific way, strategic reward management is a kind of process of recognising an organisation's needs about its reward policies and practices. According to Armstrong and Murlis (2005), it pertains to both ends and means. As an end, it illustrates a vision of reward policies in the future. In other words, it is like a strategy of organisational investment which shapes better remuneration system for the next time. As a means, it shows how the vision should be realised. Strategies and methods must be set up carefully to attain the vision. Therefore, strategic reward management is a visionary management related to creating and conceptualising ideas of what the organisation should do about valuing and rewarding the employees. On the other side, it is also a form of empirical management which examines the ways to obtain organisational targets.

Agarwal (1998) pointed out that the total reward concept typically comprises such elements as base pay, performance pay, and employee benefits. More importantly, it also includes non-financial rewards which are intrinsic rewards coming from the employment environment and the work itself. Both types of rewards are linked together.

Dealing with non-financial rewards, the components of total rewards actually consist of transactional rewards which are financial in nature and those are necessary to recruit and retain staff; and relational rewards which are

associated with the learning, development and the work experience of workers. As another term for non-monetary rewards, relational rewards are crucial to enhancing the value of transactional reward. Relational rewards can be implemented by giving more responsibilities, autonomies, recognition, meaningful work, career opportunities, quality of working life and work/life balance (Armstrong & Murlis, 2005). In short, there are direct and indirect financial rewards, and the list of such rewards can be long since they are any kind of value which employees gain from the workplace (Rumpel & Medcof, 2006).

Furthermore, the basis of strategic reward management is an understanding of employees' needs and how they can be satisfied. The aim of reward strategy is to maintain the corporate strategies and align reward policies to organisational and individual needs (Armstrong & Murlis, 2005). Also, it examines the relationship between the organisation and the individual member by specifying the terms of exchange. It indicates the contributions expected from members and expresses values and norms to those who are in organisations (Kerr & Slocum, 2005). On the other hand, employers are willing to offer rewards in exchange for employee contribution (Henderson, 1989). Both employers and workers actually have mutual relationship. By setting up reward systems, team and individual performance are expected to be increased. From this point, it is understandable that reward systems have a strong linkage with job performance in an organisation.

Performance seems like the accomplishment of work assignments or responsibilities and contributions to the organisational goals, including behaviour and professional demeanour (actions, attitude, and manner of performance) as demonstrated by the employee's approach to completing work assignments. Hence, some experts define job performance as the degree to which an individual helps the organization reach its goals (Motowidlo, Borman, and Schmit, 1997; as cited in Côté & Miners, 2006:1). Practically, it is mentioned that the dimensions of job performance are task performance and organisational citizenship behaviour (OCB). Task performance emphasises on the core substantive duties that are formally considered as part of a job while OCB concerns activities which contribute to the achievement of the organisational objectives but that are not necessarily formally recognised as part of a job (Organ, 1988; Borman and Motowidlo, 1997; Rotundo and Sackett, 2002; as cited in Côté & Miners, 2006:5). Having elaborated on those roles, the existence of job performance is vital for any organisation to be successful in sustaining its business operation.

The next part of this discussion concerns the connection between reward system and performance is. Fundamentally, reward systems are associated with two major issues which are performance and rewards. Performance includes defining and evaluating performance and providing employees with feedback; while rewards include bonus, salary increases, promotions, stock awards, and perquisites. (Kerr & Slocum, 2005). It is also mentioned that the primary purpose of organisational reward system is to influence two types of employee behaviours which are membership and performance (Agarwal, 1998). Relating to the later one, reward systems have long been acknowledged as motivators of managerial performance (Stonich, 1984). Therefore, some managers create such types as

contingent pay or variable pay which is any form of financial reward added to the base salary or paid as a cash bonus and it links to performance, competence, contribution, skill or service (Armstrong & Murlis, 2005). Within this paper, performance-related pay is more emphasised as a main topic.

Normally, the basic reasons of using performance-related pay are message, equity, and motivation (Armstrong & Murlis, 2005). It is considered as a message because it distributes a broad message that an organisation regards workers' performance as a crucial element. In this respect, the variable pay is a way of communicating strategy (Bender, 2004). Additionally, it is deemed as equity due to the employees' right to get proper rewards pertaining to their performance. Consequently, the different level of performance between employees will generate different amount of payment. Last but not least, motivating people is also one of important motives to set performance-related pay. It is regarded by some people that contingent pay is the prime method of motivating workers. By not ignoring the role of intrinsic motivator which is usually derived from the content of the job and individual inside, performance-related pay seems like direct motivation due to it give more incentives and encourage workers to produce more effort and generate higher performance. It is somewhat of expression, "You will get this if you do that." On the other hand, base salary probably just demonstrates, "You have achieved this; therefore we will pay you that" (Armstrong & Murlis, 2005:283). From here, performance-related pay is expected to increase employees' job performance.

As an example, one research conducted in the University of Texas M.D Anderson Cancer Center implementing pay-for-performance to the workers shows that such reward system can increase motivation and performance. By implementing merit pay which is a program that determines differing reward amounts according to the employees' performance level, the employees of University of Texas tend to perform better particularly because of a reason to get more pay. There, employees who are top performers will receive more money and recognition than average performers. It is true that one effect of performance-related pay is to distinguish high performers from low performers. Finally, the result of research indicates that employees are inclined to receive performance scores in the middle to upper range and there are few ratings at the low end of the scale. It means that increasing the linkage between employee performance and rewards is an effective component to encourage workers in conducting jobs. It will be a motivational factor causing lower performers to realise the need to improve their performance to obtain merit rewards (Helm, Holladay & Tortorella, 2007).

Another case in the Medical Center Columbus also point out that pay-for-performance is very powerful to increase the level of performance in the workplace. It is reported that employees' performance began to improve immediately after the new rewards-based program was introduced in the Medical Center. The reward system is chosen due to that the rewards are more tangible and they can stimulate employees to work toward a specific goal (McKnight, McDaniel & Ehmann, 2006). Thus, money is still considered as a great motivator. According to 'the economic man' approach which is anchored in reinforcement

theory, people are principally motivated by economic rewards (Armstrong & Murlis, 2005). Money serves not only as a motivator due to its satisfying effect on economic needs but also provides to meet certain individualistic psychological needs such as security, status, esteem and feedback about achievement (Gerhart & Rynes, 2003, as cited in Helm et al, 2007:51). In reality, some researches identify that high performers are most likely to seek other job if their performance is not sufficiently recognised with financial rewards (Trevor, Gerhart & Boudreau, 1997, as cited in Helm et al, 2007:51).

Since increasing motivation and raising levels of commitment and engagement are key organisational imperatives, reward system which link to the performance is absolutely needed for any type of organisation. International firms apply more performance-based pay. Reports the 2005-2006 Worldwide Total Remuneration Study from Towers Perrin discovered that companies in Asia and Latin America are increasing the use of performance-based pay. Multinational companies are using a global framework for their pay and benefits programs while also adapting each one to the specific region (Report on Salary Surveys, 2006). Moreover, in an attempt to manage performance and increase productivity, some public organisations also have increasingly turned to reward orientations such as merit pay and pay-for-performance approaches (Mann, 2006). In United Kingdom, one of reasons why some companies tend to use performance-related pay is because the government likes it. A third of the total remuneration is performance related. It is regarded as the best practice and good corporate governance of the moment (Bender, 2004).

In a simple form, as Lawler design (cited in Armstrong & Murlis, 2005:287), the process of performance-related pay can be illustrated by the figure below;

**Figure I: the process of performance-based pay**
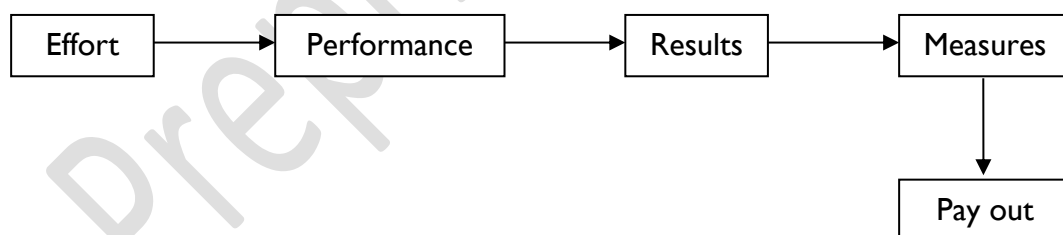


The figure shows that the amount of financial reward paid to the workers is coordinated with the output which derives from their performance. Consequently, performance appraisal is really indispensable to measure and assess the level of performance. An adage said, "If you can measure it, you can manage it. If you can manage it, you can achieve it." Performance appraisals will be a tool to find out whether performance meets the target or not, and reward system's role is rewarding performance. The target should be defined clearly from the beginning. With reward system, it also ensures that the ongoing performance is still congruent with organisational goal. Performance appraisals and reward system fundamentally collaborate and empower each other. Additionally, some people argue that pay-for-performance systems need to be designed as part of an overall

performance management framework (Stringer: 2006). Basically, it is expected to be able to manage performance regularly and align it with the corporate goal. Aligning the performance measurement and reward system with a corporation's strategy is an essential point. The system must also be consistent with certain of the organisation's internal characteristics in order to bring workers' performance in the right track. From here, a well designed performance pay program is believed as one of the most powerful corporate tools available to business (New Zealand Management: 2004).

In the end, reward system is basically required for several reasons. Yet, due to high demand of organisational targets as well as unstable performance of employees in the workplace, a reward system then is designed specifically to manage job performance. Pay-for-performance plans play a crucial function in organisations. Its role is to stimulate the level of employees' performance to the higher point. Thus, it is reasonable if managing performance is the primary purpose of reward systems. Money seems like a great motivator to encourage people in doing the jobs. So, monetary rewards may need to be modified continuously since people undoubtedly tend to be highly motivated when earning more money. As Lawler (2000) said rhetorically (cited in Stringer, 2006:63), "linking money to performance seems like providing a silver bullet that can be easily shot and can yield large improvements in performance."

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# Performance-related pay in General Electric Company under CEO Jack Welch (1981-2001)

Aun Falestien Faletehan

## 1. Introduction

General Electric (GE) Company is one of the most prominent multinational corporations in the world. Fortune Magazine's survey, and its partner at Hay Group, revealed that GE is America's most admired company in 2007. The Company has achieved this accolade seven times in the past decade. Specifically, from eight criteria, GE is ranked first in seven areas, such as people management, use of corporate assets, social responsibility, quality of management, financial soundness, long-term investment, and quality of products or services. GE only reaches the second ranking in the area of innovation. Considering GE's reputation, it undoubtedly that GE has the ability to influence other companies. Sometimes, companies are inclined to adopt what GE does because they want to achieve the great successes that GE has obtained.

Since increasing motivation and raising levels of commitment and engagement are key organisational imperatives, a reward system which links to performance seems to be needed for any type of organisation. International firms tend to apply performance-based pay. Reports of the 2005-2006 Worldwide Total Remuneration Study from Towers Perrin discovered that companies in Asia and Latin America are increasing the use of performance-based pay (Report on Salary Surveys, 2006). One of GE's famous issues is the forced ranking system which is used as a performance appraisal tool in evaluating and rewarding employees. Particularly in the regime of former CEO, Jack Welch (1981-2001), GE was known as an 'intimidating' company due to massive dismissals of employees as a result of the ranking system. Yet, it is still deemed to be an excellent company in America.

This report is written in two major sections. The first section analyses and evaluates the theory and practice linking reward and performance management issues. In this section, GE's profile, and its reward system and performance management during Welch's tenure, will be described and analysed. The second section of this report will discuss the implementation of the ranking system and its impact on performance. GE's current reward system (after Welch's retirement) will be elaborated upon.

## 2. Analysis and evaluation of theory and practice linking reward and performance management issues

### 2.1. GE's profile

With its popular slogan "Imagination at Work", GE is a multinational American technology and services conglomerate incorporated and headquartered in Fairfield, Connecticut, in the United States of America. Historically, GE has strong roots with Thomas Alva Edison's heritage. GE was actually founded in 1892 from the merger of Thomas Edison's Electric Light Company with the Thomas Houston Company (Grant, 2005). Its business was based on exploiting Edison's patents relating to electricity generation and distribution, light bulbs, and electric motors. However, today, GE has become the most diversified industrial corporation in America. It runs six strong businesses: Infrastructure; Healthcare; Commercial Finance; GE Money; and Industrial and National Broadcasting Company (NBC) Universal (GE Annual Report, 2006). These businesses create numerous products and services such as aviation, electricity, media and entertainment, finance, energy gas and wind turbines, oil and gas, appliances, industrial automation, lighting, medical imaging equipment, medical software, motors, plastics, railway locomotives, water, healthcare and security (GE, 2007a).

GE's good reputation has emerged since GE made many acquisitions; during 1997-2001 GE made over a hundred acquisitions each year. The largest sector for acquisition was the financial sector (Grant, 2005). Hence, with a value of $380 billion, GE is definitely the world's most valuable company (Abetti, 2006). Also, it is the only company to have remained a member of the Dow Jones Industrial Index since the index was first created (Grant, 2005).

It is believed that GE's great success is particularly influenced by the 20-year leadership of former CEO, Jack Welch, who is regarded as a living legend in the business management area. Welch made a revolutionary transformation in GE. He is one CEO who shaped GE as a 'model of management' and a 'laboratory' studied by business schools and raided by other companies seeking high skilled executives (Grant, 2005). One of GE's management systems, which Welch set up, and which has attracted a lot of attention from the public, is the forced ranking system related to reward and performance evaluation which is implemented for each GE employee.

### 2.2. GE's reward system and performance management under Jack Welch's leadership

Some organisations have different ways to reward their employees. One of the popular ways is linking reward to employees' performance. Stonich (1984) pointed out that reward systems have long been acknowledged as motivators of managerial performance. A research study revealed that people are not likely to change their behavior unless they are rewarded for it. Therefore, a key principle of compensation is to link more of it directly to performance (Management Development Review, 2007).

When Jack Welch became CEO in 1981, he started to transform GE's management style. Related to the reward system and performance management, Welch instituted a new reward system based more on performance rather than salaries, with more stock options. Furthermore, he introduced a forced ranking system showing that everyone was ranked by their managers as either in the top 20%, the middle 70%, or the bottom 10%. Armstrong and Murlis (2005) explained that it is an evaluation method of forced distribution allowing managers to rank staff in comparable categories in order of merit. The GE system is sometimes called the 'Vitality Curve' which attempts to differentiate GE's best employees and managers every year (Welch and Byrne, 2002). Below is the chart of the 20-70-10 model.

**Chart 1: GE's vitality curve**
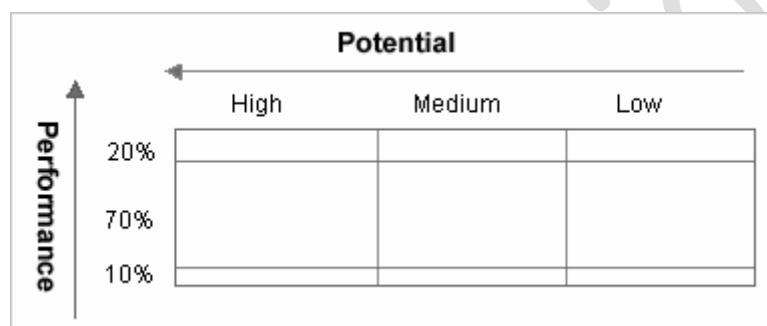


Source: GE (2007b)

The vitality curve, also referred to as *9 Block*, is the major differentiation tool used to assess an employee's performance and promotability. It is an annual process ranking the employee force into a 20-70-10 bucket. GE (2007b) argues that the benefits of implementing the tool, besides differentiating the very best from the least effective, are to ensure the effectiveness of the organisation as well as to enable succession planning, pipeline building and leadership development.

Based on the chart, the top 20% are the highest performance workers, the 70% are the average performance workers, and the bottom 10% are the lowest qualified workers. Welch set this sort of ranking in order to encourage his employees to perform better. So, each individual should endeavour to get into the top 20%. As a consequence of this ranking, Welch rewarded those in the top 20% with bonuses and stock options. The middle 70% got smaller bonuses. He redesigned the bonus system to reach deep into middle management. It seems that bonuses became much more discriminating. The typical 10 to 15 per cent bonuses for senior managers were replaced by 30 to 40 per cent bonuses for far fewer managers. Welch also expanded the broadness of the stock options program at GE from just the top echelon of management to all employees, which covered a wider range of managerial and technical employees. It was reported that the number of employees receiving stock options increased from 400 in the early

1980s to 22,000 by the end of 1995 (Grant, 2005). During a shareholders' meeting in 1989, Welch (as cited in Grant, 2005, p.346) said:

> "Today, stock option compensation, based on total GE performance, is far more significant than the salary or bonus growth associated with the performance of any individual unit or business. This aligns the interests of the individual, the company, and the share owner behind powerful, on company results."

Lawler and Worley (2006) argued that organisations should need reward systems which motivate job performance as well as support individual development, organisational capabilities and competencies. Hence, paying the person instead of the job, and using variable pay such as bonuses and stock, is probably the most powerful instrument an organisation can create in establishing the reward system supporting performance and change. Welch believed that by offering more bonuses and stock he would keep his employees productive and thus make GE a competitive company. Regarding the different amount of bonuses, it is rationally fair to give higher rewards to those who contribute and produce superior results.

Interestingly, each year, Welch would fire the bottom 10% of his employees. According to Welch's idea, those who did not perform well, based on GE's expectations, generally had to go. He insisted that the top 20% and the middle 70% basically are not permanent labels. Both groups of employees tended to move between the two areas. It was different with the bottom 10% who were inclined to remain there. Welch (as cited in General Electric Company, 2000, p.8) said that "organisations which keep removing them every year always raise the bar of performance and increase the quality of its leadership. Conversely, not removing the bottom 10% was a sort of management failure." Further, within his personal biography (as cited in Nikkei, 2007), Welch strongly supported the idea of "People first, strategy second". Consequently, hiring the right people in the right place is a lot more important than developing a strategy.

Therefore, during 1980s, Welch was popularly called "Neutron Jack", in reference to the neutron bomb, for eliminating the people while leaving the building standing. Newsweek Magazine's in 1982 was the first publication to pick up on the derogatory nickname (Nikkei, 2007). Also, Fortune Magazine named him "the Toughest Boss in America" in 1984, while later on, in 1999; it awarded him "the Manager of the Century". It is documented that between 1980 and 1990, GE employees fell drastically from 402,000 to 298,000. The bigger dismissal was at the upper levels at corporate headquarters and within sectoral administration. However, in some areas of overseas operations, the number of employees increased. Below is a table showing the number of GE's workers from 1981 to 2000.

**Table 1: GE's employee numbers from 1981 to 2000**

| Employees at year end ('000) | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|---|---|---|---|---|
| United States | n.a. | n.a. | 246 | 248 | 236 | 302 | 277 | 255 | 243 | 183 |
| Other Countries | n.a. n.a. | n.a. n.a. | 94 n.a | 82 n.a. | 68 n.a. | 71 n.a. | 45 n.a. | 43 n.a. | 49 n.a. | 62 53 |
| Total Employees | 404 | 367 | 340 | 330 | 304 | 373 | 322 | 298 | 292 | 298 |

| Employees at year end ('000) | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| United States | 173 | 168 | 157 | 156 | 150 | 155 | 165 | 167 | 168 | 158 |
| Other Countries | 62 49 | 58 42 | 59 6 | 60 5 | 72 n.a. | 84 n.a. | 111 n.a. | 143 n.a. | 145 n.a. | 152 n.a. |
| Total Employees | 284 | 268 | 222 | 221 | 222 | 239 | 276 | 310 | 313 | 310 |

*n.a. = not available*
*Source: General Electric Annual Reports (cited in Grant, 2005: 340)*

The basic concept of GE's ranking system is to force GE's business leaders to differentiate their leadership. During Welch's leadership, GE had to identify the people in their organizations that they considered in the top 20% as A, the vital 70% as B, and finally the bottom 10% as C. The C players generally had to go. Normally, it is difficult to decide where people belong within three choices on a 20-70-10 grid. Moreover, Welch (as cited in Nikkei, 2007) claimed that managers who could not differentiate would soon find themselves in the C category.

The vitality curve must be supported by the reward system such as salary increases, stock options, and promotions. The top 20% should obtain increases which are two to three times the size given to the middle 70%. The 70% should get solid increases recognising their contributions every year. Meanwhile, the bottom 10% must get nothing. GE also attempted to retain people, especially those in the top 20%. They are the best assets for GE's future. Rewarding them by more bonuses is considered an effective tool to maintain their good performance. Monroe (2006) stated that through his rigorous approach to important human resources processes, Welch created a high performance culture where the best of these people stayed and this drove GE to sustained success. It is documented that in 1980, the year before Welch became CEO, GE recorded revenues of approximately $26.8 billion. Amazingly, in 2000, the year before he left, the revenues had increased to nearly $130 billion.

At a glance, the GE's performance evaluation which is linked to a reward system was successful in regard to GE's excellent profile under Welch's tenure. Employees were encouraged to achieve the organisational goal. However, one point to be considered is the policy of firing the bottom 10% of employees. Even though they are the lowest performers in GE, massive dismissal within an organisation each year is still a radical strategy and it impacts on organisational balance and stability.

## 3. Discussion of implementation issues

According some experts such as Boyle, Jenkins and Welch (2001, as cited in Scullen, Bergey & Aiman-Smith, 2005, pp.1-2), forced ranking with removal of poorer performers, is a performance management system which benefits the organisation in terms of motivating the best employees, eliminating the worst workers, pushing managers to be honest with the workers, cultivating a climate of meritocracy, and developing strong leaders. It will create and sustain a high performance culture since every individual will know where they stand and they tend to move on to the higher level. Wriston (2007) stated that a high-performance culture is 'a mind-set with accompanying and reinforcing habits, practices and routines about how to optimally engage one's human resources in order to optimise organisational performance.' Hence, as Lawler (2005) pointed out, performance-based pay impacts on employees' high performance levels because they need to be aware that their future employment depends on their skills and performance. They must continuously compete for staying in the safe ranking, not in the bottom 10%.

This circumstance, in the long term, will generate high performance organisation which is usually offering rewards for performance that pull people toward high performance levels. Indeed, organisations need to create a culture that emphasises that its people must continue to learn and grow as the organisation and environment change. Performance-based pay is an element underpinning for establishing that culture. Consequently, each individual will get different rewards and this is relatively fair. On the contrary, it is unfair if the organisation awards the top performers as much as the low performers. Blume, Baldwin, Rubin and Bommer stated (2006) that the top performers may become frustrated as there is not more reward for them.

The ranking system can also be used for communication between management and employees in terms of providing feedback and evaluation. Bill Conaty, GE's Senior Vice President/Human Resources Advisor, (as cited in Marquez, 2007, para.11) described why differentiation is important, saying, "It isn't about putting a stamp on someone's forehead or anything. It's about constant communications and appraisal systems that have candor and honesty."

However, some critics are against such forced distribution. The system sometimes is implemented unfairly, subjectively, and it is vulnerable to bias of various sorts (Boyle, 2001, as cited in Scullen, et al, 2005, p.2). Welch himself (as cited in Nikkei, 2007) admitted that it is a tough decision to choose the bottom 10%. But, the policy must be implemented continuously each year. As a result of

this high demand, subjectivity and bias seems to occur because GE is forced to rank the employees punctually. Moreover, Welch would punish his managers and put them in the bottom 10% if they could not rank their staff.

Sometimes, forced ranking can terminate a good employee who accidentally works on an excellent teams while rewarding mediocre employees who are members of poor teams. This is because the good employee is in the bottom 10% of an excellent team whereas he/ she may be in the top performer position if in a poor team. Pfeffer and Sutton argued (2000 as cited in Scullen, et al, 2005, p.2) that forced ranking is counterproductive for the organisation in terms of discouraging collaboration and teamwork among employees. Naturally, the ranking system can be devastating to the morale and trust of an organisation (performance-appraisals.org, 2007). Because it is difficult to rank objectively, employees will almost always disagree with a ranking that places them anywhere except in the top percent in the organisation. Employees often perceive the process as unfair and arbitrary and it consequently produces negative competition between staff. Davis and Rogers (2004) added that low morale might result since employees work against each other instead of with each other.

In fact, since Welch used this performance management tool to eliminate the bottom 10% of performers each year, forced-ranking systems have been applied in many companies. Based on a Drake University study (cited in Ramachandran, 2007), almost a quarter of the Fortune's 500 companies might use some type of performance management system built around the principle of forced rankings. These systems typically either align people in preset buckets such as the system used at GE, the 20-70-10 model, or rank them by performance from best to worst (Sprenkle, 2003). However, this approach, which is often associated with an old-fashioned system of merit rating, needs to be reassessed, as terminating the bottom level, becomes a controversial topic within an organisation.

The expectation that the workforce will be developed through the forced ranking system is based on the idea that less skilled employees can be replaced by new and more capable employees. Hence, the overall quality or performance potential of the workforce will be enhanced. In contrast, Scullen, et al (2005) argued that, each time a company improves its employment capacity by replacing a member of staff with a newly hired person; it becomes more difficult to do so again. The better the workforce is, the more difficult it must be to hire applicants who are superior to the current employees who would be fired. Moreover, firing and hiring employees continuously may impact on organisational stability and financial planning since the organisation must conduct such processes as selection, recruitment, training and development, annually.

Another important point is job security. Herzberg (1968, as cited in Yousef, 1998, p.184) defined it as 'the extent to which an organisation provides stable employment for employees.' Job security is central concern in the psychological contract described as 'a set of unwritten reciprocal expectations between an employee and the organisation' (Schein, 1978 as cited in Guest, 1998, p.650). Principally, people want a sense of belonging. They come to work to be tied to the workplace and get meaning for their lives. Job security is basically required within organisations to retain people and maximise their performance. In contrast, when

employees are worried about their job in the future, psychological contract violation actually occurs. According to Morrison and Robinson (1997, as cited in Guest, 1998, p.657) psychological contract violation is `an affective and emotional experience of disappointment, frustration, anger, and resentment that may emanate from an employee's interpretation of a contract breach and its accompanying circumstances'. Further, it may damage organisational commitment and job performance as well as generate job dissatisfaction (Guest, 1998; Yousef, 1998). Also, it should be concerned that employees basically need enjoyment in the workplace as a part of intrinsic motivation to elevate their performance (Isen & Reeve, 2005). Conversely, threatening employees with a dismissal policy does not make them enjoy the work and perform well. They basically work with anxiety if they can lose their job in the next year.

Nevertheless, when the bottom 10% were dismissed, Welch argued (as cited in Nikkei, 2007) that "we did not fire the people. We fired the positions, and the people had to go." Welch made GE jobs the best in the world for people willing to compete. He would do everything to give employees the skills to have "lifetime employability," even if he could not guarantee them "lifetime employment." Only satisfied customers can give his employees job security, and not GE. Lawler (2005) indicated this phenomenon as 'a death of the loyalty contract.' Globalised competition, the rise of technology and the increasing demand for knowledge workers with high skills has made the loyalty contract unrealistic and undesirable from the point of view of most companies. For them, it is purely not a good investment. Then, terminating their workers was the best way these firms could adapt to the dramatic changes in their businesses.

Finally, high performance culture is a key of successful Welch's strategy. Forced ranking linked to the reward system may be an effective tool to boost employees' motivation. However, the firing of the bottom 10% seems not to be appropriate in the modern era. It might have run well under Welch's leadership and it can be considered to be a major determinant of GE's success. Monroe (2006) indicated that GE's ranking system succeeded due to Welch's achievement in creating a high performance culture that demands and fosters ethics and openness. That corporate culture is the missing key when other failed companies tried to follow GE's ranking system (Davis & Rogers, 2004). According to Kaliprasad (2006), one characteristic of a high performance culture is when an organisation with a competence culture has more regard for individual contribution than group contributions. This organisation is highly competitive and driven by achievement.

Indeed, after Welch's retirement, under the current CEO, Jeffrey Immelt, GE has kept the idea of ranking employees but they are rated against themselves, not one another. Here, Immelt added a new system of rating on five leadership traits: external focus; imagination and creativity; decisiveness; inclusiveness; and deep domain expertise (Arthur, 2007). Wriston (2007) argued that a high performance culture in an organisation basically can also be established by setting a collaborative environment. Ranking system with terminating the bottom 10%, in other side, may damage a collaborative environment since employees tend to work against each other instead of with each other.

Hence, to maintain GE's high performance culture, Immelt does not mention terminating the bottom 10% anymore (Morris, 2006). GE still uses the vitality curve with the 20-70-10 model, but he has focused on building a team and a long-term commitment to training (General Electric Company, 2006, p.9). Kaliprasad (2006) stated that a high performance culture can be achieved by having the workforce comprising high performing and dedicated individuals who believe in continuous improvement, thus setting higher goals once the initial goals are met. Further, as Dhar believed (2005), to evolve a high performance culture, organisational development will emphasise on the empowerment of people by providing opportunities for all employees to learn. It is started with faith with the employees, not intimidating them with dismissal policy as Welch did, and followed by continuous managing their performance.

## 4. Conclusion and Recommendation

GE has been tying compensation directly to performance by using the forced ranking system. With the distribution of the 20-70-10 model, GE rewarded the best 20% handsomely. The middle-level performers, 70%, received modest raises or bonuses, and the bottom 10% obtained nothing. Furthermore, during Welch's tenure, GE terminated the bottom 10% each year. Even though there was a massive dismissal in GE due to Welch's idea; he still succeeded in making GE one of the greatest companies in the world.

However, it would seem that Welch's strategy in firing the bottom 10% is not appropriate for building teams in organisations anymore. Today's business environment tends to emphasise individual development for the organisation's long-term purpose. Creating strong teamwork also becomes an urgent need in sustaining business operations. Removing employees continuously requires redesigning a new team annually since there will be a replacement process. In short, it does not support workforce development.

To conclude, the ranking system linked to a reward strategy still seems an effective way to evaluate and motivate job performance. Yet, as my recommendation, for the long term, focusing on training and development of the lowest performers is more useful for establishing organisational stability rather than eliminating 10% of employees each year.

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# Performance Management in BNI Indonesia

Deni Hardiansyah

## 1. Introduction

PT. Bank Negara Indonesia (Persero) is well known as BNI (BNI, 2004). In 2006, in terms of assets, BNI is the third largest bank in Indonesia and it has 972 branches and 2,325 automated teller machines across the country (BNI, 2007). BNI also has international branches in New York, Singapore, London, Tokyo and Hong Kong (BNI, 2007). BNI employs 18,433 staff with 66.52% of them are bachelor degree (BNI, 2006).

As an impact of the economic crisis that hit Indonesia in 1997, BNI as a public bank as well as one of the state owned bank has to conduct operational and financial restructuring (Fane & McLeod, (n.d.) ). Restructuring process takes time and has to be carefully conducted. In 2004, BNI changed its logo and set up a new vision and mision (BNI, 2004). To support its vision and mision, BNI changes its human resources function from personnel management to a strategic business partner (BNI, 2004).

To improve HRM functions, BNI develop e-HR information system that can support HRM in conducting standard HR modules like training and recruitment through BNI's intranet (BNI, 2004). In 2005, BNI upgraded HR information support system to have updated employee records, development of performance management module and payroll module. Simultaneously, BNI set up the Competency Based Human Resources Management (CBHRM) model as a comprehensive human resource strategy and development plan, develop employee assessment process that relates to Competency Assessment such as feedback assessment, and implement BNI Performance Excellence to measure BNI's financial and operational performance (BNI, 2005). In 2006, to support CBHRM systems, BNI developed Human Capital Management System (HCMS) in web based format. HCMS consists of some main HR modules, such as staffing, reward management and punishment system, training development and e-Learning, career management and succession plan and performance management (BNI, 2006). In addition, at the beginning 2006, BNI laid its 547 employees off on voluntary basis (BNI, 2006).

However, after implement a massive and comprehensive restructuring, through its Employee Satisfaction Survey, BNI found that the quality of communication in the context of working relationship, salaries and benefits, as well as evaluation and development categories are rated not satisfactory (BNI, 2006).

This report discusses the implementation of BNI's total rewards or pay for performance schemes and non financial rewards that BNI apply in managing its employees' performance based on telephone interview with BNI's employees and

secondary sources of information including annual reports, booklets and special publication related issues as well as literature study. This report aims to analyse and evaluate from theory perspectives the implementation of total rewards and employees' performance in BNI.

## 2. BNI Total Reward and Performance Management

BNI has implemented several financial reward forms, from individual, group and corporate reward in 2000. Then, it was followed by success and innovation rewards (BNI, 2001). BNI refined its rewards systems by conducting a review of compensation system and implemented several polices such as inflation adjusted cost living, reducing pay gap between regions, and bonus policy for home staff adjustment (BNI, 2004). Furthermore, in 2005 BNI developed competitive remuneration by evaluating its compensation structure based on performance and merit basis as well as through recognized remuneration surveys on peer industry groups (BNI, 2005).

Based on material collected, since 2001 apparently BNI has been trying to implement and develop which type of total reward and policies that can fit with its organizational change. According to Armstrong and Murlis, (2005), reward policies and practices must respond to change and their role is to support change. Furthermore, they divide total reward into two main parts namely transactional rewards and relational rewards. Relational reward is everything that is linked to non-financial reward such as recognition, working environment, responsibility, career, and skills. On the other side, transactional reward is everything that is connected to financial or monetary rewards and benefits such as base pay, variable pay, contingent pay, share ownership, and benefits.

## 2. 1. Financial Rewards

In general, financial rewards that BNI gives to its employees are based on employees' grade and level. Financial rewards that BNI gives are base pay, variable pay such as position allowances, profit bonus, contribution pay, pension benefit, employee and management stock plan, paid leaving, and insurance (Agung, 2007). Those rewards are given on monthly and yearly basis except pension and insurance benefits, for example rewards in the monthly salary are base pay and variable pay such as transport and position allowances. Meanwhile, yearly rewards such as, profit bonus, stock, Idul Fitrie and Christmas allowances, and paid leaving are given once a year (Agung, 2007). The composition of monthly salary is 35% base pay and 65% variable pay (Sofyat and Hendriana, 2003). Before implement pay for performance in 2006, the incremental salary is based on seniority or tenure. Meanwhile, the proportion for profit bonus is the same for all employees, for example 1.5 times monthly salary for all employees (Enggun, 2007).

As stated by Milkovich and Newman, (2004), financial rewards are a pivotal factor for employees and can influence their performance such as the quality of work, attitude toward customers, willingness to be flexible, learn new skills, and suggest innovation. Banking has been at front position of management efforts to

bind rewards arrangements closely to performance in the form of appraisal based pay for performance for distributing base pay and bonuses (van het Kaar and Grunell, 2001 as cited by Arrowsmith, Nicholaisen, Bechter, and Nonell, 2007). This is in line with BNI efforts which gives larger amount for *variable pay and relate it with employees' performance (*Purwani, 2007). In other words, BNI has been developing financial rewards that can boost employees' motivation to perform better. By implementing this policy, employees will have their own incremental salary, benefits and profit bonus which are based on their performance.

## 2.2. Non Financial Rewards

To drive BNI's employees' performance, in terms of non financial rewards, one of BNI efforts is giving awards and prizes for recognition to the best BNI's frontliners as Service Ambassador (BNI, 2005). Furthermore, BNI gives high performer opportunities to take more responsibilities to a higher position without considering their existing grade and level and tenure as long as they can fulfil minimum requirements through job posting and tests as well as trainings (BNI, 2006),

From financial and non financial rewards development, it appears that BNI has been developing a total rewards that can drive employees' performance. To have a reliable total rewards, BNI co-operate it with performance management and performance appraisal as a tool to measure organisational and individual performance.

## 2. 3. Performance Management

BNI assess its rewards based on performance and merit basis, as well as through recognized remuneration surveys on peer industry groups (BNI, 2005). According to Armstrong and Murlis (2005, p. 1), "performance management can be defined as a systemic process for improving organisational performance by developing the performance of individuals and teams." Furthermore and detailed, Armstrong (2006) describes that performance management is a continuous process and much wider, more comprehensive and natural process of management that clarifies mutual expectations and emphasizes managers' roles to support it by acting as coaches and focuses on future outcomes. This is in line with BNI actions in the past two years that has been developing BNI Performance Excellence Programme (BPEP) as a performance management in some way and linked it with individual and unit performance appraisal.

As stated in BNI annual report 2005 and 2006, BNI has systematically started to implement the BPEP. The objectives to implement BPEP are reduce defects, enhance productivity, improve business outcome, increase efficiency and ultimately BNI can increase profitability. There are three inter-related modules in the BPEP which are Malcolm Baldrige Criteria for Performance Excellence (MBCfPE), Service Level Agreement and Performance Management System (SLA and PMS), and Six Sigma. MBCfPE is a mean to measures and identify the performance of BNI as organization against another. From this assessment BNI's

strengths and weaknesses can be identified as well as opportunity for improvement (OFI). The assessment is conducted repeatedly and continuously to develop on OFI. Therefore, MBCfPE is a continuous assessment and conducted yearly basis.

Meanwhile, SLA is standards to measure operational and functional performance or key performance indicators (KPI). KPI is individual and unit score card and one the inputs for the Performance Measurement System (PMS). In broad terms, SLA measures performance between BNI's unit that is related to customer satisfaction. In the meantime, PMS is a system to measure unit performance with respect to operational and financial goals. The main aim of incorporating service, operational, and financial goals into SLA or KPI assessment, is to drive BNI's unit and employees not only focus on operational and financial goals but also focus on service enhancement.

Six Sigma module is a tool that emphasis on service quality (work processes) to the customer. The main aim of this module is to improve continuously existing work processes to reach virtually zero-defect, through statistical data and quantitative analyses.

By implementing BPEP, it allows BNI to measure performance not only in terms of financial results but also operational results that are broken down into quantifiable score cards. The BPEP produces the score card reports automatically on monthly basis then those reports are used to regularly assess and improve the Bank's performance (BNI, 2005). With BPEP, it is expected BNI can employ a reliable and measurable performance assessment as a benchmark to achieve individual and unit objectives that are in line with BNI strategies and goals. The spread of balanced score card will enable an organisation to integrate between organisational, unit, and individual goals (Nankervis and Compton, 2006 as cited by Arrowsmith et al, 2007).

## *Performance appraisal*

Performance appraisal can be described as the formal assessment and rating of individual by their managers and usually it is conducted once a year (Armstrong, 2006). According to Arrowsmith et al, (2007), individual performance appraisal is a pivotal factor for all banks in Austria, Spain, Norway, and UK and is linked in some a way to rewards. They found that seniority based pay have been abandoned or weakened and shifts to pay for performance. In addition, there is increased employ of individual appraisal that tie in some way to merit pay.

As a basis to assess individual performance, BNI has established KPI for each job position based on job description and other tasks outside job descriptions (BNI, 2006). In addition, BNI also incorporate competency assessment into the performance appraisal process for all employees (see appendices 1). Furthermore, to assess individual and unit performance as a whole, BNI has been developing Penilaian Kinerja dan Pengembangan Pegawai or Performance Evaluation and Employee Development (PKPP). PKPP can be described as an individual and unit performance form that measures realization of individual and unit performance against targets (see appendices 1).

BNI evaluate its employees and units' performance in PKPP based on individual and unit performance assessment (see appendices 2 and 3) in such a way and rates their performance as outlined on table below. The main aims of employee performance assessment and evaluation is as basis for rewards recommendation and career development (Agung, 2007).

**Table 1. BNI Rating Score**

| No | Rating | Range |
|----|--------------------|---------|
| 1 | Fully satisfactory | 460-500 |
| 2 | Satisfactory | 400-459 |
| 3 | Good | 300-399 |
| 4 | Average | 200-299 |
| 5 | Below average | <200 |
| 6 | Without Rewards | -*) |

*(Source BNI, 2007)*
*) for employees who has administrative sanctions based on PKPP.*

Based on PKPP and Rating Score, BNI gives incremental financial rewards into their monthly salary or base pay only to employees who have good, satisfactory, and fully satisfactory criteria. The incremental is varies among them and it depends on ratings as well as BNI performance as a whole (Agung, 2007).

At the beginning of the year, scores and ratings for individual KPI in PKPP are established after considering business plan and job description. Those ratings have to be discussed with and agreed between employees and their immediate supervisor or manager as an appraiser. At the end of the year, the result of employee performance evaluation has to be discussed between appraiser and appraiser supervisor. In order to have individual performance appraisal objectively, BNI set up PKPP Team to decide the final result of employee performance evaluation (Agung, 2007). This is in line with Armstrong and Murlis, (2005), that state the line managers play a pivotal role in administering rewards. Therefore, in the field, managers as a superior of the employees are responsible to measure their subordinates' performance and ultimately their career development.

## 3. Discussion of BNI Total Reward and Performance Management

Total reward is unique and varies and it can provide an organization a competitive advantage (Howard and Dougherty, 2004). In order to have total rewards that can attract, retain, and motivate employees total reward must be tailored with other aspects that might influence employees' motivation at work.

From motivation theories perspectives, it seems that BNI considers intrinsic and extrinsic motivation that can drive employees' performance in designing its total reward and performance management systems. As stated earlier, BNI gives high performers incremental financial rewards into their monthly salary

or base pay including profit bonus, allowance and benefits. Motivational theories from process approach emphasizes how and by what goals employees are motivated and those theories emphasize on financial rewards that can motivate employees to perform better at work (Murray et al, 2006). However, money is not only the effective way to motivate employees' behaviour (Cieri and Kramar, 2007). BNI accommodate it by recognising high performer through awards and career development and tie it with incremental financial rewards. This is in line with motivational theories from content approach. Employees with high achievement needs tend to take challenging jobs that stimulates them to do better and they are likely to be motivated more by intrinsic rewards (Murray et al, 2006).

Each organisation has its own culture, structure, and business strategy then a certain type of total reward that is used in an organisation might not be fit to implement in another organisation (Allen and Helms, 2001). As stated earlier, BNI use BPEP that enable them to incorporate its total rewards and performance through balanced score card that will enable them to align between organisational, unit, and individual goals. However, BNI performance management and appraisal appears complex and defining success in multiple performance metrics in multiple categories is difficult. There is possibility that rewards will not be aligned with certain performance measures and it may detract the total rewards relationship because there are too many moving pieces and probably will have adverse effects on individual performance (*DiMisa,* 2006).

Thus, criteria and parameter in defining an employee success in terms of achievement in balance score card is critical. This definition should must be clearly agreed and articulated by managers and employees to understand how performance directly impacts rewards (*DiMisa,* 2006). In addition, communication and coaching knowledge of managers must be enhanced so the direction regarding the right people get the right rewards in fair ways can be achieved. The best and comprehensive rewards, performance management and appraisal is worthless without competent management (Milkovich & Newman, 2004).

Apart from performance aspects, BNI should consider security aspect for employees' retirement plan. Some employees see that the larger amount in variable pay is not fair since according to the regulation, when employees retired, every month they only get 75% from their base pay (Sofyat and Hendriana, 2003). Most of executives and professional staff up to 45 years old more focus on final pension schemes (Top Pay Research Group, 2003). Yet, BNI gives pension fund or benefits to its employees but its investment return is not competitive. No discretion for employees to invest to other companies that give high return or to have it on cash (Enggun, 2007). This aspect will influence BNI's image in the jobs market and as a result the main role of total reward to attract and retain employees probably could not be achieved.

This probably can answer why the quality of communication in the context of working relationship, salaries and benefits, as well as evaluation and development categories are rated not satisfactory (BNI, 2006).

- Other aspects, As a result, high performers will get higher salary and bonus compare with average or below average performers in the same grade and

level. In a country of relatively low income inequality, generally has low tolerance towards systematic wage differential (Kuvas, 2006 as cited by Arrowsmith et al, 2007).

- *However, pay for performance implementation is marginally successful (agarwal, 1998).*
- By implementing pay for performance, BNI probably marginalize BNI's trade union roles in dealing with employees' rewards (Arrowsmith et al, 2007). When deciding the proportion of incremental salary and bonuses, BNI should discuss it with BNI's trade union since

## 4. Conclusions and Recommendation

From the interview conducted and material collected, it can be concluded that existing BNI's total reward just focus on encouraging high performer which is expected to push motivation of average and below average employees to perform better. However, as motivation that drive employees' performance is a complex process, appraisers or line managers must be embedded with coaching, communication, and competence knowledge through intensive training. It is recommended that BNI develop its benefit in a way in order to be competitive, fair and attractive in order to accommodate employees' security aspects.

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**Appendix 1**

**Table 2.    PKPP format for branch manager, managerial and non managerial position**

| Results Orientation | Branch Manager | (%) | Managerial Position | (%) | Non Managerial Position | (%) |
|---|---|---|---|---|---|---|
| Objectives | Components | | | | | |
| Unit | Score card unit (regional/unit) | 10 | - Score card unit <br> - Score MBCIPE Unit | 5 <br> 5 | - Score card unit <br> - Score MBCIPE Unit | 5 <br> 5 |
| Individual | - Score card unit <br> - Key Performance Indicator (outside scorecard) | 80 | - Key Performance Indicator (scorecard) <br> - Key Performance Indicator (outside scorecard) <br> - Action plan OFI | 80 | - Key Performance Indicator (scorecard) <br> - Key Performance Indicator (outside scorecard) <br> - Action plan OFI | 70 |
| Other tasks | | | | | Other tasks | 10 |
| Processes Orientation | | | | | | |
| People Management | - Developing others <br> - Managing people | 5 | - Developing others <br> - Managing people | 5 | | |
| Core Competencies | - Achievement orientation <br> - Building trust <br> - customers focus <br> - Quality orientation <br> - Teamwork | 5 | - achievement orientation <br> - Building trust <br> - customers focus <br> - Quality orientation <br> - Teamwork | 5 | - achievement orientation <br> - Building trust <br> - customers focus <br> - Quality orientation <br> - Teamwork | 10 |
| Total weight | | 100 | | 100 | | 100 |

*(Source: BNI, 2007)*

**Appendix 2**

**Table 3.  Unit Key Performance Indicator**

| No. | Items | Standard Score | (%) |
|---|---|---|---|
| 1. | Security | 120 | 10.62 |
| 2. | Costumer Services | 445 | 39.38 |
| 3. | Teller | 220 | 19.47 |
| 4. | Telephone | 85 | 7.52 |
| 5. | Comfortably | 45 | 3.98 |
| 6. | Equipments | 75 | 6.64 |
| 7. | Toilet | 40 | 3.54 |
| 8. | Automated Teller Machines (ATM) | 100 | 8.85 |
| **9.** | **Total** | **1130** | **100** |
| | Non Physics/Staff | 870 | 76.90 |
| | Physics | 260 | 23.10 |
| 10. | Previous KPI | | |
| 11 | Citation | | |
| **12.** | **Growth (9-10)** | | |

*(Source: BNI, 2007)*

**Table 4.  Mapping Unit Key Performance Indicator**

| Mapping | KPI | | |
|---|---|---|---|
| | Range | Citation | Rating |
| Green | ≥ 85 | A | Excellent |
| | 80 ≥ to < 85 | B | Good |
| Yellow | 75 ≥ to < 80 | C | Average |
| Red | 70 ≥ to < 75 | D | Below Average |
| | 65 ≥ to < 70 | E | Bad |
| | < 65 | F | Very Bad |

*(Source: BNI, 2007)*

**Appendix 3**

**Table 5.  Individual Key Performance Indicator for Unit Manager**

| Descriptions | Dispersion | (%) |
|---|---|---|
| Fund Collection Target (KPI outside scorecard)<br>  - Institutional clearing account<br>  - Individual clearing account<br>  - Institutional deposit<br>  - Individual deposit<br>  - General Saving<br>  - Educational Saving | (30 x 80%)<br>4<br>4<br>4<br>4<br>6<br>2 | 24 |
| KPI (scorecard) target |  | 56 |
|   - Fee based income<br>  - Operational expenses<br>  - IKP<br>  - Internal audit  settlement | 3<br>3<br>40<br>10 |  |
| Total |  | 80 |

*(Source: BNI, 2007)*

**Table 6.  People Management Competency Qualification**

| No. | Descriptions | Competency Qualification | | | |
|---|---|---|---|---|---|
| | | Asst. Mgr | Mgr | Asst. VP | Vice Presd. |
| 1. | Developing others | 2 | 2 | 3 | 4 |
| 2. | Managing people | 2 | 2 | 3 | 4 |
| | Total | 4 | 4 | 6 | 8 |

*(Source: BNI, 2007)*

**Table 7.  Core Competency Qualification**

| No. | Descriptions | Competency Qualification | | | | |
|---|---|---|---|---|---|---|
| | | Asst. | Asst. Mgr | Mgr | Asst. VP | Vice Pres. |
| 1. | Quality orientation | 1 | 2 | 2 | 3 | 4 |
| 2. | Achievement orientation | 1 | 2 | 2 | 3 | 4 |
| 3. | customers focus | 1 | 2 | 2 | 3 | 4 |
| 4. | Teamwork | 1 | 2 | 2 | 3 | 4 |
| 5. | Building trust | 1 | 2 | 2 | 3 | 4 |
| | Total | 5 | 10 | 10 | 15 | 20 |

*(Source: BNI, 2007)*

**Appendix 4**

### Table 8. KPI customer services in branches under Regional 12

| Branch/Unit | Customer Sevice | | | Growth | | |
|---|---|---|---|---|---|---|
| | Smt 1 '06 | Smt 2 '06 | Smt 1 '07 | Smt 2 '06 | Smt 1 '07 | |
| | 1 | 2 | 3 | 4=(2-1) | 5=(3-2) | 6=(3-1) |
| Roa Malaka | 70.76 | 76.52 | 76.24 | 5.76 | -0.28 | 5.48 |
| Daan Mogot | 53.94 | 55.73 | 69.87 | 1.79 | 14.14 | 15.93 |
| Tgj Priok | 59.83 | 64.16 | 77.98 | 4.33 | 13.82 | 18.15 |
| Bekasi | 76.49 | 53.03 | 78.65 | -23.46 | 25.62 | 2.16 |
| Jakarta Kota | 52.37 | 78.09 | 61.90 | 25.72 | -16.19 | 9.53 |
| Bogor | 62.68 | 64.27 | 56.25 | 1.59 | -8.02 | -6.43 |

*(Source: BNI, 2007)*

### Table 9. KPI teller in branches under Regional 12

| Branch/Unit | Teller | | | Growth | | |
|---|---|---|---|---|---|---|
| | Smt 1 '06 | Smt 2 '06 | Smt 1 '07 | Smt 2 '06 | Smt 1 '07 | |
| | 1 | 2 | 3 | 4=(2-1) | 5=(3-2) | 6=(3-1) |
| Roa Malaka | 86.48 | 89.32 | 85.20 | 2.84 | -4.12 | -1.28 |
| Daan Mogot | 75.53 | 79.09 | 72.31 | 3.56 | -6.78 | -3.22 |
| Tgj Priok | 80.14 | 79.09 | 74.55 | -1.05 | -4.54 | -5.59 |
| Bekasi | 83.18 | 55.23 | 84.32 | -27.95 | 29.09 | 1.14 |
| Jakarta Kota | 76.42 | 93.18 | 85.20 | 16.76 | -7.98 | 8.78 |
| Bogor | 75.64 | 76.14 | 70.68 | 0.50 | -5.46 | -4.96 |

*(Source: BNI, 2007)*

### Table 10. KPI branches under Regional 12

| Branch/Unit | KPI | | | Growth | | |
|---|---|---|---|---|---|---|
| | Smt 1 '06 | Smt 2 '06 | Smt 1 '07 | Smt 2 '06 | Smt 1 '07 | |
| | 2 | 3 | 4 | 6=(3-2) | 7=(4-3) | 6=(3-1) |
| Roa Malaka | 82.16 | 85.55 | 85.80 | 3.39 | 0.25 | 3.64 |
| Daan Mogot | 72.43 | 74.53 | 78.47 | 2.10 | 3.94 | 6.04 |
| Tgj Priok | 77.19 | 77.55 | 83.78 | 0.36 | 6.23 | 6.59 |
| Bekasi | 83.93 | 65.71 | 87.86 | -18.22 | 22.15 | 3.93 |
| Jakarta Kota | 72.32 | 87.60 | 78.03 | 15.28 | -9.57 | 5.71 |
| Bogor | 76.00 | 78.28 | 69.41 | 2.28 | -8.87 | -6.59 |

*(Source: BNI, 2007)*

**Appendix 5**

**Table 11. KPI customer services and teller in unit under Bogor Branch**

| Bogor Branch | Customer Service | | Growth | Teller | | Growth |
|---|---|---|---|---|---|---|
| | Smt 2 '06 | Smt 1 '07 | Smt 1 '07 | Smt 2 '06 | Smt 1 '07 | Smt 1 '07 |
| | 2 | 3 | 5=(3-2) | 2 | 3 | 5=(3-2) |
| Cibinong | 71.24 | 61.42 | -9.82 | 90.91 | 76.14 | -14.77 |
| Pasar Merdeka | 73.37 | 57.30 | -16.07 | 78.41 | 79.09 | 0.68 |
| IPB Dermaga | 58.07 | 51.39 | -6.68 | 79.55 | 57.95 | -21.60 |
| Leuwiliang | 58.76 | 58.50 | -0.26 | 80.23 | 73.41 | -6.82 |
| Warung Jambu | 51.80 | 68.09 | 16.29 | 78.18 | 81.36 | 3.18 |
| Citeureup | 58.85 | 71.69 | 12.84 | 77.50 | 86.36 | 8.86 |
| Tajur | 55.73 | 66.44 | 10.71 | 80.68 | 76.14 | -4.54 |

*(Source: BNI, 2007)*

**Table 12. KPI unit under Bogor Branch**

| Bogor Branch | Smt 1 '06 | Smt 2 '06 | Growth |
|---|---|---|---|
| | 1 | 2 | 4=(2-1) |
| Cibinong | 73.06 | 84.80 | 11.74 |
| Pasar Merdeka | 88.85 | 82.56 | -6.29 |
| IPB Dermaga | 71.37 | 79.73 | 8.36 |
| Leuwiliang | 80.00 | 79.41 | -0.59 |
| Warung Jambu | 81.32 | 77.03 | -4.29 |
| Citeureup | 70.71 | 75.68 | 4.97 |
| Tajur | 76.37 | 75.43 | -0.94 |

*(Source: BNI, 2007)*

# Performance Management in Australia and Indonesia:

# A Comparative Study of Public Service System

Aun Falestien Faletehan

## A. Introduction

### A.1. The background of study

The issue of public sector reform has been increasingly considered worldwide as an urgent agenda in some countries. There are a lot of reasons for this reform such as for reducing the negative image of public servants, particularly in developing countries, or because of the impact of the introduction of public management reforms that are claimed to challenge a more traditional normative basis for the public sector (Hood 1991). Yet, regardless of various motives, the most important thing is that, as long as the agenda itself is aimed as the drive for public sector excellence, the reform needs to be supported.

Further, as public-based organisations, the public sector agencies ideally are expected to become more accountable, customer focused and responsive to stakeholder or communities' needs. Therefore, the reform involving a transformation in management practices, processes and culture seems to be directed for driving both organisational and individual performance. It is because the performance itself impacts intensely on the level of achievement in the public sector (Verbeeten 2008). From this point, transforming public sector performance management is an expert guide to creating a measurement system that will drive continuous performance improvement.

Indonesia, as a developing country, and Australia, as a developed country on the other side; both have indicated continuous development in the public sector reform. Within this sector, performance management also becomes a crucial theme particularly for driving every public servant to perform better for their community. A plethora of studies have been made for understanding and improving the performance management practice in both countries. However, although Indonesia and Australia both are geographically neighbouring countries, the studies conducted seem to be focused only on the single country. The efforts comparing the performance management practice in both Indonesian Public Service and Australian Public Service look like need to be enriched more.

It is true that the comparative studies between Australia and Indonesia are not a novel topic, but they were not written in dealing with performance management in both public sectors. For example, in 2006, Yudhi, Nanere and Kyobe made the research entitled *"Comparative Study of Negotiation Styles of Education Managers in Australia and Indonesia."* Also, Alwi, Hampson, and Mohamed

finished their work about *"Non value-adding activities: a comparative study of Indonesian and Australian construction projects."* Therefore, to fill up the absence of performance management study in both countries, this work is written for comparing the practice of performance management in the public sector in both Indonesia and Australia.

This study becomes important because, not only for enriching the literature of public sector's performance management in some countries, but it is also significant for encouraging Indonesia as a developing country to learn some successful performance management practices from Australia as a developed country. In fact, the differences between both countries will be explored and, not only that, it is also expected that there will be lessons learned from the findings. Although the main purpose of this study is to give some information that Indonesia can learn from Australia. Yet, it may be also more beneficial if both Indonesia and Australia have to learn each other's advantages and disadvantages, especially from their civil servants' practice in performance management.

## A.2. The research's objective

Due to this work is a sort of comparative study balancing the practice of performance management in two countries: Indonesian and Australia, the aim of this research is then designed to answer the question which is "What are the differences of performance management between Indonesian Public Service and Australian Public Service?"

## A.3. The scope of work

This work is a library research which is based on bibliographies. The focus of book is centralised on the effort of finding the differences of performance management practice in the public service in both Indonesia and Australia. Due to the type of work is bibliographies-based, the data from both Indonesian Public Service and Australian Public Service are derived from such documents as books, journals, official reports, surveys, newspapers, and any related scholarly sources.

The information about public service and performance management in Indonesia, for instances, are taken from the official reports of organisations such as APEC, World Bank, MenPAN, BKN, and LAN. Some researches, from Indonesian experts as well as analysts from other countries regarding to performance management in Indonesian Public Service also enrich the content of this work.

Meanwhile, with regard to Australian public service, their practice of performance management is basically a well documented area compared to Indonesia case. The most relevant and significant guidance material for this data are *Performance management (By Australian Public Service Commission /APSC: 2002), Performance management in the Australian Public Service: A strategic framework (by Management Advisory Committee /MAC: 2003)* and *Performance management in the Australian Public Service (By Australian National Audit Office /ANAO: 2004).* Further, as an institution which is in charge of any matter in Australian Public Service, APSC

beneficially provide sufficient official data about performance management. Besides, the works of independent researchers in this topic also become important to be considered for developing this study.

For more detailed, the scope of study is structured into six segments. *First*, introduction covering the background of this study and the methodology applied. *Second*, the elaboration of the general theory of performance management in the public sector. *Third*, performance management in Indonesian Public Service. *Fourth*, performance management in Australian Public Service. *Fifth*, it is the research's core element which analysing the comparison of performance management between Indonesian and Australian Public Service. *Sixth*, epilogue including conclusions and lessons learned.

The study of performance management basically is very broad area. Thus, to make it narrow, this work is focused on the processes of performance management. In fact, by using Beardwell and Holden's framework (2001 as cited in Bilgin 2007: 95), the term of performance management in this comparative study means the performance management cycle which generally begins with performance planning, performance training and performance appraisal. From this point, both Indonesian Public Service and Australian Public Service will then be compared through those three processes.

## B. Performance management in the public sector

### B.1. Historical approach

According to Mwita (2000: 19), public services conventionally are depicted as "non-productive and a drain on the wealth-producing part of the economy in developing countries." Therefore, to reduce the bad image of civil service, a new perspective which is New Public Management (NPM) has been introduced particularly to improve civil servants' performance and lead to customer-oriented.

Basically, NPM is a management philosophy used by governments since the 1980s to modernise the public sector. As Hood (1991) analyse, it represents a paradigmatic break from the traditional model of public administration. Moreover, Hood (1995 cited in Skalen 2004: 251) insists that NPM has been the great idea in the reform of the public sector worldwide for more than a decade. It consists of quantity of ideas, generally imported from the private sector, such as quality management, customer satisfaction measurement, decentralisation of management authority, creation of quasi-market mechanisms and cost control (Ferlie et al 1996; Power 1997 as cited in Skalen 2004: 251).

NPM has also influenced a comprehensive process of change to public sector organisations across the board. With emphasis on decentralisation, delegation and modernisation of public service delivery, it consequently impacts on the method of managing civil servants' performance. A research from Christensen and Yoshimi (2003) can be used as an example that NPM affects significantly on the public sector performance reporting and measurement. Indeed, as a critical part of human resource development, performance management is undoubtedly required in the public service as a system-based approach for

cultivating the achievement culture and linking civil servants and their jobs to the strategy and objectives of government agencies (Mwita 2000).

It also can be said that performance management approach is an important element in NPM since it has been encouraging some countries to apply the practice of performance management intensely. In the late 1980s and 1990s, several countries such as New Zealand comprehensively adopted the approach to public sector performance management categorised as NPM. In the reality, the techniques drawn from business and the marketplace were used to transform a centralised public service into a range of focused providers of service and policy outputs (Norman 2004). These reforms decentralised decision-making and emphasised efficiency are essentially some requirements in the NPM process.

Also, in the Australian experience, the 1980s was characterised by a post-bureaucratic model of NPM and this was heavily focused on internal reforms and corporate management (Alford 1998; Yeatman 1997 cited in O'Flynn 2007: 354). From this circumstance, the commonly adopted practices include corporate planning based on central goals; comprehensive program budgeting; management improvement programs; contract employment for managers; central auditing; and performance monitoring of individuals. The key aims were to empower public servants and increase managerial quality (O'flynn 2007). In brief, performance management have been applied in association with the drive of NPM in some countries. On the other hand, NPM also focuses on performance management practices as efforts to modernise the government and improve performance in public sector organisations (Hood 1991).

It is argued that performance management has been implemented in the public sector for decades. Besides of the influence of NPM, another reason of using performance management, as Moriaty and Kennedy (2002 cited in Radnor and McGuire 2004: 248) point out, is that because public sector organisations operate without market competition. Hence, the implementation of performance management is often utilised as a means of a substitute for market pressure.

Nevertheless, the practice of performance management in the public sector now becomes common in some countries. Since public sector organizations have relied on action controls (rules and procedures) to control organizations, the implementation of performance management is inevitable. Further, for instances, most Western countries have promoted several initiatives to stimulate the use of performance management practices in public sector organizations including central government, local governments and other public sector organisations such as hospitals, education institutions, police forces, etc (Verbeeten 2008).

Further, Performance management practice is useful to provide some managerial purposes. As Verbeeten (2008: 430) summarises from diverse sources, the managerial purposes of having performance management in the public sector can be: *First of all,* as "communication purpose" which is the definition of clear missions, objectives and targets helps each employee understand what the organization wants and provides focus in operations see Rangan 2004; Merchant and Van der Stede 2003; Kaplan 2001; Hyndman and Eden 2000; cited in Verbeeten 2008: 430). *Second*, as "transparency purpose" by measuring performance with regard to the objectives and targets, politicians and public managers should be able

to tell the public for what reasons their money is spent. *Third*, as "learning purpose" since public sector organisations may use performance measurement to learn and improve performance. More importantly, the transparency created by measuring performance may indicate where the organisation excels, and where improvements are necessary. *Fourth*, as "appraising purpose" which is a performance measurement system may provide the basis for compensation of public government officials.

## B.2. A strategic framework

The term of performance management has extensive understanding in theoretical field. However, it refers essentially to those various attempts that are designed to ensure that organisations, units and individuals can work effectively and efficiently (Storey 2002). The word performance itself is basically associated with the carrying out of a work task, duty or objectives. Moreover, as Tovey and Uren (2006) add, it is also implied that performance should be done a satisfactory level. To achieve the desired level, performance at least include three steps namely inputs (skills, knowledge, etc), process (behaviours) and outputs (measurable results). The following figure describes the process of performance;

**Figure 1 : The process of performance**
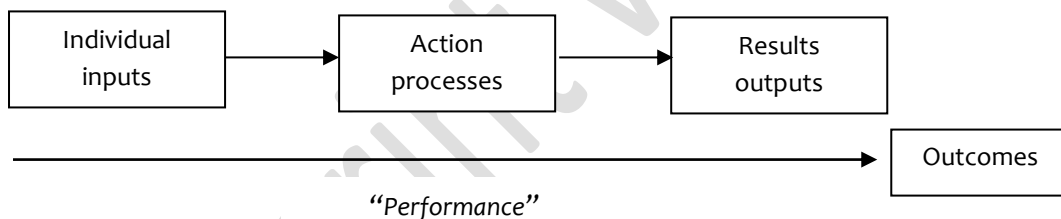


*Source: Tovey and Uren (2006). Managing performance improvement. p.85.*

Based on the figure 1, performance actually entails the process which consists of input, behaviour, and results. Also, as it concerns with the achievement of specific, desired and identifiable results; the recognition of performance can be done by confronting the actual results and desired results. Performance defined as outcome is more clearly understood since the result at the end can easily explain what performance is. An individual's performance can be assessed 'good' if the real result is as same as the planned performance from the beginning. So, it actually is based on planning, as Williams (2002) underline briefly that defining performance is basically setting goals. Performance ideally should be planned and can be measured. Through good planning and defining performance appropriately, the measurement process can be conducted effectively; as Armstrong and Baron (1998 cited in Mwita 2000: 19) say, "If you cannot define performance, you cannot measure or manage it." This also becomes a reason why all organisations really need the performance management. Performance must be managed in order to obtain the desired outcomes.

However, some critics of performance management suggest that performance management, particularly in the process of review, may cultivate short-term performance and annihilates long-term planning. Perhaps, this is because of performance management is conducted annually or less than that period. Further, it is also argued that performance management may create fear, demolish teamwork and nourish rivalry and politics (Deming 1982 cited in Nankervis and Compton (2006: 84). Indeed, Pfeffer and Sutton analyse (2000 as cited in Scullen, Bergey and Aiman-Smith 2005: 2) that performance review can be counterproductive for the organisation in terms of discouraging collaboration and teamwork among employees. Naturally, the review system can be devastating to the morale and trust of an organisation (performance-appraisals.org 2007). Davis and Rogers (2004) add that low morale might result since employees work against each other instead of with each other. Sometimes, employees often perceive the process of evaluation as unfair as well as arbitrary; and it consequently produces negative competition between staff. Each individual will endeavour to be the best staff among the others in order to obtain good evaluation. As a result, the atmosphere of competition in the workplace probably becomes unconstructive.

Additionally, performance management is criticised because it is just beneficial for the top management. Given the central role played by the performer, it is also surprising that performance management sometimes continues to be a predominantly top-down effort (Buchner 2007). At the same time, it is also recognised as a major source of frustration for managers (Lawler 1994; Glover 1996 as cited in Nankervis and Compton 2006: 84). Of course, not all of managers are pleased for doing evaluation to their employees. Performance review may be taking a long time, consuming a lot of mind and thinking; and sometimes it also creates negative relationship with the employees.

Yet, although there has been an enormous amount of research conducted on performance management, making it one of the most praised, criticised, and debated HRM practices for decades; performance management programmes arguably still benefit both their organisations and their employees. It can also provide individual feedback and collated organisational data which can be used for human resource planning and programme evaluation purposes. In fact, collected data can support managerial planning, human resource development programmes, and remuneration schemes. On the other hand, individual performance management outputs may include opportunities for remedial skills development, retention, career development, and training or upskilling programmes (Nankervis and Compton 2006).

Theoretically, performance management can be defined as "a strategic and integrated approach of increasing the effectiveness of organizations by improving the performance of people who work in them and by developing the capabilities of teams and individual contributors" (Armstrong and Baron 1998 cited in Bilqin 2007: 94) In the public sector, performance management model basically do not have significant differences with the model implemented in the private sector. Since the former is considered to adopt the theory from the latter, performance management in the public sector essentially has a similar process except for the existence of government involvement in the decision making. For the detail,

Beardwell and Holden (2001 cited in Bilgin 2007: 95) elaborate the framework of performance management as it indicates below;

**Figure 2 : The framework of performance management cycle**
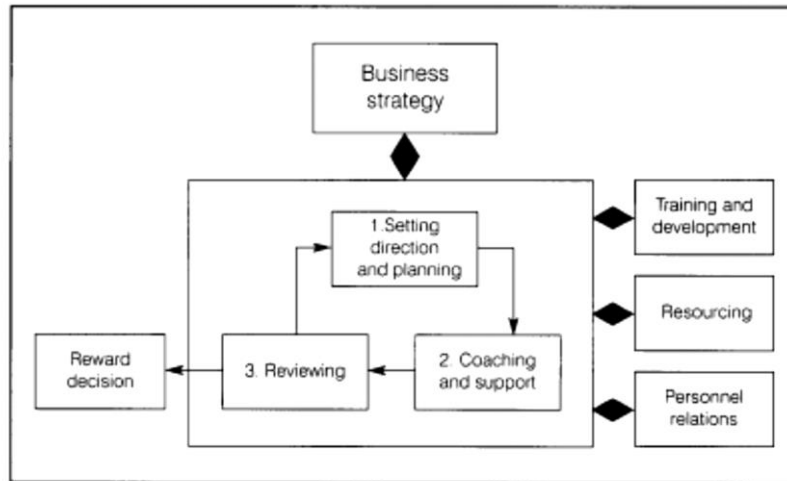


*Source: Beardwell and Holden (2001), taken from Bilgin (2007: 95)*

The framework 2 depicts that performance management strategically has a strong root with the business objectives of organisations. Some further researches have discussed this area that human resource management (HRM), as a function, has to be aligned with the business strategy. In other words, there is demand that HRM should be as a strategic business partner (Conner and Ulrich 1996; Jamrog and Overholt 2004). This situation consequently includes performance management as a part of HRM function.

Further, performance management itself is a long process which is generally started with the steps such as performance planning, performance coaching or training and development, and performance review or appraisals. More than that, this process is sort of an integrated cycle which one element really depends on the other and there should be improvement and correction if one element has difficulties. Performance management cannot work if one element disappear or generate another problem to the other. For instances, there will be difficulties if performance planning does not establish measurable indicators which, then, performance appraisals cannot be done properly since they do not have indicators to be used.

## B.3. The process of performance management

As it is mentioned before, performance management is an integrated cycle and a long process. To make simpler, there are three processes which underpin performance management to run well. They are performance planning, performance training and development, and performance appraisals (Beardwell and Holden 2001 as cited in Bilgin 2007: 95).

### B.3.1. Performance planning

Ansoff (1991 as cited in Lam 1997: 11) argues that planning generally produces better organisation in terms of environment alignment and financial results. Planning is more beneficial than doing trial-and-error learning because is has been identified as an important means to develop a clear focus of the business in terms of customers served and value provided, along with identifying the areas in which the organisation must excel in order to be successful.

From this point, performance is one of elements which should be planned carefully at the beginning period. Performance planning can be manifested in such activities as defining job responsibilities, setting performance expectations or objectives, and also establishing performance indicators (Grote 2002). The idea of performance and planning actually has a positive relationship; as Lam (1997) points out that an organisation with a clear objective of planning together with a sophisticated planning process are likely to achieve high perceived performance. A research from Glaister, Dincer, Tatoglu, Demirbag, and Zaim (2008) also tends to support this argument.

Performance planning ideally should be designed for both organisational and individual level. Most importantly, performance planning at the individual level must be set because it is needed for the existence of personal development plan. In fact, in the business paradigm as Viljoen (1994 as cited in French, Kelly, and Harrison 2004: 767), it is actually sort of "manpower strategy" which focuses on the personal development plan. Individual performance planning is generally required in the process of performance management. Weightman (1996 as cited in Wilson and Western 2000: 93) further explains that the stages of performance management essentially encourage that individual job descriptions and objectives in an organisation are written and agreed between the staff and the manager. Moreover, individual objectives are derived in turn from the work group objectives and those are a part of a development plan devised by the manager and the individual to meet personal objectives. Therefore, the process of individual performance agreement basically guides each individual to perform according to their own objectives.

Additionally, performance planning at the individual level also needs to be set because it impacts on the implementation of performance appraisals. It is because performance planning forces every individual to establish individual performance indicators which they are required later for identifying what aspects of performance which needs to be measured and appraised. They focus on the ends which is how the results are achieved, while operational plans focus on the means. Performance indicators are measures of different aspects, or parts, or organisations' performance. They play an important role in focusing all staff on what significant achievements need to be accomplished in the current operating period or cycle of the organisation. They also specify the type of evidence the organisation requires demonstrating that strategic and operational plans have achieved the desired results (Tovey and Uren 2006: 31).

By having performance indicators, particularly in the individual level, an organisation will be able to define their employee's performance as something which is observable, specific and measurable. At the end, these circumstances make performance appraisals, as the last process in performance management, can be conducted easily because they will have guidelines and clearly rating procedures utilised to assess each individual's performance (Mathis and Jackson 1998 as cited in Fink and Longenecker 1998: 243).

## B.3.2. Performance training and development

After performance is planned, it should be directed continuously in order to be on the right track until the operating period of organisation is finished. It frequently happens that, although performance is already planned, there are still possibilities that performance will undergo deviations from the main objectives of an organisation. Therefore, performance training and development is required.

Another point to be considered that it is not just providing training for improving individual's skill and knowledge, but it tends to be delivered as an individual development program which can boost performance. The training given must align with the individual's need in order to perform better. It is expected that organisational human resources are performing to the required capacity and standards (Tovey and Uren 2006). The idea of "performance training and development" basically differs from just the "general training and development programs". Here, due to the relations with individual performance, training and development have a strong connection with individual performance planning and personal development plans. Wilson and Western (2000) argue that the training and development should be directly related to the requirements of the job and general personal development. Because of the process of individual performance planning set a clear sense of individual direction, it can identify training and development needs at the individual level. Besides, it is also useful for individual to be committed and motivated to achieving the objectives.

Consequently, performance training and development applied to an individual may differ from what the other obtains. Further, individual training and development plans will probably not be implemented the same after year. The implementation may vary based on the identification of individual needs addressed by either the manager or the employee (Wilson and Western 2000). Therefore, it is expected that this process will support organisational objectives because personal training and development plans should include the individual job-related ones. Indeed, this also encourages continuous improvement since personal development is important in a learning environment and often leads to greater willingness to undertake further development. As Rowan (2005) analyses that there are meaningful connections which learning and performance systems are linked within the organisation. While learning has a positive connection with employee performance, it also has a positive relationship with business outcomes.

### B.3.3. Performance appraisal

Over the past 30 years, performance appraisal has achieved a higher profile in the human resource function of most organisations (Wilson and Western 2000). As a part of the larger process of performance management, it is commonly recognised that a performance appraisal is "a formal management system that provides for the evaluation of the quality of an individual's performance in an organisation" (Grote 2002: 1). It is also acknowledged as a process of communication between two people who share information about the performance of one party. Indeed, Tovey and Uren (2006: 167) define it as "a specific communication, facilitated by the appraiser, about the existing work performance and the planning of the future performance of an individual."

Since it is considered as a kind of communication, the appraisal is usually prepared by the employee's immediate supervisor. Sometimes, it is conducted annually or less than that. There are various tools of appraisal. Yet, in general, the procedure typically requires the supervisor to fill out a standardised assessment form that evaluates the individual on several different dimensions and then discusses the results of the evaluation with the employee. The standards are established during individual performance planning, or in other words, they are called individual performance indicators. The study from Tapinos, Dyson, and Meadows (2005) shows that performance appraisal and performance planning must has a positive relationship. Based on these indicators set up in the performance planning, every individual is evaluated by appraisal tools against the standards and objectives agreed among the staff and the manager. It is expected here that the standards or targets are measurable and defined clearly from the beginning. Simultaneously, the realisation of the potential benefits of performance appraisal has also led to the needs of enhancing both organisational and individual strategic planning. Therefore, Marchington and Wilkinson (1996 as cited in Wilson and Western 2000: 93) describe performance appraisal as a cyclical process for determining performance expectations; supporting performance; reviewing and appraising; and, back again, in managing performance standards.

In short, performance appraisals will be a tool to find out whether performance meets the target or not, and consequently, it is really indispensable to measure and assess the level of performance. Neely, Mills, Platts, Gregory and Richards (1994 as cited in Tapinos et al 2005: 373) claim that performance appraisal fundamentally will help managers to identify good performance and provides a means of introducing individual strategic stretch targets. Moreover, the purpose itself is for just for evaluating the individuals' performance but also for developing their future performance. Wilson and Western (2000) argue that performance appraisal interview is widely regarded as one of the main instruments for identifying training and development needs at the individual level. Once the individuals' weaknesses are found during appraisals, the improvement from the managers basically are given in order to perform better in the next period.

## B.4. The use of performance management

The practice of performance management in the public sector fundamentally has been evolving better with enormous interest reflecting from practitioners and scholars (Mwita 2000). The use itself is not just for clarifying employee work expectations, managing performance or monitoring workforce improvement (Tapinos et al 2005). It is identified that the purposes of performance management basically can be classified into three kinds: strategic, developmental and administrative purposes (De Cieri and Kramar 2005).

Further, De Cieri and Kramar (2005) elaborate that the strategic purpose of performance management is to link employee activities with the organisation's goals. Then, with developmental purpose, performance management is designed to improve each individual's performance. The feedback given by managers during a performance evaluation is an example for improving employees' performance. Lastly, the administrative purpose of performance management can be used for making administrative decisions such as pay rises, bonuses, promotion, retention, and termination.

Aligned with the administrative purpose, Mathis and Jackson (1998 as cited in Fink and Longenecker 1998: 243) also indicate that the primary goal of performance appraisal systems is basically creating a linkage between merit and pay. Moreover, as it has been happening in the private sector, performance management in the public sector has been used in association with reward systems. Hence, some public sectors in several countries have implemented performance-based pay.

Mann's work (2006) shows that in an attempt to manage performance and increase productivity, some public organisations also have increasingly turned to reward orientations such as merit pay and pay-for-performance approaches. In United Kingdom, for example, one of reasons why some companies tend to use performance-related pay is because the government like it. A third of the total remuneration is performance related. It is regarded as the best practice and good corporate governance of the moment (Bender, 2004).

Indeed, pay-for-performance plans play a crucial function in organisations. Stiffler (2006) argue further that reward component and the performance management model are basically an integrated aspect of creating a performance-driven organisation. Indeed, linking the measures to rewards is the power steering that enables the organisation to rapidly change the behaviours of the entire workforce and keep them on the straightest path, to achieving the organisations' strategic objectives.

Besides, another benefit of linking performance to compensation can be seen from the ideas of motivation (Stonich 1984, Williams 2002). Motivating people is also one of important motives to set performance-related pay. It is regarded by some people that contingent pay is the prime method of motivating workers. By not ignoring the role of intrinsic motivator which is usually derived from the content of the job and individual inside, performance-related pay seems like direct motivation due to it give more incentives and encourage workers to produce more effort and generate higher performance. It is somewhat of

expression, "You will get this if you do that." On the other hand, base salary probably just demonstrates, "You have achieved this; therefore we will pay you that" (Armstrong and Murlis 2005: 283). From here, performance-related pay is expected to increase employees' job performance.

As an example, one research conducted in the University of Texas M.D Anderson Cancer Center implementing pay-for-performance to the workers shows that such reward system can increase motivation and performance. By implementing merit pay which is a program that determines differing reward amounts according to the employees' performance level, the employees of University of Texas tend to perform better particularly because of a reason to get more pay. There, employees who are top performers will receive more money and recognition than average performers. It is true that one effect of performance-related pay is to distinguish high performers from low performers. Finally, the result of research indicates that employees are inclined to receive performance scores in the middle to upper range and there are few ratings at the low end of the scale. It means that increasing the linkage between employee performance and rewards is an effective component to encourage workers in conducting jobs. It will be a motivational factor causing lower performers to realise the need to improve their performance to obtain merit rewards (Helm, Holladay and Tortorella 2007).

Another case in the Medical Center Columbus also point out that pay-for-performance is very powerful to increase the level of performance in the workplace. It is reported that employees' performance began to improve immediately after the new rewards-based program was introduced in the Medical Center. The reward system is chosen due to that the rewards are more tangible and they can stimulate employees to work toward a specific goal (McKnight, McDaniel and Ehmann 2006). Thus, money is still considered as a great motivator. Based on 'the economic man' approach which is anchored in reinforcement theory, people are principally motivated by economic rewards (Armstrong and Murlis 2005). Money serves not only as a motivator due to its satisfying effect on economic needs but also provides to meet certain individualistic psychological needs such as security, esteem and feedback about achievement (Gerhart and Rynes 2003 as cited in Helm et al 2007: 51). In reality, some researches identify that high performers are most likely to seek other job if their performance is not sufficiently recognised with financial rewards (Trevor, Gerhart and Boudreau 1997 as cited in Helm et al 2007: 51).

Further, because of its role is to stimulate the level of employees' performance to the higher point. Thus, it is reasonable if managing performance is considered as the primary purpose of reward systems. Money seems like a great motivator to encourage people in doing the jobs. Monetary rewards may need to be modified continuously since people undoubtedly tend to be highly motivated when earning more money. As Lawler (2000) said rhetorically (cited in Stringer 2006: 63), "linking money to performance seems like providing a silver bullet that can be easily shot and can yield large improvements in performance."

As a result, performance-based pay becomes a trend in the public sector which is usually used for determining individuals annual pay raises or their year-

end bonuses. If the result of appraisals are indicated as the same as the expected planning, this circumstance will affect on the amount of payment each individual obtain. In brief, performance management system encourages public organisations to pay more for individual performance.

## C. Performance management in the Indonesian Public Service

### C.1. The Indonesian Public Service

According to Scott (2002 as cited in Kristiansen and Ramli 2006), the Indonesian civil service has its roots in the Dutch colonial administration. It has a civil service system based on life-long appointments of civil servants. At the present, Indonesia's civil service has a dual system of positions. Every civil servant has a rank and position. There are four service ranks *(golongan)* according to educational background, which are divided into four to five grades, giving the civil service a total of 17 service levels: *golongan* Ia-Id, *golongan* IIa-IId, *golongan* IIIa-IIId, and *golongan* IVa-IVe (see appendix for more detailed). For each service level, there is a certain educational minimum requirement (see appendix) (Rohdewohld 1995: 94). There is no formal job classification in the civil service. Entry ranks are mainly determined by education level, and increases in rank are largely driven by seniority with a maximum rank depending on the entry level of the civil servant (World Bank 2008)

In terms of positions, the main distinction in the civil service is between structural or managerial positions *(jabatan struktural)* and functional positions *(jabatan fungsional)*. Structural positions are line management positions in the administration, i.e. the holder of structural positions are the heads of work units in the organisation and supervise directly a certain number of subordinates. Structural positions are general management positions in the sense that their holders can be transferred between various technical fields of work; therefore their holders must fulfil educational requirements only regarding the level of education but not regarding the specific field of education. Structural positions are divided into four levels (Eselon IVb-Ia), echelon I level being the highest (Rohdewohld 2005). On the other hand, functional positions are career positions linked to specific academic or technical professions, like medical doctors, computer operators, lecturers, and librarians. To be recruited to a functional position, the candidate must fulfil specific technical or academic requirements. The transfer to other functional positions is not possible unless the specific requirements of those functional positions are also being met. For each type of positions different career and training path exist (Rohdewohld 1995: 94-95).

Additionally, there is a direct relation of rank and grade with the *eselon* level for those civil service positions that are classified as structural positions *(jabatan struktural)*. These are mainly managerial responsibilities although it includes some high-level advisors, or functional such as lawyers, lecturers and teachers (World Bank 2008). The direct relation means that the higher the *eselon* position, the higher rank and grade of the civil servants.

According to the latest census by The National Civil Service Agency (Badan kepegawaian Negara/BKN) on 31 desember 2007, the Indonesian's civil servants is 4.067.201 with the proportion of 2.292.555 (56,4%) men and 1.774.646 (43,6%) women (BKN: 2008). At about 2 percent of the population, this is small compared to Indonesia's South East Asian Neighbours, although it is about at par with other low or low-middle income countries such as China and India. Besides, a large but unknown number of civil service workers are not registered as such. These *Tanang Kerja Non-PNS* (non-pegawai negeri, or non-civil service workers) are either local government employees paid from local government revenue sources, or government employees paid from the development budget. They could add up to 20-30 percent to the numbers of public sector workers, but no systematic data are available (World Bank 2008).

In order to have an effective and efficient public service, most of the governments have developed a special institution in charge of human resources management. In some countries, this body is called Civil Service Commission (CSC) or Public Service Commission (PSC). In Indonesia, such commission as the CSC or PSC is not exist yet. Even though in Law No. 43/1999 which was in effect starting the year 0f 2000, it is stated that the CSC should be established, but up to present the government still does not have any intention to form such the body (Tjiptoherijanto 2006). Such CSC is like a neutral body which ensures that system-wide norms and standards are developed in personnel management areas such as recruitment, training, promotion or discipline (World Bank 1993 as cited in Rohdewohld 1995: 106). According to Rohdewohld (2005: 154), the revision of the civil service law in 1999 which included the stipulation to establish an independent Civil Service Commission has not been implemented yet because of shifting policy priorities and internal resistance in the government's bureaucracy.

Therefore, the division of responsibility among line ministry and institutions related to human resource management in Indonesian public service is illustrated below:

**Table 1:**
**Institutions responsibility for human resources management**
**in Indonesian Public Service**

| No | Agency | Function |
|---|---|---|
| 1 | The office of the President (State Secretariat and cabinet Secretariat) | Overall government policies |
| 2 | Ministry of Finance | Pay and pensions |
| 3 | The Ministry of State Apparatus Reform [Kementerian Pendayagunaan Aparatur Negara (MenPAN)] | Supervision coordination, monitoring and evaluation of all civil service's matter |
| 4 | The National Civil Service Agency [Badan kepegawaian Negara (BKN)] | Appointment, promotion and transfer |

| 5 | The National Institute of Administration [Lembaga Administrasi Negara (LAN)] | Education, training and organisational design |
|---|---|---|

*Source: Tjiptoherijanto, 2006:12*

Based on the table 1, Indonesian public service's human resources management is not performed by an independent body which reports directly to the President. Yet, it is still done in the hand of institutions within the government bureaucracy (Tjiptoherijanto 2006). The central regulatory environment is characterized by the large number of agencies as the table 1 indicates that share responsibility for managing the national and regional civil services. All have responsibilities for supervision, regulation, policy-making, line management, technical assistance and training (World Bank 2006).

Officially, MenPAN is the lead agency for formulating and coordinating public administration policies, including civil service policies, policies regarding the procedures and mechanisms of delivering public services, and policies regarding the institutional setup of government agencies. At the same time, BKN is in charge of personnel administration and setting national norms and standards for recruitment, promotion and staff rotation; while LAN determines national policies for civil service training, implements key training programs, and conducts research on public administration (Rohdewohld 2005). Here, BKN is formally responsible for implementing Law 8/1974 as amended by Law 43/1999 by issuing guidelines on hiring, firing and regulating the size of civil servants (World Bank 2003a).

Also, The Ministry of Finance plays significant roles in determining the budget ceilings for the government's personnel expenditures and for the formation of the individual central government agencies (Rohdewohld 2005). Beside these four institutions, there is actually the Ministry of Home Affairs which decides on the allocation of new positions to the provinces following the general agreement on the number of new positions to be created (Rohdewohld 1995). Particularly, the Ministry of Home Affairs carries a great deal of weight with decentralised administration in their management of the civil service (Depdagri 2008; World Bank 2003a).

Another point to be considered is that MenPAN has a powerful authority since BKN and LAN are under his functional supervision and coordination in their daily activities (MenPAN 2008). However, although there are already respective responsibilities among them, the definition is not clear enough. Further, it appears that there is not much coordination and no pro-active leadership for deeper reform initiatives among institutions who are in charge in managing the civil service. The agencies are neither performing their respective functions adequately nor ensuring coherent coordination among themselves (World Bank 2006). For instance, MenPAN is responsible for regulations governing the administration of the country. It carries out this function largely through policy pronouncements and ministerial decrees that go largely ignored by the rest of the bureaucracy (World Bank 2003a). In the meantime, BKN is formally responsible in maintaining as well as updating of civil servants' personal data files, and also regulating the size

of the civil service (Rohdewohld 1995). The Ministry of Finance also plays an important role, as its budget allocations in effect determine the size of the civil service. Yet, both MenPAN and BKN find that many ministries do not wait to ask them before issuing their own decrees and legislation, even though they are required to ensure that such laws and regulations are consistent with the national policy guidelines (World Bank 2003a). Also, the mandates of BKN and MenPAN; for example, reveal considerable overlapping and both appear to be involved in crucial tasks such as guidelines for the preparation of the *formasi* (the new vacancy), recruitment and the recent census (World Bank 2006).

It seems that the Indonesian public service has significant problems. Many observers have documented and analysed the long-standing absence of effective management of the civil service which is rooted in the complexity and ambiguities of the regulatory framework, combined with a flagrant lack of enforcement of the rules and widespread corruption (World Bank 2006). Indeed, there are the problems of institutional approach which are the failure to implement the provision in Law 43/1999 requiring the establishment of a Civil Service Commission and the lack of coordination and collaboration among the related institutions that are in charge due to the fragmentation of responsibilities and tasks.

Moreover, moral issue has been an ongoing problem which generates such illegal activities as bribery, corruption, nepotism, and others. Moreover, a research reveals that the positions in the civil service are subject to hidden market transactions. Selling and buying civil service positions are common (Kristiansen and Ramli 2006). Synnerstrom (2006) also indicates that when corruption is endemic, everything is for sale. In Indonesia, most civil service positions are for sale, rather than being acquired in open competition based on merit. Indonesian civil servants are considered low, not transparent, not accountable and lack of initiative (Tjiptoherijanto 2006). Hence, the idea of the Indonesian civil service reform which has been declared since years ago must be totally maintained and implemented.

## C.2. Performance management practice

Based on World Bank's report about the Indonesian government in 2001, the civil service reform in Indonesia strategically should include changes in measures to improve civil service performance (World Bank 2001: 64). Without neglecting other civil service problems such as moral or remuneration issues, performance management is one of area which needs to be focused seriously.

It is known that beyond performance is managing the process. As a long process, performance management is generally started with setting performance planning which means defining job responsibilities as well as establishing expectations and targets at the beginning of the period (Bilgin 2007; Beardwell and Holden 2001). Inside Indonesian civil service case, in the planning stage, stakeholders are encouraged to provide inputs and comments through a series of Development Planning Meetings from the local level up to the national level, or directly to the National Planning and Development Board (BAPPENAS). Fundamentally, all public sector agencies are required to have Strategic Plans (Renstra) and Work Plans (Renja) to support the implementation of the

Performance-based Budget System. Both plans are the resources used by the BAPPENAS and Ministry of Finance in analysing and approving the proposed funding of government agencies. A similar open and more participative process is also used by local government to issue its budget (APEC 2007).

Basically, Indonesian civil service uses accountability system called SAKIP (Sistem Akuntabilitas Kinerja Instansi Pemerintah) which is started with setting the strategic plans (Renstra) and then elaborated further in the work plans (Renja) respectively. Renstra is a long strategic planning which guides the government agencies to set the programs within the next five years. The programs themselves are elaborated further in Renja which is an annually plan supporting the Renstra (BPKP 2007). At the end, as part of the system, government agencies have to submit Performance Accountability Reports [LAKIP (Laporan Akuntabilitas Kinerja Instansi Pemerintah)] to the president every year, through the Ministry of State Apparatus Reform (MenPAN). Such this whole process, with the exception of Renja, is stated clearly by the Presidential Instructions no. 7/1999 (BPKP 2002). Indeed, the President has instructed the implementation of performance accountability systems as a means for government units in achieving their mission and goals. In this case, the National Institute of Public Administration (LAN) has a significant role in establishing performance accountability reporting through Socialization, Assistance and Technical Assistance activities (BPKP 2008).

The main objective of LAKIP is to evaluate the capability of the agencies in executing their vision and mission in achieving the purpose for which they were established. MenPAN has conducted seminars and training for the preparation of LAKIP, while BAPPENAS and the Ministry of Finance are responsible for providing information regarding the Performance-based Budget System (APEC 2007).

Based on the information provided, it seems that performance planning in Indonesian civil service is still focused only on the level of organisational. Both Renstra and Renja are sort of corporate planning. What is missing here is that Indonesian public service does not have any kind of individual performance planning which essentially must be implemented at the beginning of the process of performance management. Therefore, each individual has never established their performance indicators and their work objectives. Consequently, it is difficult to measure their work progress as well as to determine whether they have already achieved their targets or not.

Theoretically, the second process of performance management is performance development or coaching which emphasises on monitoring progress and ensuring that performance is still on the right track and aligned with the planned goals (Beardwell and Holden 2001). Providing training and development program is one of ways in this stage and should become planned agenda as well as reactive program.

Conversely, although human resource management for the civil service has received much attention from the Indonesian government because of the importance attached to the role of the administration in the development process, a major weakness of these human resource management efforts has been the lack of linkage between training and personnel planning, both on a system-wide level (manpower planning) and individual level (career planning).  According to USAID

(2006), training is supply rather than demand driven. Training and curricula are not being developed to fulfil the demand of new government agencies' functions and obligations. Rohdewohld (1995) also add that training and education is usually based on the availability of funds rather than an analysis of individual or institutional training needs. The improvement of work-related skills and knowledge is furthermore only one rationale for training: training might as well be regarded as non-monetary reward, especially if training takes places abroad. If staff members, after their return from training, are moved to another position not connected with the training they received, the impact of this training is made negligible.

Last but not least, performance appraisal is needed at the end of the period for reviewing all activities as well as civil servants' performance and, ideally, it is useful to tracking and improving each individual or government agency's performance for the future purposes.

However, Indonesian civil service may have a significant problem in this step. The main instrument for the performance appraisal of civil servants is the so-called DP3 document *(Daftar Penilaian Pelaksanaan Pekerjaan,* literally: Work Implementation Evaluation Register*)* which is anchored in the regulation PP no. 10/1979 (BKN 2008). There are eight elements that are evaluated namely aspects like loyalty, work achievement, responsibility, obedience, integrity, cooperation, initiative, and leadership qualities (SANRI 1996). Performance evaluation should be done annually, and the result of the evaluation is to be reviewed by both the civil servant concerned and the evaluator's supervisor.

Yet, some critiques are addressed to performance criteria since DP3 approach are designed and focused on intangible civil servants attributes such as loyalty or integrity rather than on the output of work done (Sutiyono 2007). Further, the DP3 performance criteria are not specified, and performance is not measured against agreed targets and objectives (Rohdewohld 1995). This is because of the evaluated elements are not set up by the civil servant at the beginning of period since Indonesian public service does not have individual performance planning. The targets or the objectives have never been established by every individual. So far, Indonesian public service encourages the process of setting targets only in the corporate level which is manifested in the form Renstra and Renja. However, both corporate planning do not connect totally with the DP3.

A research by Noorhidayah (2001) reveals that performance appraisal DP3 does not meet the terms of appraisal requirements at the administration unit. The appraisal of loyalty and obedience element made wrong perception, means loyal and piety with manager. Further, the statement appraisal does not directly relate to employee's job description. For instance, the element loyalty fundamentally means that the civil servant has to be a loyal to Pancasila and the Indonesian constitution of 1945 (Sutiyono 2007; BKN 2008). Hence, it does not really connect to the work performance of civil servant. Another research by University of Gajah Mada in 2005 also supports the idea that the criterion of loyalty does not represent accurately the civil servants' performance. Additionally, the study conducted in local government in Gorontalo Province also points out that the element of obedience need to be re-evaluated (Gorontaloprov 2005).

Based on Adisasmito and Paramita's study (2005), the perception of civil servants on DP3 is not good as the socialisation of DP3 is insufficient. It is strictly secret to be opened in the public. Yet, the impact on the personnel development is dissatisfied. Still according the research, the results of DP3 are rarely communicated with the related civil servants so the further action after performance appraisal is nothing. Moreover, some civil servants might not understand clearly about the procedure of DP3.

Besides, according to UNDP (1991 as cited in Rohdewohld 1995: 105), "There is usually no appraisal interview, no discussion of individuals' aims and ambitions, and no development plan. The system itself has minimal influence on performance, allocation of staff, training plans, promotion or individual development." It is true that DP3 is used as consideration for every civil servant to obtain a promotion. Yet, it is still regarded as a formalistic procedure because, in reality, civil servants still get chance to get a promotion within at least every four year as long as the score of DPS in each element reach minimum "good". There are five grades of DP3 score which are very good (91-100), good (76-90), pass (61-75), fair (51-60), and poor (below 50) (BKN: 2008). To get the minimum score is not difficult on condition that the civil servants do not conduct serious bad behaviour. Therefore, as indicated by USAID (2006), DP3 indicators are uniform, very subjective and applied to all ranks. The result of appraisal itself seems to be a routine, predictable, and meaningless activity. Sutiyono's work (2007) supports this phenomenon that, except in highly unusual cases, DP3 appraisals are almost always favourable and there is little differentiation among individuals. Consequently, advancement therefore remains largely automatic because nearly all Indonesian civil servants get an automatic salary increase every two years and an automatic salary grade increase every four years. However, these increases are based on seniority and do not root from performance evaluation.

In short, performance evaluation in Indonesian civil servant still does not focus on the 'real' performance on the job. It is not the desired results *versus* the actual results since the performance appraisal DP3 does not confront the set targets or objectives with the result. DP3 may be totally different with the concept of performance appraisal which aligns to the set targets established by civil servants who are in charge at the beginning of period.

Also, at the same time, the focus of evaluation tends to emphasise more on the budget rather than performance itself or the outcome of work. So far, as admitted by Setia Budi (2006), the director of evaluation in MenPAN, it is difficult to find a good management profile in either central or local government due to the lack of supervising performance. Up till now, the process of evaluating is just focused on the financial report and it has not touched the performance yet. Further, it is unclear who has a responsibility to manage the civil servants' performance. The indicators of success in every government agency's performance also need to be clarified.

Generally, Indonesia civil servant seems to interpret differently the term of performance. It can be seen in a case of 'performance based-pay' system which has just been implemented recently for every judge and staff in the national court *(The Pengadilan Negeri)* Surabaya. With this new remuneration system, every individual

will be able to get more allowance, even as much as their basic salary, if their performance is assessed well based on the policy. Yet, the definition of performance here is just limited in term of attendance and they cannot come late to the national court every morning. It means that if the judges and staff attend the office everyday, they will fully get the new allowance (Jawa Pos: 5 Agustus 2008).

In relation with the issue of performance-based pay, Indonesian public servants normally are paid in accordance with their rank, no matter what they do, rather than in accordance with their job and responsibilities (Synnerstrom 2006). The practice of linking pay to performance seems still at the beginning. It can be traced from an innovative remuneration system which has been introduced in Ministry of Finance. But, different from what happened in the national court, Ministry of Finance is chosen as pilot project among government agencies to implement the 'real' performance based-pay, not just attendance based-pay. So far, all Echelon I or top level management in the Ministry of Finance has been subjects for this implementation. For them, the ministry has compiled a set of guidelines for improving the structure of remuneration and tied it to their work done (McLeod 2008). It is expected that this idea will be implemented in all Indonesian public service agencies. The plan basically can be noticed in the next national budget plan for 2009. As Menko Perekonomian (2008) promises, starting from 2009 and the following years, the Indonesian government will gradually implement the performance based-budgeting for all government agencies.

For a start point, Gatot as a manager of public relation in MenPAN explain (cited in Jawa Pos: 26 October 2008) that the planning of performance-based pay implementation will be applied just in the government agencies that are in charge of collecting budgets such as Ministry of Finance, Ditjen Pajak (Direktorat Jendral Pajak or Directorate General for Taxes), and Ditjen Bea & Cukai (Direktorat Jendral Bea & Cukai or Directorate General of Customs and Excise). Moreover, for those three agencies, the system basically has been implemented recently even though there are critiques from DPR (Dewan Perwakilan Rakyat or (House of Representatives). Then, they will be followed by agencies which are responsible in creating laws such as BPK (Badan Pemeriksa Keuangan or Supreme Audit Broad) and Mahkamah Agung (Supreme Court of Indonesia). Afterward, Sekretariat negara (State Secretariat), MenPAN, TNI (Tentara Nasional Indonesia or Indonesian Armed Forces) and Polri (Kepolisian Negara Republik Indonesia or Indonesian National Police) will also implement the new system. With regard to this idea, it is also argued by Gatot (cited in Jawa Pos: 26 October 2008) that the performance-based pay in Indonesian public service is essentially required for reforming bureaucracy, improving individual performance, and encouraging all staff to stay focused on their official tasks professionally without concentrating in another job outside public sector due to the reason of low salary as a public servant.

## D. Performance management in the Australian Public Service

## D.1. The Australian Public Service

The Australian Public Service (APS) is a national institution that plays a significant role in the Australian democratic system of Government. It is internationally recognised as being at the leading edge of good public administration (APSC 2005). Indeed, the (APS) is the Australian civil service, the group of people employed by departments, agencies and courts under the Government of Australia, to administer the working of the public administration of the Commonwealth of Australia. The APS is formally comprised of all persons employed under the Public Service Act 1999. This includes all government departments, the court system and also some government agencies. The Public Service Act is provided for the management and establishment of the Australian Public Service. The principal objectives of the Act are to provide a legal framework for the effective and fair employment, management and leadership of APS employees. It is also for establishing the rights and obligations of APS employees (APSC 2005).

APS staff can be categorised into ongoing (permanent) staff and non-ongoing (contract) staff. Ongoing staff or career public servants are still divided into full-time and part-time staff. Occasionally, non-ongoing staff which is considered as a second category of Australian public servant may be employed for a specified term (which cannot exceed three years, in response to a temporary increase in workload, a need for specialised skills, the absence of an ongoing employee, or pending ongoing filling of a vacancy), for a specified task (where the duration of the task can be estimated and the services of the employee will no longer be required after the completion of the task), or for duties that are irregular or intermittent (APSC 2003).

Career public servants make up the large majority of APS staff. In the 2006-07 financial years, there were 155,482 public servants employed under the Public Service Act. This includes 143,525 ongoing employees and 11,957 non-ongoing employees. Additionally, there has been particularly notable growth in women's employment in the APS, reflecting strong growth in agencies which have a highly feminised workforce. Women now comprise 57% of APS employment, continuing a long-term trend of increasing female employment since 2000 (APSC 2007a). Besides, the major group of public servants is working in the Australian Capital Territory (36%) while the largest government agency is Centrelink with 27,296 staff, followed by the Australian Taxation Office (23,110) and the Department of Defence (21,177). The ranking of the three largest agencies has remained unchanged for the last seven years. These three account for just under half of the total APS employees (APSC 2007b).

For career APS, as founded on APSC (2007a), there are 11 classification groups which are APS 1, APS 2, APS 3, APS 4, APS 5, APS 6, Executive Level (EL) 1, EL 2, Senior Executive Service (SES), Trainee, and Graduate APS (for further detailed number, see Appendix).

Under the 1902 Act, supervising Australian Public Service is very centralised and managed by the Australian Public Service Commission (APSC)

(APSC 2003). This institution is responsible in any Australian civil service's matter. The commission has both statutory powers (under the Public Service Act 1999) and policy responsibilities. It has authority to deal with all APS agencies which is divided into four categories namely category A (Departments), category B [Statutory Agencies with all staff employed under the *Public Service Act 1999* (the PS Act)], category C [Statutory Agencies which have the capacity to employ staff under the PS Act as well as their own enabling legislation (dual staffing bodies)], and category D (Executive Agencies) (see Appendix for detail). In fact, there is still a fifth category (Category E) includes bodies which employ staff under the *Public Service Act 1999* and operate with some degree of independence (e.g. some have their own Certified Agreement or are separately identified under the *Financial Management and Accountability Act 1997* or the *Commonwealth Authorities and Companies Act 1997*). However, these bodies are parts of APS Agencies rather than separate APS Agencies as defined in the PS Act (APSC 2008a).

A study from Public Service and Merit Protection Commission (PSMPC 2000) indicates that there is a transition in the APS area of people management. Human resource (HR) people are no longer the 'administrators', but now are focusing their effort and initiatives on assisting APS agencies to achieve their business results. The core of the role is to work together with APS managers to assist in the identification and resolution of the people side of their business issues. Further, still according to the study of PSMPC, APS managers and HR people perceive workforce planning to be an important issue. Both believe that performance needs to be improved. Therefore, there are some important areas which need to be improved for creating a more capable APS, and one of those is performance management (PSMPC 2000; Dixon 1996), which all APS agencies must be held accountable for their management performance (Dixon, Kouzmin and Kakabadse 1996). This issue is rated as important and requiring improved levels of performance from the HR function.

## D.2. Performance management practice

Anderson, Leech and Teicher (2004) argue that the APS has striven to become a performance-focused public service over the last two decades. The history has been recording a long engagement of Australian public sector management about performance management. Such theme as how to assess, reward and improve performance basically has been a constant discussion since 1906. At that time, the first Public Service Commissioner attempted to introduce a rigorous performance based increment system at the start of the last century but political and industrial pressure worked against him. So, there were also unwillingness and no passion from the commissioner to implement performance management because of the community's rejection. As an example, according to McLachlan, the first Australian public service commissioner in 1906 (as cited in MAC 2003: 13), the simple reason of unsuccessfully performance management system was that why the commissioner bother and addle his brain in studying the literature of other nations for improved methods such as performance management when he gets no special thanks for it.

A growing focus on appraisal systems gradually emerged in the 60s and 70s, but they were not embedded as a regular, systematic and effective practice in most agencies. Yet, the report of Royal Commission on Australian Government Administration in 1976 indicates that the genesis of the reform basically can be found in the 1970s, which advocated the pursuit of efficiency through clarifying objectives and delegating responsibilities in some APS agencies (RCAGA as cited in Anderson et al 2004: 2; Dixon 1996). Further, through the 1980s a wave of reform in public administration engaged the APS with trends in management thinking, including from the private sector. Significant among these trends was an increasing focus on managing by outcomes and accountability of agencies for improving management and performance. This coincided with a renewed interest in performance management (MAC 2003).

Then, performance pay with a bonus scheme was first introduced for the Senior Executive Service (SES) and Senior Officers in the early 1990s and was seen as a stand-alone initiative (Wood 1995). It was an attempt to achieve a stronger performance-focus. On the other hand, staff did not see it as part of an overall performance management framework. It was just considered as a mechanism to achieve improved remuneration. The implementation was a one-size-fits-all approach that did not allow for agency differences or relate to the stage of development of individual agencies' business planning (MAC 2003). According to Halligan (1994), Wood (1995) and Marshall (1998 as cited in Anderson et al 2004: 2), the primary driver was fundamentally to redress the growing disparity between the wages of senior personnel in the public and private sectors.

Finally, at the moment, performance management is seen as an urgent need to drive civil service performance. The concept has been evolving recently and it is described as 'work in progress'. Performance management in the APS is the use of interrelated strategies and activities to improve the performance of individuals, teams and organisations. Its purpose is to enhance the achievement of agency organisational goals and outcomes for the government. Also, performance management is an essential component of a corporate governance framework, allowing boards, Ministers and committees to lead, monitor, and respond to how an organisation delivers against its goals, mission and the outcomes required of it by the government (MAC 2003). Yet, although MAC concluded that there has been significant progress in APS performance management, other analysts such as O'Donnell and O'Brien (2001 as cited in Anderson 2004: 2) suggest that there is an enormous gap between the rhetoric and the reality with employees expressing cynicism, poor morale from unreconciled expectations and no evidence of benefits to the agencies.

Institutionally, since a long time ago, Australia has been establishing a unique institution which focuses on just managing Australian Public Service. The institution is called The Australian Public Service Commission (APSC) who are in charge in supporting a highly performing the APS. Control of the Public Service is highly centralised under the 1902 Act and administered by the APSC (APSC 2003). Further, any matter about APS human resource management will also be subject for APSC responsibility.  Those are including arrangements to improve APS-wide productivity which may support improvements in organisational capability and

performance; training and development; supervision and monitoring; promotion and transfer (APSC 2008b).

Indeed, the Commission will stimulate thinking and debate about the future shape of public administration and any changes required. It will focus its research and evaluation programme on challenges facing the APS and public sector reform. Moreover, the Commission will provide policy advice on, and promote systems and approaches to deliver the Government's objectives of accountability, ethics, probity and openness. On top of that, the APSC will actively promote the APS Values and Code of Conduct (see Appendix), examine ways of providing support to agencies in determining sanctions under the Public Service Act, and contribute to the reform of public interest disclosure legislation and information law (APSC 2008b).

Based on APSC corporate plan 2008-2009, their outcome statement is a confident, high quality, values-based and sustainable Australian Public Service. The statement is supported by their mission that is to support a high performing Australian Public Service. The APSC strategic priorities are driving public service reform, advancing the ethics and integrity agenda, supporting efficiency and effectiveness, fostering innovation and engagement, and continuously improving the methods for doing business. These strategic priorities will be reflected in operating priorities and group business planning which the APSC has a role in providing advice to government and agency heads on APS employment policy and law (APSC 2008b).

The APSC also contribute to improve APS performance through preparation of the Commissioner's State of the Service Report to Parliament and through evaluation and research into the challenges facing the APS. Performance management system is one of the ways that the APSC promote and advice on better practice approaches to agency performance, people management and governance (APSC 2008b).

Theoretically, an effective performance management requires a framework that integrates organisational, business and individual planning and performance. In the APS, it is a shared management priority and organisations are heading towards an increasingly common performance management framework that recognises the need for organisational planning to cascade down into development plans or performance agreements for individual staff (MAC 2003; Sutiyono 2008). The following picture indicates the framework of APS performance management as an integrated process from performance planning until performance review;

**Figure 3:**
**A generalised performance management framework**
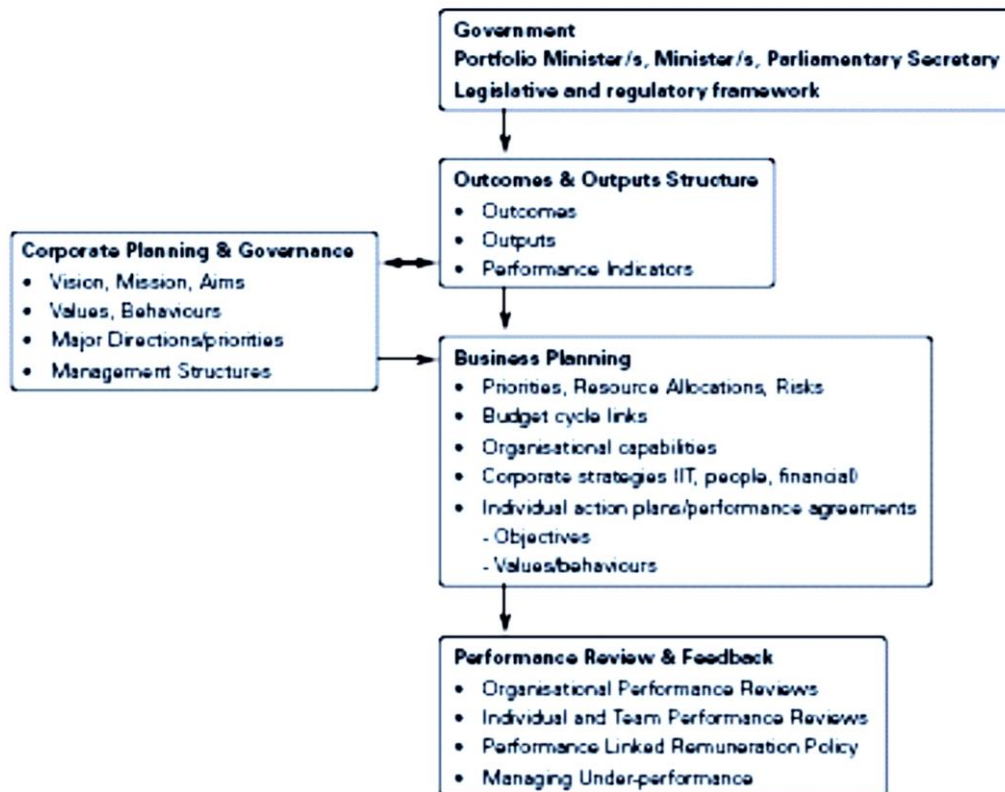


*Source: MAC (2003), Performance management in the Australian Public Service, p.12.*

Although there may be many common elements, performance management frameworks are diverse and what works best in a particular APS agencies will depend on a range of environmental factors such as leadership, nature of business and culture, organisational history, the maturity of performance management systems and the workplace relation's climate. These environmental issues can influence and guide the development of performance management approaches in particular agencies (MAC 2003). This also means that the management development needs of policy departments can be distinguished from other APS departments (Dixon 1996). Another point from PSMPC (2000) also suggest that, in the area of performance management, APS agencies will need to monitor their progress and results themselves in order to see if there is simply a gap between the concept and implementation. The flexibility to select their own framework is also beneficial for each agency for avoiding systemic problems.

As it is mentioned earlier that performance management in the APS can be described as 'a work in progress'. There will regularly be significant progress in improving the framework as well as the implementation. However, up to now, it identifies at least three groups of guidelines centre for designing, evaluating or

redesigning a performance management system. Those three key concepts are alignment, credibility and integration (MAC 2003; APSC 2006).

Alignment factor means that performance management is based on a detailed understanding of the outcomes sought by government and stakeholders, the nature of the business, its goals, clients, and performance measures, as well as its culture, history and leadership. Further, credibility can be understood as engaging and winning the support of staff through transparency, fairness, simplicity, progressive implementation, leadership and management commitment, reducing the gap between rhetoric and reality and by handling poor performance. Lastly, integration emphasises on ensuring that performance management is a part of the overall corporate management structure of the organisation (MAC 2003; APSC 2006).

With regard to integration factor, it is required for APS to highlight that performance management system must include organisational planning. Moreover, performance management should be seen as a part of the agency's overall corporate management strategy. Therefore, it must be linked to other change management approaches such as workforce planning, recruitment and retention and capability development (MAC 2003). According to Corbett (1992), most Australian public sector organisations since 1990s have a corporate plan. The plan usually encompasses a statement of objectives or corporate mission statement; an analysis of the organisation's strengths, weaknesses, opportunities and threats (SWOT analysis); an organisational design; and a set of business plan or operating plan for each major segment of the organisation which is showing how their operations will contribute to the achievement of corporate objectives. The planning process is not identical with the budget-setting process. However, in the latter, more attention is given to the financial details and those must be finally set.

On top of the organisational performance planning, the APS also pay an attention on the existence of performance planning in individual level. Based on ANAO's audit report (2004), the majority of APS agencies have been applying cascading planning as the preferred method of linking individual or team objectives to corporate objectives. Further, this is also considered in keeping with good practice of performance management in Australia. In reality, within APS, it is encouraged for every individual to establish a clear line of sight between their responsibilities and the objectives of the organisation. It is because of that performance management systems can only work when staff can see a clear link between their work and the goals of the agencies. This can be depicted into high-level performance information that tends to cascade down into key performance indicators from organisational level to individual level within agencies. Key performance indicators are very useful for evaluating whether every individual's performance is either above or below standard.

Department of Education, Employment and Workplace Relations can be used as an example because, during establishing performance planning, they have been using the Department's Corporate Planning document and the business planning and the development of individual action plans for all staff which are including key performance indicators to find out the achievement of every individual performance (MAC 2003). Department of Broadband, Communications

and the Digital Economy also uses individual performance agreement within their strategic planning framework (Sutiyono 2008). Besides, an audit report from ANAO (2004) reveals that nearly 70 per cent of responding APS agencies considered that their managers are able to use performance agreements to monitor staff work activity. Only six per cent disagreed. This implies that line of sight is reasonably well established in the APS.

However, another report from Institute of Public Administration Australia IPAA (2001 as cited in Anderson et al 2004: 6) needs to be considered that many APS staff are sceptical about performance indicators and means of measuring performance. There are also information showing that the assessment of performance is perceived as biased and management commitment to the process inadequate. Additionally, in some agencies, clear links between performance and organisational outcomes do not exist and there is evidence of inconsistency in objectives. It is therefore arousing cynicism amongst staff, diminishing morale and a perceived gap between the rhetoric and reality has resulted even though every staff is encouraged to establish their line of sight as an individual agreement.

The line of sight is also a two way process. The ideal is not only to make the corporate priority transparent to staff but to make staff activity transparent to management, by making performance reporting clear and meaningful, reducing levels of supervision and enhancing direct accountability for performance (MAC 2003). As ANAO (2004) identify that a two-way process means that the corporate priorities are clear to staff and staff activities are clear to managers. Not only that, based on ANAO (2004) findings, APS agencies should ideally be able to show that staff can see a clear link between their individual work area goals and those of the agency. Also, there must be a clear articulation of agency objectives and how performance agreements and assessments link to them. An open performance management system should provide each APS employee with a clear statement of performance expectations and an opportunity to comment on those expectations (APSC 2006).

Performance planning in both organisational and individual level is important as the first process of performance management system in the APS. Both can impact on another human resource management element such as remuneration system, performance appraisal, training and development. For instance, one APS Department described their system that business planning closely links resource allocation, change management, and work management activities across the Department. Directions and priorities for Group, States and Teams Business Plans will consequently cascade down from organisational level into individual actions plans or performance agreements. Another important thing is that the business planning and the development of action plans or performance agreements are closely linked to the Budget cycle (MAC 2003).

Also, the APS practice shows that performance planning must connect to training and development. Moreover, there is also an increasing emphasis on the importance of all APS staff having an individual performance agreement and that their agreement also links to a personal development plan or learning agreement (APSC 2006). Indeed, the implementation of performance planning is carefully supervised with an adequate training component. During setting performance

planning, some APS agencies generally indicated that they had structured approaches to skill development. However, there are also several agencies which express concern about the extent to which agencies see training as a separate event, not connected to performance. This is because, theoretically, performance management systems should facilitate staff development but this is not universally practiced. All APS agencies and their individual implement performance planning and development in different ways (Dixon 1996; MAC 2003; APSC 2006).

For the purpose of performance appraisal to review organisational and individual performance, all APS Agencies are required to publish through Portfolio Budget Statements and Annual Reports performance information against their outcomes and outputs structure. Performance information is identified as "evidence which is collected and used systematically to judge the performance of a program". At the same time, performance measurement is defined as "the assessment of the extent to which, and the efficiency with which, objectives are being achieved" (Department of Finance 1994 as cited in Guthrie and English 1997). Regarding to this requirement, the Department of Finance and Administration has developed criteria for performance information in Portfolio Budget Statements and Annual Reports and the Australian National Audit Office is currently undertaking a performance audit of six Departments to review the adequacy of performance information against these criteria. In fact, this external accountability represents the first key point of performance measurement for all APS Agencies. While the nature of performance indicators may vary significantly across agencies, the existence of such information is mandated (MAC 2003).

As a tool of performance appraisal, some agencies have adopted a broader performance management approach using balanced scorecard concepts. Department of Education, Employment and Workplace Relations is an example of agencies which has been implementing this approach. So far, they have been using a structured quarterly performance review process for both organisational and individual performance. Typically, this includes the measurement of additional indicators (e.g. people, clients, innovation) beyond the outcomes, outputs and financial indicators traditionally used. Besides, in a different way, another agency such as Public Service and Merit Protection Commission (PSMPC), have been using 360 degree feedback processes which do contribute to individual development plans (MAC 2003).

In fact, as it has happened in Department of Education, Employment and Workplace Relations, performance management is not only applied for reviewing organisational performance, but measuring individual performance also becomes a vital program in the APS. Basically, the concept of integration in APS performance management is also strongly apparent in measuring performance at the individual level because they are encouraged to create a clear line of sight between their responsibilities in work and the agency's objectives (MAC 2003). Then, this approach helps to find out the picture between the organisation's outcomes and individual performance measures and supports measurement of the individual's contribution to organisational outputs.

Moreover, in the APS, performance measures used in individual performance agreements usually contribute directly to remuneration outcomes

for that individual. The practice has been underpinned by Australian legislation because all APS agencies apply performance-linked remuneration in line with the appropriate legislative and policy frameworks which are the Commissioner's Directions under the Public Service Act 1999 and the Government's Policy Parameters for Agreement Making in the APS (MAC 2003). Conversely, several critics (O'Donnel and O'Brien 2001; Rainey 1979; Reichard 2002 as cited in Anderson et al 2004: 5) see that the practice of performance-based pay should not be applied in the public sector. It is argued that public servants ideally are not motivated by money but they are characterised by a high intrinsic work motivation. The APS must work for the sake of public good and, hence, monetary rewards should not be regarded as motivator. Further, performance related pay is contrary to the collective nature of public sector work because the public sector is ultimately restricted by the available budget which is the agreed funding for specified outputs; then, monetary rewards for performance can be artificially restrained and difficult to be implemented (Marshall 1998 as cited in Anderson et al 2004: 5).

Nevertheless, APS agencies have been using a range of different approaches to performance-based remuneration. Virtually, all agencies link performance to remuneration in one way or another, consistently with the Government's Policy Parameter that performance management should guide salary movement. It is also strengthened by Public Service Commissioner's direction 2.12 which generally encourage the APS to focus on achieving results and managing performance [Act s10 (1) (k)] and specifically, in 2.12 (1) (e) (ii), emphasise on an agency's fair and open performance management system must guide salary movement. The direction is set out in full at appendix (APSC 2002).

Yet, the two most common forms of performance-based remuneration adopted by APS agencies are a base salary increase for satisfactory or higher performance, usually in terms of incremental progression through pay points or through a percentage increase; and a performance bonus, usually a one-off bonus payment in recognition of higher than satisfactory performance. Further, some agencies are also increasingly including retention bonuses, where the retention of an individual is seen as crucial to short-term organisational performance. Frequently a combination of approaches is used (MAC 2003).

Although some confusion has developed from the interchangeable use of terminology, the term performance pay has increasingly been used for either a performance bonus or for a system of proportional increases in base salary for higher than satisfactory performance. Systems that link the full base salary increase to the attainment of satisfactory performance can be seen as performance-based remuneration but are not generally seen as denoting a performance pay system. Also, due to MAC has already acknowledged that performance related remuneration is an area of debate (Wood 1995; MAC 2003; Podger 2007), they consequently recommend that the use of rewards and recognition should be much wider than just remuneration (Anderson et al 2004).

The various approaches to performance management in APS agencies build on and complement these frameworks by linking other systems of recognition and reward, ranging from positive feedback through to performance bonus or other

performance related rewards. However, it is important to keep performance-related remuneration in perspective as only one component of performance management and of broader approaches to reward and recognition, and to acknowledge the diversity of views and approaches on this subject (MAC 2003).

Another striking feature in the APS performance management practice is that there are specific procedures for assessing and resolving underperformance. In some individual cases where unsatisfactory performance is determined, an experience from Australian Industrial Relations Commission (AIRC) decisions, as cited in APSC (2002: 6-7) suggests that the following key steps should be observed:

**Table 2:**
**The process for managing underperformance in the APS**

| | The Steps | Definition and explanation |
|---|---|---|
| 1. | Clear job description and performance agreement | It should be ensured that the employee has a copy of the current job documentation and that he or she understands the standards of work performance that are expected. |
| 2. | Adequate training | It also needs to be ensured that the employees have received appropriate training and assistance to perform their duties. |
| 3. | Counselling | In this step, an APS staff must be given an opportunity to respond to allegations of continuing poor performance. Additionally, the employee is given feedback on performance against the agreed standards, being especially clear about the areas where performance is below the standard expected and that goals for improvement have been set and are monitored over an agreed period. |
| 4. | Written records of counselling | The APSC needs to ensure that there are clear, accurate and relevant written records of discussions with the employee about work performance difficulties. Moreover, the employee must be given the opportunity to provide comment. |
| 5. | Other possible factors | It should be ensured that an attempt has been made to identify the possible causes of poor performance, such as medical problems and personal difficulties and that the employee has been given appropriate opportunities to deal with these difficulties. |
| 6. | Formal warning | Then, a formal warning is issued and that the work standards and performance difficulties detailed in the warning are consistent with those |

| | | raised with the employee during counselling. Yet, it needs to be ensured again that the APS staffs have had the opportunity to respond to the warning, before termination or other formal action is taken. |
|---|---|---|
| 7. | Follow the procedures | Finally, there are established procedures in the organisation for dealing with underperformance, which may lead to termination of employment, for example in a Certified Agreement or Australian Workplace Agreement, ensure that they are followed. |

Not only because of the performance are below standard planned, the cases of underperformance may also arise where there is also a suspected breach of the APS Code of Conduct. Therefore, it is important for agencies to determine the appropriate procedure to follow when managing the individual case, particularly where termination of employment may be the outcome. The role of the APSC is very vital because they are available to provide advice and assistance to every APS agency on establishing an effective approach to performance management and managing underperformance (APSC 2002; APSC 2006).

Although the procedures of managing underperformance are introduced in each APS agency, the practice of handling underperformance will vary depending on the culture and the circumstances of every agency. What is more, it is said that the APS can no longer be conceptualised as a centralised or homogenised, because the reality have shown that they are more fragmented and highly differentiated, with constituent agencies having differentiated forms of co-ordination, implementation, control and accountability mechanisms (Dixon 1996). Yet, those are still aligned with the common framework that managing underperformance must be understood as an integral part of a culture of active performance management, having regard to procedural fairness, balance the needs of the agency and the employee, streamlined as well as efficient, and consistent with relevant legislation including that relating to workplace relations, discrimination, record keeping and privacy. As APSC (2003) point out, it is possible for agencies to terminate a civil servant's employment, reduce their classification, or assign them to other duties.

In the end, as the MAC's report (2003) point out, the practice of performance management in the APS could be illustrated as "work in progress" but, so far, there has been significant development and it has improved steadily in line with the expectations and better practice comments. Although there are still critics about the gap between the rhetoric and the reality with staff expressing cynicism and poor morale, and also the debate of performance-related pay; performance management in the APS has resulted in several positive outcomes; such as clarification of expectations, greater understandings of contribution to organisational goals and improved communication and relationships (Anderson et al 2004). Most importantly, based on ANAO's audit report (2004), there is

diversity performance management system which describes that there is no single system of performance management in place across APS agencies, although there is a range of comparable administrative elements. Further, this phenomenon might be an expected situation because all APS agencies endeavour to build their own performance management systems which fit to their individual cultural requirements and their unique business needs.

## E. A comparative study of performance management between Indonesian Public Service (IPS) and Australian Public Service (APS)

### E.1. Historical background

While the Australian Public Service has been engaged in a comprehensive process of federal civil service reform for more than 30 years, Indonesian Public Service has just started the public service reform for less than one decade. In the APS, it probably began in the 1970s, when the long undisturbed APS was confronted with a major review process and with a set of administrative law reforms (Dixon 1996). At that time, the APS arguably has undergone some of the most significant and far reaching changes in its entire history because they initiate the pursuit of efficiency through clarifying objectives and devolving responsibilities in some APS agencies (Anderson et al 2004). This situation can be regarded as an excellent development in the area of performance management.

In contrast, Indonesia indicates the reformation after the fall of so-called New Order government in 1998 where the political movement emerged and appealed for reform in all aspect including politics, economy, law and public administration. The latter consequently arouse the issuance of Law no. 22/1999 on decentralisation or regional authority and Law no. 43/1999 on Civil Service Administration opened up the possibility of public service reform in Indonesia (Tjiptoherijanto 2006). The development concept of performance management most likely has been just introduced.

Then, the 20-year metamorphosis of APS acts earlier when they set up performance-based pay for their APS staff ranked of Senior Executive Service (SES) and Senior Offices in the 1990s. Although there was a debate about the idea of performance-related pay, the implementation was considered as a good initiative to encourage high performance culture (Halligan 1994; Wood 1995; MAC 2003). On the other hand, Indonesia has just followed the practice of real performance-based pay recently. So far, what has happened in the reality is that some IPS agencies define 'performance' in a different way such as the level of attendance; which means that if the staff come to the office 'on time', their performance must be assessed good. Yet, the appropriate definition of performance-based pay has been evolving in the IPS even though the idea might be still in the concept and only implemented in the Ministry of Finance as a pilot project among government agencies. This practice can be traced in the next national budget plan for 2009 and will be gradually applied for all government agencies (Menko Perekonomian 2008).

The historical discrepancy showing that Indonesia implements performance management lately compared to Australia should be accompanied with the

understanding that New Public Management including public service reform in Australia had occurred around 30 year earlier than in Indonesia. If APS experienced the reform in the 1980s characterised by a post-bureaucratic model of NPM and this was heavily focused on internal reforms and corporate management including corporate planning based on central goals, comprehensive program budgeting, management improvement programs, contract employment for managers, central auditing, and performance monitoring of individuals (Alford 1998; Yeatman 1997 cited in O'Flynn 2007: 354); the IPS has just declared the reform at the end of 20th century. Moreover, the idea of performance management has just been introduced recently in 2008 and it is not applied into all government agencies. As an example, the fact shows that if performance-based pay in the APS, as a part of performance management, was first introduced for the Senior Executive Service (SES) and Senior Officers in the early 1990s (Wood 1995); the IPS has just started the implementation within this year, in 2008, and it is still applied for few agencies such as Ministry of Finance.

## E.2. Institutional approach

According to World Bank (2003b), there are at least two generic civil service systems: An English tradition where posts are classified according the qualifications required (the employment system) and a French model which is more statutory (the career system), and based on a hierarchical conception and structured into corps, grades and posts. These two civil service traditions are found in adapted forms all over the world. Both models are increasingly inspired by New Public Management paradigms and the functioning of the systems are constantly being reviewed and improved to be more professional, effective and performance oriented, and focused on provision of public services in a competitive environment.

With regard to both models, the Indonesian system is considered a career system, but peculiar to other career systems as its design was heavily influenced by the structure of the military (World Bank 2003b). They are recruited when they are young on the basis of entry examination results and level of education. Their promotion through the ranks is based on seniority and completion of promotional training (Synnerstrom 2006). On the other hand, with colonial ties to Britain, Australian government has been influenced by approaches to strategic public governance apparent in the British Westminster-Whitehall parliamentary and public administration system (Johnston 2000). These included independent staff control, recruitment by merit, position classification, advancement on grounds of efficiency, a system of appeals, a code of rights and duties, and standard conditions of employment (Matheson 1996).

In relation with human resource management matter, the most striking difference between APS and IPS in term of institutional approach is the governing bodies for civil servants' human resource management. As a phenomenon in developed countries, Australia has a special institution in charge of APS human resources management. The institution is The Australian Public Service Commission (APSC) who are responsible in supporting a highly performing the

APS. Any matter about APS and the control of the public service is highly centralised under the 1902 Act and administered by the APSC (APSC 2003).

Different from Australia who officially has such commission since 1906, Indonesia has not established yet an independent commission which just focuses only on managing IPS human resource management. It is true that Indonesia has a legal basis of law No. 43/1999 stating that a neutral body such as public service commission should be created. The Commission is ideally a designated and empowered government agency which initiates and oversees the policy changes and the implementation of any matter about IPS (World Bank 2003b). However, until now, there is no indication that Indonesian government will establish the commission such as APSC in Australia.

Therefore, IPS human resource management is shared responsibilities among some agencies. At least, there are Ministry of Finance, The Ministry of State Apparatus Reform [Kementerian Pendayagunaan Aparatur Negara (MenPAN)], The National Civil Service Agency [Badan kepegawaian Negara (BKN)], and The National Institute of Administration [Lembaga Administrasi Negara (LAN)] who are in charge in managing the national and regional civil services. As required, Ministry of Finance is responsible in terms of pay and pensions. The tasks for supervision coordination, monitoring and evaluation of all civil services' matter are given to MenPAN. Further, while BKN is in charge of appointment, promotion and transfer; LAN is expected to deal with the IPS education, training and organisational design (Rohdewohld 2005; Tjiptoherijanto 2006; World Bank 2006).

The need for establishing such an independent commission in dealing with public services' matter basically is realised and a lot of suggestions are addressed to Indonesian government (World Bank 2003b; Tjiptoherijanto 2006). However, few reasons seems decelerate this implementation. Rohdewohld (2005: 154) analyses that the revision of the civil service law in 1999 which included the stipulation to establish an independent Civil Service Commission has not been implemented yet because of shifting policy priorities and internal resistance in the government's bureaucracy. Perhaps, in the future, it is expected that the effort for reforming Indonesian bureaucracy should not be hindered by political interest or any other reasons.

## E.3. Performance planning

As a long process, performance management requires a strong foundation in performance planning. Performance planning is needed for setting targets, job responsibilities and objective indicators among agencies and individuals. It is also important for performance measurement because to find out whether the agencies do good performance or not, performance planning will be a guideline to align actual results with desired results. The latter are basically performance indicators which are standardised in the process of performance planning. Those are critical to monitor measures of performance in terms of accomplishing outcome-oriented (Poister 2003).

With regard to performance planning, IPS has been implementing an accountability system called SAKIP (Sistem Akuntabilitas Kinerja Instansi

Pemerintah) which begins with setting the strategic plans (Renstra) and then elaborated further in the work plans (Renja) respectively. While Renstra is a long strategic planning which guides the government agencies to set the programs within the next five years, Renja is an annually plan which elaborates the programs for supporting Renstra. At the end, as a part of the system, government agencies have to submit Performance Accountability Reports [LAKIP (Laporan Akuntabilitas Kinerja Instansi Pemerintah)] to the president every year, through the MenPAN (BPKP 2007; BPKP 2008).

However, Renstra and Renja fundamentally are considered as corporate planning in organisational level. Both are just kinds of job responsibilities and work plans among IPS agencies. Indonesian civil service seems lack of performance planning in individual level. Conversely, Weightman (1996 as cited in Wilson and Western 2000: 93) explains that the stages of performance management essentially encourage that individual job descriptions and objectives in an organisation are written and agreed between the staff and the manager. In fact, this individual performance agreement is sort of "manpower strategy" which focuses on the personal development plan devised by the manager and the individual to meet personal objectives (Viljoen 1994 as cited in French, Kelly and Harrison 2004: 767). It is also beneficial for each individual as guidelines to perform according to their objectives. Besides, each individual tend to be committed and motivated to achieving the objectives. With regard to these points, it seems that the IPS has difficulties to obtain those benefits since individual performance planning has never been established.

Most importantly, due to the existence of individual objectives and targets (Grote 2002), performance planning at the individual level also needs to be set because it impacts on the implementation of performance appraisals. Hence, the absence of individual performance planning in the IPS consequently arouses another problem in the process of performance measurement or appraisals. Because individuals do not set their performance indicators in the performance planning; it is hard to measure their accomplishment because there are no individual standards aligned with the real performance of every individual in IPS.

More highly developed from the IPS situation, APS had already both corporate and individual performance planning among APS departments. The corporate planning usually covers a statement of objectives or corporate mission statement; an analysis of the organisation's strengths, weaknesses, opportunities and threats (SWOT analysis); an organisational design; and a set of business plan or operating plan for each major segment of the organisation which is showing how their operations will contribute to the achievement of corporate objectives (Corbett 1992). It must be linked to the budget cycle and the other change management approaches such as workforce planning, recruitment and retention and capability development. At the end, all APS Agencies are required to publish through Portfolio Budget Statements and Annual Reports performance information against their outcomes and outputs structure.

In the level of individual, APS encourage every individual to establish a clear line of sight between their responsibilities and the objectives of the organisation in order to see a clear link between their work and the goals of the agencies. Within

this step, individual performance agreement is made and key performance indicators must be set up. Interestingly, some APS agencies generally indicate that they have structured approaches to skill development and link to an individual development plan. Hence, the implementation of performance planning is carefully supervised with an adequate training component (Dixon 1996; MAC 2003; APSC 2006).

The discrepancy of individual performance planning between IPS and APS seems occur because of the different interpretation of performance definition among both IPS and APS. In the APS performance management practice, the word of 'performance' is considered as the carrying out of a work task, duty or objectives. It includes, at least, three steps namely inputs (skills, knowledge, etc), process (behaviours) and outputs (measurable results) (Tovey and Uren 2006). Most importantly, it is recognised that in the APS, as performance concerns with the achievement of specific, desired and identifiable results; the identification of performance can be done by confronting the actual results and desired results. So, each individual in the APS is expected to set their targets and perform based on their targets. It is aligned with what Williams (2002) argues that defining performance is basically setting goals.

On the contrary, Indonesia civil servant seems to interpret differently the term of 'performance'. The word of 'attendance' sometimes substitutes the word of 'performance' in general way. It is frequently indicated that an Indonesian public servant is assessed as good employee if he or she has never been absent in the office and doing their routine tasks as usual. The spirit of innovation in the daily work tends to be ignored in some certain agencies especially in relation with administrative tasks. Another example is the record of conducting crime. Sometimes, public servants are deemed as a good citizen if they have never conducted crime. This matter has the level of significance as the record of crime becomes a consideration in getting a promotion. So, IPS staffs essentially are not informed about the real definition of performance. Further, apart from the lack of individual performance agreement in the IPS system, the majority of IPS individuals also do not recognise the importance of setting individual targets and performance indicators at the beginning of period. What they understand about performance usually just about attendance, doing regular jobs, and avoiding crime.

## E.4. Performance training and development

As it is elaborated earlier, APS has already implemented individual performance planning which is linked to individual development plan (APSC 2006). It means that training and development are designed according to each individual's needs. The type of training that every individual obtain may differ from the other due to their differences in terms of job responsibilities and the level of skills. With appropriate training equipment, every individual in APS is expected to perform well based on their individual agreement. What is more, APS also provide some strategies in managing underperformance just to anticipate if there are some APS staffs having difficulties in performing their tasks (APSC 2002; APSC 2006).

The concern over providing personal development plans and managing underperformance in APS conversely does not happen yet in the case of IPS. Indonesian public servants have been experiencing the lack of linkage between training and performance planning. Certainly, this could occur naturally as IPS have never established individual performance planning, so the need of training cannot be found and given to every individual who require it. Moreover, if there were training and development programs in IPS, they were fundamentally not designed based on every individual needs, but according to the civil servants' rank and position. In another word, the training provided might be given for individuals but it was actually applied to all IPS staffs in the same rank. Also, some critiques appear because training in IPS is considered supply rather than demand driven (USAID 2006). It is also pointed out that IPS's training and education is usually based on the availability of funds rather than an analysis of individual or institutional training needs (Rohdewohld 1995).

Providing effective performance training for every individual in IPS may become a difficult task for Indonesian government. The lack of individual performance planning also undermine this situation as the Indonesian government do not know what kind of training which each individual needs to perform better. It is not secret anymore if there was a phenomenon that IPS staff members, after their return from training, are moved to another position not connected with the training they received. Compared to APS case, training is demand rather than supply driven. Training and curricula are being developed to fulfil the demand of APS agencies' functions and obligations which consequently also fulfil the demand of every individual. This can be implemented in APS because they have both integrated organisational and individual performance planning which directly connect to the blueprint of individual training and development plans.

Perhaps, the better words for depicting different situation in both APS and IPS are that APS truly have performance training and development for individuals because the aim of training itself is delivered for driving individual's performance. Also, the existence of individual performance agreement really assists that training is given to the right person with the right components. On the other hand, it is difficult to regard that training in IPS is purely performance training. Wilson and Western (2000) argue that the training and development should be directly related to the requirements of the job and general personal development. It must link totally to individual performance planning. Hence, the absence of individual performance planning in IPS generates concern that training is not planned for driving individuals' performance. The appropriate word for this may be just "training and development program" in general way without adding the word of 'performance' at the beginning. It means that IPS encourages training and development as a strategy to improve individual skills and knowledge.

## E.5. Performance appraisal and its use

In the process of performance management, performance appraisal may become a crucial step because it is conducted to determine whether the staff's performance individually is good or not. However, this process must connect directly to the

individual performance planning (Tapinos et al 2005). This requirement is necessary because what is set up in the individual performance planning such as performance indicators will be used again to measure the staff's achievement.

In IPS, DP3 *(Daftar Penilaian Pelaksanaan Pekerjaan,* literally: Work Implementation Evaluation Register*)* document is considered as the main tool for performance appraisal (SANRI 1996). However, a lot of critiques have appeared because performance criteria in DP3 are intangible, not specified and these do not measure the performance in the workplace. DP3 does not evaluate what each individual of IPS perform everyday. The worse thing is that DP3 does not connect totally to individual performance planning as required in the process of performance management. Of course, this deviation occurs because IPS does not have individual performance agreement for confronting set objectives with the result. They only have performance planning in the corporate level, but it cannot be used for performance appraisals.

On the contrary, since all individuals in the APS have established their individual agreement, most APS agencies have developed performance appraisals which connect to individual performance agreement. The appraisal tools evaluate desired results versus actual results. The tools used among APS agencies are diverse according to their environmental factors such as leadership, nature of business, organisational history and the workplace relation's climate. In another words, APS agencies have implemented a range of different approach of performance appraisals among themselves. If IPS only applies DP3 as their performance appraisal, APS uses various tools such as 360 degree review, balanced scorecard, etc (MAC 2003). The selection of tool depends on the nature of APS agencies related.

Based on the facts provided, it seems that both IPS and APS implement performance appraisals in different ways. What APS has been doing for appraisals is probably considered as an appropriate practice according to the current theory of management. Marchington and Wilkinson (1996 as cited in Wilson and Western 2000: 93) describe performance appraisal as a cyclical process for determining performance expectations; supporting performance; reviewing and appraising; and, back again, in managing performance standards. Indeed, the APS has individual performance planning for setting individual performance indicators, and then they use those indicators in their performance appraisals to identify good performance as recommended by Neely et al (1994 as cited in Tapinos et al 2005: 373). Although there are diverse tools for appraisals, the process is on the right track.

However, in the IPS case, DP3 may be totally different with the concept of performance appraisal which aligns to the set targets established by civil servants who are in charge at the beginning of period. It is true that IPS consider DP3 as a tool for performance appraisal. Yet, the process actually indicates that DP3 is inappropriate to be called performance appraisal. DP3 is not a performance appraisal as a cyclical process as Marchington and Wilkinson suggest (1996 as cited in Wilson and Western 2000: 93). Perhaps, because the IPS does not individual performance planning and never establish individual performance indicators of achievement, the simple way to entitle DP3 may be just a tool for annual evaluation for public servants.

Indeed, DPp3 is not an appraisal tool based on performance planning. It is just required for each individual for getting promotion. Regardless of the subjectivity of DP3 which usually are almost always favourable and there is little differentiation among individuals, Indonesian civil servants still get opportunity to obtain a promotion within at least every four year as long as the score of DPS in each element reach minimum "good". Except in highly unusual bad cases, the result of DP3 itself seems to be predictable and most individual of IPS are easily obtaining their regular promotion.

Based on the fact provided, it seems that the IPS only utilise performance management for administrative purpose which is promotion and, further, they do not use it for both strategic and developmental purposes as De Cieri and Kramar suggest (2005). It can be seen from the lack of individual performance planning and performance training. The absence of individual performance planning strategically creates some difficulties for linking individual activities with the organisation's goals. Then, since performance training linking to performance planning has not been found, the developmental purpose of performance management probably cannot run effectively. With this circumstance, it is difficult for performance management to develop and manage every individual's performance.

On the other hand, different from DP3, performance appraisals in APS has been used for various functions. Basically, 360 degree, balanced scorecard, or any appraisal tools in APS are a part of performance-based pay and those have been utilised for generating salary movement. Mathis and Jackson (1998 as cited in Fink and Longenecker 1998: 243) indicate that another primary goal of performance appraisal systems is creating a linkage between merit and pay. In the APS reality, this can be given as a base salary increase or a performance bonus. Besides, some APS agencies also use their result of performance appraisal as a requirement for giving retention bonuses to each individual having good performance. From here, the administrative purpose of performance management in the APS is utilised in various ways. Moreover, as both individual performance agreement and performance training are implemented in the APS, the strategic and developmental purposes of performance management (De Cieri and Kramar 2005) seems can be achieved.

Another point to be considered in the IPS performance management practice is that the term of performance-based pay has been frequently misunderstood. It can be found in a case of 'performance based-pay' system which has just been implemented recently in 2008 for every judge and staff in the national court *(The Pengadilan Negeri)* Surabaya. The reality shows that with this new remuneration system, every individual will be able to get more allowance, even as much as their basic salary, if their 'performance' is assessed well based on the policy. However, the definition of performance here is just associated in term of attendance and they are not allowed to come late to the national court every morning. On other words, the judges and staff will obtain extra allowance if they come to the court punctually (Jawa Pos: 5 Agustus 2008). Perhaps, due to interpreting the word 'performance' in different ways, 'attendance-based pay' has been mistakenly considered as 'performance-based pay'.

Yet, as it is mentioned earlier, the optimism may appear when the IPS has just started the implementation of the 'real' performance-based pay in 2008 even though it is still applied for few agencies such as Ministry of Finance. Even so, as Synnerstrom (2006) argues that successful civil service reform in Indonesia requires a gradual approach. It might be done by targeting selected key institutions in the first stages and later expanding it to other targets as reform gains momentum and good practices can be replicated.


## F. Epilogue

### F.1. Conclusion

As it is identified from the beginning, this research has a question which is "What are the differences of performance management between Indonesian Public Service (IPS) and Australian Public Service (APS)?" After doing some library-based work, the answer is provided in the following paragraph. An additional figure is also made at the end of this segment as a brief illustrated comparison.

It is true that there are significant differences of performance management practice in the IPS and the APS. *First of all,* the historical facts show that APS implement performance management practice earlier than IPS. Further, with regard to the public sector reform which one sign of them are indicated by the emergence of New Public Management, Australia had experienced around 30 year earlier than in Indonesia. If the APS highlight the 1970s as a memorial time for reforming administrative laws and managerial system, the IPS made its history at the end of 20$^{th}$ century after the fall of so-called New Order government in 1998 where the political movement emerged and appealed for reform in all aspect including politics, economy, law and public administration. Perhaps, the public sector reform in Indonesia might be really declared at the beginning of 21$^{st}$ century. Also, if the APS established their commission for managing civil servants in 1906, the IPS conversely still does not have such an independent commission until now. Therefore, dealing with an institutional approach of human resource management for public servants, the APS historically do better than the IPS. What is more, if the APS started implementing performance-based pay in the early 1990s and it was first introduced for the Senior Executive Service (SES) and Senior Officers, the IPS has just started the implementation within this year, in 2008, and it is still applied for few agencies such as Ministry of Finance.

*Secondly*, relating to the practice of performance management, it seems that the issue of comparing the IPS and the APS can be categorised into three segments which they are also deemed as parts of performance management process. They are performance planning, performance training and development, and performance appraisals.

In the practice of performance planning, the IPS seems does not have performance planning in the individual level. The IPS only has performance planning in the organisational level which is Renstra and Renja. In contrast, the APS has both organisational and individual performance planning. For the latter one, Australia

encourages each public servant to establish their individual agreement and the objectives of job.

Then, in the area of performance training and development, the IPS most likely does not focus on this part of performance management process. It is known that the IPS has training and development, but since they do not have performance in the individual level, it is difficult to consider the IPS training as 'performance training'. Indeed, performance training and development should connect to individual performance planning. Therefore, it is probably more appropriate if it is just regarded as regular training and development programs for improving skills and knowledge. This situation differs from what has happen in the APS. Because they have individual performance planning, the APS can implement performance training and development as they already recognise what each individual need to perform better. To be known, the benefit of individual performance planning is to recognise every individual targets and the level of individual skills for conducting the tasks. Hence, if individuals' skills need to be improved, the related training will be provided to support the achievement of their targets.

Lastly, within performance appraisals implementation, the IPS has been using DP3 document *(Daftar Penilaian Pelaksanaan Pekerjaan,* literally: Work Implementation Evaluation Register*)* as the main tool for performance appraisal. Yet, similar with the problems faced in area of performance training and development, the IPS also has significant difficulties as they do not have individual performance agreement. As it is generally known that performance appraisals are applied by using performance individual indicators and standards which are set up in the process of individual performance planning. The standards then are against the actual result of individual performance. In the IPS, as there is lack of individual standards and individual performance indicator, the implementation of DP3 become ineffective. Further, there are also some problems regarding the DP3's intangible performance criteria and the difficulties for measuring the real performance because of assessors' subjectivity and less communication of the procedure of DP3. On the other hand, if the IPS uses DP3, the APS has developed various tools for appraisals. Each agency sometimes has been using different tools compared to the other. 360 degree review and balanced scorecard are examples for this. More importantly, due to the APS has individual performance planning; their performance appraisals are connected to individual performance planning and these are really expected to evaluate desired results versus actual results.

Besides, if DP3 has been utilised as a requirement for getting promotion in the IPS, the result of performance appraisals in the APS can be used broader as a part of performance-based pay which generates salary movement. It can be manifested into a base salary increase or a performance bonus. Not only that, some APS agencies also utilise the result of appraisals for retention bonuses.

## F.2. Lessons learned

The Author understands that there may be unfairness when we compare two different countries with different level; one is a developed country and the other is still a developing country. Of course, the result will demonstrate different gap

between them. However, through comparing two different countries with different level, it is recognised that as a developing country, Indonesia may have to learn from Australia as a developed country. Yet, this situation does not mean that Australia does not need to learn from Indonesia. Both should learn from each other; learning from both sides of success stories and failure practices. Indonesia could learn from Australia's good practice in the public sector's performance management, while Australia could gain knowledge of the beginning effort in Indonesia public sector reform.

Yet, the most valuable lessons here are that Indonesian Public Service (IPS) can improve their public administration system trough learning from Australian Public Service (APS) institutional approach. Like APS having such a commission dealing with APS human resource management (HRM) which is Australian Public Service Commission (APSC), the IPS basically can implement this strategy as they have already a legal basis of law No. 43/1999 stating that a neutral body such as public service commission should be established. By having this independent body, it is expected that managing HRM civil servants become centralised and beneficial to reduce task overlapping if any matter of IPS is supervised by more than one institution.

The second lesson suggested is that the IPS may start to develop their performance management practice by learning from the APS in relating individual performance agreement. Because performance planning is the first step to do and it really affects on the next steps of performance management process, the IPS must consider encouraging each individual to establish their individual performance indicators and standards at the beginning of period. Once it is established, the IPS subsequently has strong foundation to improve the next following steps of performance management such as performance training and development as well as performance appraisal. By setting individual performance agreement, it is easier for the IPS to identify the needs of every individual relating the training type provided. Further, performance appraisal can be used effectively as long as it connects totally to individual performance planning. Hence, like the APS, Indonesia could consider again to replace DP3 with another better tool since it has a lot of disadvantages.

The last lesson the IPS can learn from the APS is to continue and improve the use of performance-based pay. It is a great initiative when the IPS has started linking performance to pay in an institution such as Ministry of Finance. Although it has just been applied recently, the positive impact of public sector reform essentially can be sensed step by step. Indonesia may start the reform rather late compared to Australia. However, there is high expectation that as neighbouring countries, Indonesia and Australia can run their own government in the same level in the future.

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**A Comparative Outline of Performance Management
between Indonesian Public Service and Australian Public Service**

| Performance Management Practices | Indonesian Public Service (IPS) | Australian Public Service (APS) |
|---|---|---|
| **Institutional Approach** | There are division responsibilities among agencies for managing IPS.<br>1. Ministry of Finance is in charge of pay and pensions.<br>2. The Ministry of State Apparatus Reform [Kementerian Pendayagunaan Aparatur Negara (MenPAN)] is responsible for supervision coordination, monitoring and evaluation of all civil service's matter.<br>3. The National Civil Service Agency [Badan kepegawaian Negara (BKN)] is in charge of appointment, promotion and transfer.<br>4. The National Institute of Administration [Lembaga Administrasi Negara (LAN)] is responsible in Education, training and organisational design. | The Australian Public Commission (APSC) is the only institution who is in charge of managing APS human resource management. |
| **Performance Planning** | Using an accountability system called SAKIP (Sistem Akuntabilitas Kinerja Instansi Pemerintah) which begins with setting the strategic plans (Renstra) and then elaborated | 1. Corporate planning;<br>   a. The plan usually covers a statement of objectives or corporate mission statement; an analysis of the |

further in the work plans (Renja) respectively. While Renstra is a long strategic planning which guides the government agencies to set the programs within the next five years, Renja is an annually plan which elaborates the programs for supporting Renstra.

At the end, as a part of the system, government agencies have to submit Performance Accountability Reports [LAKIP (Laporan Akuntabilitas Kinerja Instansi Pemerintah)] to the president every year, through the Ministry of State Apparatus Reform (MenPAN).

1. Renstra and Renja are corporate planning in organisational level.
2. Indonesian civil service seems lack of performance planning in individual level.

organisation's strengths, weaknesses, opportunities and threats (SWOT analysis); an organisational design; and a set of business plan or operating plan for each major segment of the organisation which is showing how their operations will contribute to the achievement of corporate objectives.

b. It must be linked to other change management approaches such as workforce planning, recruitment and retention and capability development.

c. Closely linked to the Budget cycle.

d. All APS Agencies are required to publish through Portfolio Budget Statements and Annual Reports performance information against their outcomes and outputs structure.

2. Individual performance agreement

a. Every individual to establish a clear line of sight between their responsibilities and the objectives of the organisation in order to see a clear link between their work and the goals of the agencies.

b. Key performance indicator must be set up.

c. Some APS agencies generally indicate that they have structured approaches to

| | | |
|---|---|---|
| | | skill development and link to an individual development plan.<br>d. The implementation of performance planning is carefully supervised with an adequate training component. |
| **Performance Training and Development** | 1. It is difficult to consider as performance training and development since there is the lack of linkage between training and performance planning. Perhaps, it is just 'training and development programs'.<br>2. Training is supply rather than demand driven. Further, training and education seems usually based on the availability of funds rather than an analysis of individual or institutional training needs. | 1. Strong linkage with organisational and individual performance planning.<br>2. Managing underperformance. |
| **Performance Appraisal** | 1. DP3 document *(Daftar Penilaian Pelaksanaan Pekerjaan)*<br>2. It does not connect totally to performance planning because the IPS does not have individual performance agreement. | 1. There are various tools such as 360 degree review, balanced scorecard, etc.<br>2. It connects to individual performance planning and evaluates desired results versus actual results. |
| **The Use of Performance Appraisal** | DP3 is a requirement for getting promotion | It is for performance-based pay which generates salary movement. It can be a base salary increase or a performance bonus. Further, some APS agencies are also including retention bonuses. |

# _Australian Public Service (APS) Performance Management Framework_

| Institution |
| :---: |
| Australia Public Service Commission (APSC) |

APS Human Resources Management

↓

Performance Management

↓

Performance Planning

↓

Corporate Planning ← → Individual Agreement

Performance-based pay
(Salary increase, bonuses, etc)

Performance Training and Development

Annual reports performance

Managing underperformance

Performance Appraisal
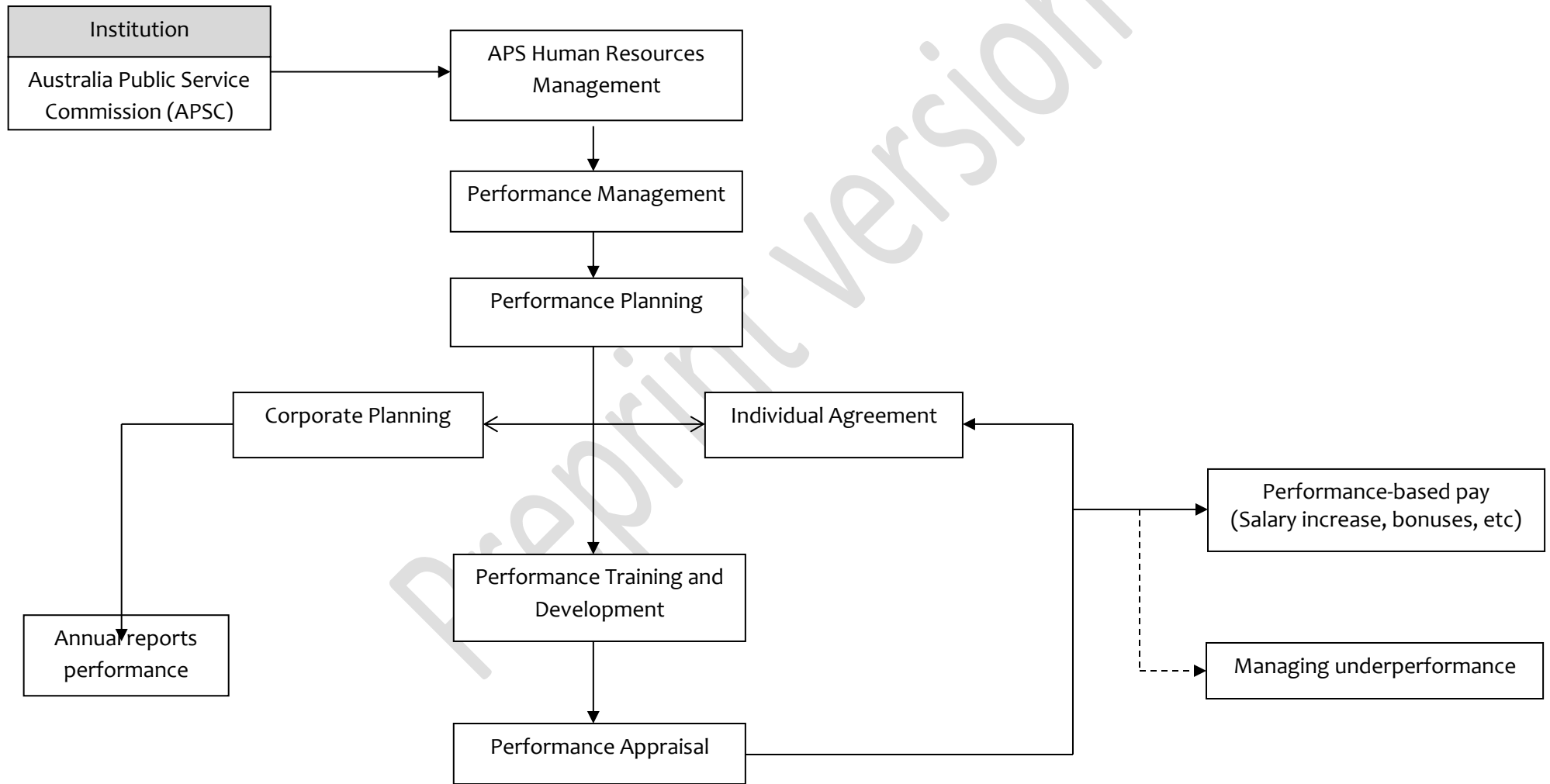
## _Indonesian Public Service (IPS) Performance Management Framework_

```
┌─────────────────────────┐                    ┌─────────────────────────┐
│      Institutions       │                    │   IPS Human Resources   │
│                         │ ─────────────────► │      Management         │
│  1. MenPAN              │                    └───────────┬─────────────┘
│  2. BKN                 │                                │
│  3. LAN                 │                                ▼
│  4. Ministry of Finance │                    ┌─────────────────────────┐
└──────────┬──────────────┘                    │  Performance Management │
           │                                   └───────────┬─────────────┘
           │                                               │
           │                                               ▼
           │                                   ┌─────────────────────────┐       ┌──────────────────────────────────┐
           │                                   │  Performance Planning *  │       │              LAKIP               │
           │                                   │─────────────────────────│──────►│ (Performance Accountability      │
           │                                   │  Corporate Planning;     │       │            Reports)              │
           │                                   │  Renstra and Renja       │       └──────────────────────────────────┘
           │                                   └─────────────────────────┘
           │                                   ┌─────────────────────────┐
           ├─────────────────────────────────►│ Training and Development │
           │                                   │        Programs          │
           │                                   └─────────────────────────┘
           │                                   ┌─────────────────────────┐       ┌──────────────────────────────────┐
           └─────────────────────────────────►│  Performance Appraisal   │──────►│            Promotion             │
                                               │          (DP3)           │       └──────────────────────────────────┘
                                               └─────────────────────────┘
```
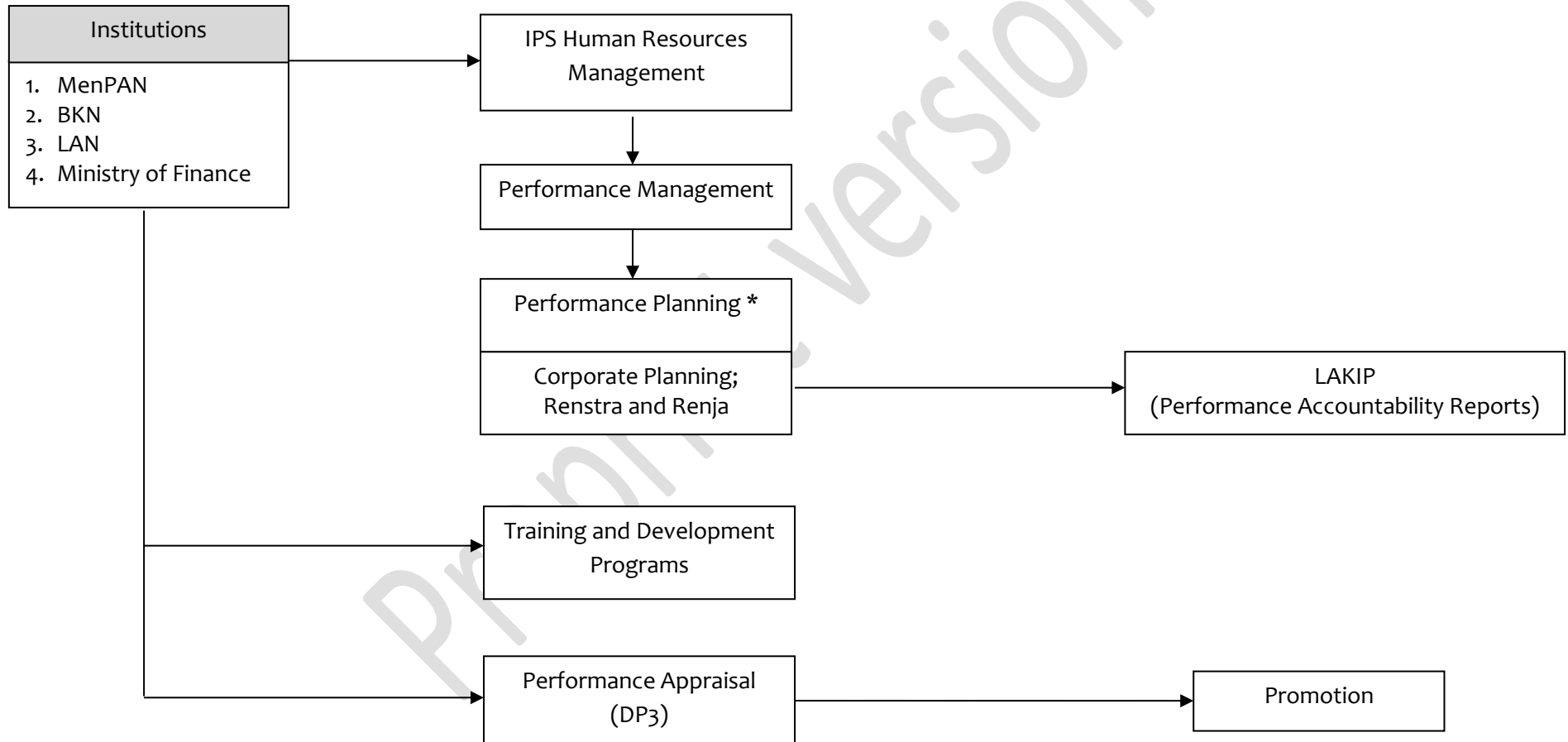
**\*** Due to the lack of individual performance planning, both the training and development programs and the performance appraisal (DP3) do not connect totally to performance planning.  Therefore, it is probably better to just consider it as 'training and development programs' with a note that there are also some weaknesses in the implementation of DP3. Also, DP3 is not a performance appraisal as a cyclical process.

# Appendix

## The levels and educational requirements in the Indonesian Civil Service

| Rank | Grade | Name of Position | Eselon Level | Minimum Educational Requirement for Entry |
|------|-------|------------------|--------------|-------------------------------------------|
| | | | | |
| I | a | Juru Muda (Junior Clerk) | | Primary School |
| | b | Juru Muda Tingkat I (First Class Junior Clerk) | | Junior High School |
| | c | Juru (Clerk) | | Junior High School |
| | d | Juru Tingkat I (First Class Clerk) | | Junior High School |
| II | a | Pengatur Muda (Junior Supervisor) | | Senior High School |
| | b | Pengatur Muda Tingkat I (First Class Junior Supervisor) | | Senior High School |
| | c | Pengatur (Supervisor) | | Senior High School |
| | d | Pengatur Tingkat I (First Class Supervisor) | VB | Senior High School |
| III | a | Penata Muda (Junior Superintendent) | VB/VA | University Degree (S1 and higher) |
| | b | Penata Muda Tingkat I (First Class Junior Superintendent) | VA/IVB | University Degree (S1 and higher) |
| | c | Penata (Superintendent) | IVB/IVA | University Degree (S1 and higher) |
| | d | Penata Tingkat I (First Class Superintendent) | IVA/IIIB | University Degree (S1 and higher) |
| IV | a | Pembina (Manager) | IIIB/IIIA | University Degree (S1 and higher) |
| | b | Pembina Tingkat I (First Class Manager) | IIIA/IIB | University Degree (S1 and higher) |
| | c | Pembina Utama Muda (Junior Administrator) | IIB/IIA | University Degree (S1 and higher) |
| | d | Pembina Utama Madya (Middle Administrator) | IIA/IB | University Degree (S1 and higher) |
| | e | Pembina Utama (Senior Administrator) | IB/IA | University Degree (S1 and higher) |

*Source: Rohdewohld, (1995). Public Administration in Indonesia, p.95.*

## The number of Indonesian Public Service based on the level of education and gender
## (31 December 2007)

| No | Education level | Gender | | | | Total | % |
|---|---|---|---|---|---|---|---|
| | | Male | % | Female | % | | |
| 1 | Sekolah Dasar | 103.182 | 94,7 | 5.784 | 5,3 | 108.966 | 2,7 |
| 2 | SLTP | 112.536 | 87,6 | 15.949 | 12,4 | 128.485 | 3,2 |
| 3 | SLTA | 871.269 | 57,3 | 649.668 | 42,7 | 1.520.937 | 37,4 |
| 4 | Diploma I | 28.163 | 36,6 | 48.738 | 63,4 | 76.901 | 1,9 |
| 5 | Diploma II | 258.259 | 40,6 | 378.565 | 59,4 | 636.824 | 15,7 |
| 6 | Diploma III/Sarjana Muda | 167.043 | 49,3 | 171.729 | 50,7 | 338.772 | 8,3 |
| 7 | Diploma IV | 6.577 | 71,3 | 2.653 | 28,7 | 9.230 | 0,2 |
| 8 | S-1/ Bachelor | 669.590 | 58,5 | 474.384 | 41,5 | 1.143.974 | 28,1 |
| 9 | S-2/Master | 69.205 | 73,0 | 25.572 | 27,0 | 94.777 | 2,3 |
| 10 | S-3/PhD | 6.731 | 80,8 | 1.604 | 19,2 | 8.335 | 0,2 |
| | Total | 2.292.555 | 56,4 | 1.774.646 | 43,6 | 4.067.201 | 100,0 |

*Source: http://www.bkn.go.id/stat_indo/tabel1a2007.php*

## APS Workforce Statistics by Classification, 1993, 2006 and 2007

| Classification | 1993 | | 2006 | | 2007 | | % change 2006 to 2007 | % change 1993 to 2007 |
|---|---|---|---|---|---|---|---|---|
| | No. | % | No. | % | No. | % | | |
| APS 1 | 24110 | 16.9 | 1065 | 0.8 | 1587 | 1.1 | 49.0 | −93.4 |
| APS 2 | 18714 | 13.1 | 4939 | 3.7 | 5567 | 3.9 | 12.7 | −70.3 |
| APS 3 | 23180 | 16.2 | 21807 | 16.2 | 21585 | 15.0 | −1.0 | −6.9 |
| APS 4 | 16185 | 11.3 | 26675 | 19.8 | 28322 | 19.7 | 6.2 | 75.0 |
| APS 5 | 16925 | 11.8 | 18800 | 13.9 | 19756 | 13.8 | 5.1 | 16.7 |
| APS 6 | 19463 | 13.6 | 26734 | 19.8 | 28554 | 19.9 | 6.8 | 46.7 |
| EL 1 | 12351 | 8.6 | 20503 | 15.2 | 22436 | 15.6 | 9.4 | 81.7 |
| EL 2 | 7832 | 5.5 | 10528 | 7.8 | 11612 | 8.1 | 10.3 | 48.3 |
| SES | 1880 | 1.3 | 2257 | 1.7 | 2509 | 1.7 | 11.2 | 33.5 |
| Trainee | 365 | 0.3 | 461 | 0.3 | 390 | 0.3 | −15.4 | 6.8 |
| Graduate APS | 796 | 0.6 | 1033 | 0.8 | 1207 | 0.8 | 16.8 | 51.6 |
| Total | 142891 | 100.0 | 134802 | 100.0 | 143525 | 100.0 | 6.5 | 0.4 |

*Source: APSED cited in APSC, State of the Service Report 2006-2007, p.19.*

**Australian Public Service agencies**

**Category A**
**Departments**
1. Attorney-General's Department
2. Department of Agriculture, Fisheries and Forestry
3. Department of Broadband, Communications and the Digital Economy
4. Department of Climate Change
5. Department of Defence
6. Department of Education, Employment and Workplace Relations
7. Department of Families, Housing, Community Services and Indigenous Affairs
8. Department of Finance and Deregulation
9. Department of Foreign Affairs and Trade
10. Department of Health and Ageing
11. Department of Human Services
12. Department of Immigration and Citizenship
13. Department of Infrastructure, Transport, Regional Development and Local Government
14. Department of Innovation, Industry, Science and Research
15. Department of Resources, Energy and Tourism
16. Department of the Environment, Water, Heritage and the Arts
17. Department of the Prime Minister and Cabinet
18. Department of the Treasury
19. Department of Veterans' Affairs

**Category B**
**Statutory Agencies which employ all staff under the *Public Service Act 1999***
1. Aboriginal Hostels Limited
2. Administrative Appeals Tribunal
3. Australian Centre for International Agricultural Research
4. Australian Commission for Law Enforcement Integrity
5. Australian Communications and Media Authority
6. Australian Competition and Consumer Commission
7. Australian Crime Commission
8. Australian Customs Service
9. Australian Fair Pay Commission Secretariat
10. Australian Fisheries Management Authority
11. Australian Industrial Registry
12. Australian Institute of Aboriginal and Torres Strait Islander Studies
13. Australian National Audit Office
14. Australian National Maritime Museum
15. Australian Pesticides and Veterinary Medicines Authority
16. Australian Public Service Commission

17. Australian Radiation Protection and Nuclear Safety Agency
18. Australian Research Council
19. Australian Sports Anti-Doping Authority
20. Australian Taxation Office
21. Australian Trade Commission
22. Australian Transactions Reports and Analysis Centre
23. Australian War Memorial
24. Cancer Australia
25. Centrelink
26. ComSuper
27. Defence Housing Australia
28. Equal Opportunity for Women in the Workplace Agency
29. Family Court of Australia
30. Federal Court of Australia
31. Federal Magistrates Court of Australia
32. Food Standards Australia New Zealand
33. Future Fund Management Agency
34. Great Barrier Reef Marine Park Authority
35. Human Rights and Equal Opportunity Commission
36. Migration Review Tribunal and Refugee Review Tribunal
37. Medicare Australia
38. Murray Darling Basin Authority
39. National Blood Authority
40. National Capital Authority
41. National Competition Council
42. National Film and Sound Archive
43. National Health and Medical Research Council
44. National Library of Australia
45. National Museum of Australia
46. National Native Title Tribunal
47. National Offshore Petroleum Safety Authority
48. National Water Commission
49. Office of Parliamentary Counsel
50. Office of the Australian Building and Construction Commissioner
51. Office of the Commonwealth Ombudsman
52. Office of the Federal Privacy Commissioner
53. Office of the Inspector-General of Intelligence and Security
54. Office of the Inspector-General of Taxation
55. Office of the Renewable Energy Regulator
56. Office of the Workplace Ombudsman
57. Private Health Insurance Ombudsman
58. Productivity Commission
59. Professional Services Review
60. Torres Strait Regional Authority
61. Wheat Exports Australia
62. Workplace Authority

**Category C**
**Statutory Agencies with dual staffing powers**
1. Australian Bureau of Statistics
2. Australian Electoral Commission
3. Australian Institute of Family Studies
4. Australian Institute of Health and Welfare
5. Australian Securities and Investments Commission
6. Comcare
7. Corporations and Markets Advisory Committee
8. National Environment Protection Council (NEPC) Service Corporation#
9. National Transport Commission#
10. Office of National Assessments
11. Office of the Auditing and Assurance Standards Board#
12. Office of the Australian Accounting Standards Board#
13. Office of the Commonwealth Director of Public Prosecutions
14. Screen Australia

**Category D**
**Executive Agencies**
1. Bureau of Meteorology
2. CrimTrac Agency
3. Insolvency and Trustee Service Australia
4. National Archives of Australia
5. Old Parliament House

**Category E**
**Bodies with staff employed under the *Public Service Act 1999* which operate with some degree of independence (e.g. some have their own certified agreement and/or are identified separately under the *Financial Management and Accountability Act 1997* or the *Commonwealth Authorities and Companies Act 1997* but are not separate APS Agencies as defined in the Public Service Act.**
1. Ausaid - Australian Agency for International Development (part of the Department of Foreign Affairs and Trade)
2. Australian Office of Financial Management (part of the Department of the Treasury)
3. Australian Quarantine and Inspection Service (part of the Department of Agriculture, Fisheries and Forestry)
4. Australian Valuation Office (part of the Australian Taxation Office)
5. Biosecurity Australia (part of the Department of Agriculture, Fisheries and Forestry)
6. Child Support Agency (part of the Department of Human Services)
7. Comcar (part of the Department of Finance and Deregulation)
8. Commonwealth Grants Commission (part of the Department of the Treasury)

9. CRS Australia (part of the Department of Human Services)
10. Defence Materiel Organisation (part of the Department of Defence)
11. Director of National Parks (part of the Department of the Environment, Water, Heritage and the Arts)
12. Geoscience Australia (part of the Department of Resources, Energy and Tourism)
13. IP Australia (part of the Department of Innovation, Industry, Science and Research)
14. National Measurement Institute (part of the Department of Innovation, Industry, Science and Research)
15. Office of Indigenous Policy Coordination (part of the Department of Families, Housing, Community Services and Indigenous Affairs)
16. Questacon – National Science and Technology Centre (part of the Department of Innovation, Industry, Science and Research)
17. Royal Australian Mint (part of the Department of the Treasury)
18. Seafarers Safety Rehabilitation and Compensation Authority (Seacare Authority) (part of Comcare)
19. Social Security Appeals Tribunal (part of the Department of Families, Housing, Community Services and Indigenous Affairs)

*Source: http://www.apsc.gov.au/apsprofile/agencies.htm*

# Public Service Commissioner's Direction 2.12.
## The APS focuses on achieving results and managing performance
### [ACT s10 (1) (k)]

(1) In upholding and promoting the APS Value mentioned in paragraph 10 (1) (k) of the Act, an Agency Head must, in addition to having regard to any statutory accountability and reporting responsibilities, put in place measures in the Agency directed at ensuring that:

(a) the Agency has at all times the organisational capacity, flexibility and responsiveness necessary to achieve the outcomes expected by the Government or any other authority to which the Agency is accountable; and

(b) the Agency has at all times a culture of achievement, planning time and priorities to deliver on intended results; and

(c) the Agency's reporting arrangements provide an account of the effectiveness of the Agency's outputs during the reporting period; and

(d) the Agency is able to demonstrate that it has directed its resource priorities toward the achievement of the outcomes expected by the Government or any other authority to which the Agency is accountable; and

(e) the Agency establishes a fair and open performance management system that:

(i) covers all APS employees; and

(ii) guides salary movement and is linked to Agency organisational and business goals and the maintenance of the APS Values; and

(iii) provides each APS employee with a clear statement of performance expectations and an opportunity to comment on those expectations; and

(f) the Agency conducts its performance management system in accordance with the objectives mentioned in paragraph (e).

(2) In upholding the APS Value mentioned in paragraph 10 (1) (k) of the Act, an APS employee must, taking into account the employee's duties and responsibilities in an Agency:

(a) help to ensure that:

(i) the Agency has at all times the organisational capacity, flexibility and responsiveness necessary to achieve the outcomes expected by the Government; and

(ii) the Agency has at all times a culture of achievement, planning time and priorities to deliver on intended results; and

(iii) the Agency's reporting arrangements provide an account of the effectiveness of the Agency's outputs during the reporting period; and

(iv) the Agency is able to demonstrate that it has directed its resource priorities toward the achievement of the outcomes expected by the Government; and

(b) facilitate a fair and open performance management system in the Agency that:

(i) covers all APS employees; and

(ii) guides salary movement and is linked to Agency organisational and business goals and the maintenance of the APS Values; and

(iii) provides each APS employee with a clear statement of performance expectations and an opportunity to comment on those expectations; and
(c) participate in the Agency's performance management system in accordance with the objectives mentioned in paragraph (b).

## APS Values

The APS:

1.  is apolitical, performing its functions in an impartial and professional manner;
2.  is a public service in which employment decisions are based on merit;
3.  provides a workplace that is free from discrimination and recognises and utilises the diversity of the Australian community it serves;
4.  has the highest ethical standards;
5.  is openly accountable for its actions, within the framework of Ministerial responsibility to the Government, the Parliament and the Australian public;
6.  is responsive to the Government in providing frank, honest, comprehensive, accurate and timely advice and in implementing the Government's policies and programs;
7.  delivers services fairly, effectively, impartially and courteously to the Australian public and is sensitive to the diversity of the Australian public;
8.  has leadership of the highest quality;
9.  establishes workplace relations that value communication, consultation, co-operation and input from employees on matters that affect their workplace;
10. provides a fair, flexible, safe and rewarding workplace;
11. focuses on achieving results and managing performance;
12. promotes equity in employment;
13. provides a reasonable opportunity to all eligible members of the community to apply for APS employment;
14. is a career-based service to enhance the effectiveness and cohesion of Australia's democratic system of government; and
15. provides a fair system of review of decisions taken in respect of APS employees.

*Source: Section 10, Public Service Act 1999.*

# APS Codes of Conduct

APS employees are required, under the Code of Conduct, to behave at all times in a way which upholds the APS Values.

The Code of Conduct requires that an employee must:

1. behave honestly and with integrity in the course of APS employment;
2. act with care and diligence in the course of APS employment;
3. when acting in the course of APS employment, treat everyone with respect and courtesy, and without harassment;
4. when acting in the course of APS employment, comply with all applicable Australian laws;
5. comply with any lawful and reasonable direction given by someone in the employee's Agency who has authority to give the direction;
6. maintain appropriate confidentiality about dealings that the employee has with any Minister or Minister's member of staff;
7. disclose, and take reasonable steps to avoid, any conflict of interest (real or apparent) in connection with APS employment;
8. use Commonwealth resources in a proper manner;
9. not provide false or misleading information in response to a request for information that is made for official purposes in connection with the employee's APS employment;
10. not make improper use of:
    (a) inside information, or
    (b) the employee's duties, status, power or authority,
    in order to gain, or seek to gain, a benefit or advantage for the employee or for any other person;
11. at all times behave in a way that upholds the APS Values and the integrity and good reputation of the APS;
12. while on duty overseas, at all times behave in a way that upholds the good reputation of Australia; and
13. except in the course of his or her duties as an APS employee or with the Agency Head's express authority, not give or disclose, directly or indirectly, any information about public business or anything of which the employee has official knowledge.

# Employee Performance and Total Reward System

Deni Hardiansyah

## Introduction

The issue regarding reward system to control performance in organizations has had a great attention by many researchers and practitioners. Generally, when organizations reward their employee, they value employees' performance based on employees' contribution to the organizations. It is commonly believed that there is a strong relationship between rewards that are given by employers and employees' performance in organizations.

From an organisations' perspective, stability and reliability are required to move comprehensibly toward its goals. On the other hand, many factors outside organisations are dynamic such as the business environment where they are involved, labour union, government regulation, type of their organizations, and type of their product. To survive, organisations should align their movement to those factors. In this sense, organisations could be seen a process to manage resources that they have in dealing with those outside factors in order to achieve their goals. Hence, the process to manage their resources is strategic. According to Agarwal (1998:60-70), to survive and prosper in the global and competitive environment, organizations have to change their structure and management systems that are associated with the environment. As a consequence, when they change their structure and management system they also have to change their reward system that is aligned with the organization's strategies goals. Furthermore, Heneman and Dixon (2001) state that in addition to business strategy and structure, a reward system design and implementation must also align with organization culture.

This essay only focuses on reward system that is financial reward in running employees' performance and is organised into three sections. First, it briefly explains total reward in organizations. Second, it tries to presents organizational reward system, extrinsic motivation and other factors that influence reward system. Third, it explains to what extent the main role of organisational reward system in maximising employees' performance.

## Total Reward

Organizational reward system is unique and varies and it can provide an organization a competitive advantage (Howard and Dougherty, 2004:41). Based on their study, it is proposed that by designing and developing organizational reward system effectively. It can help organizations to attract, retain, and motivate employees and ultimately it can support organizations to achieve their goals.

Dessler G., et al (2004: 400) state that total reward can be related with everything that has to be given to employees to perform their job or role. Rewards can be categorized as monetary reward and non-monetary reward and it may be made up of salaries, incentives and range of benefits. According to Armstrong and Murlis (2005: xi-12) a reward system is associated with a mechanism or procedural thing such as payroll operation. Furthermore and detailed, they divided total reward into two main parts namely transactional rewards and relational rewards. Relational reward is everything that is linked to non-financial reward such as recognition, working environment, responsibility, career, and skills. On the other side, transactional reward is everything that is connected to financial or monetary rewards and benefits such as base pay, variable pay, contingent pay, share ownership, and benefits. Organizations usually give three types of financial reward to their employee such as base pay, benefit, and performance pay (N. C. Agarwal, 1998:62).

Developing and deciding which type of reward strategies that organization should implement to lever their performance is a complex process. Broad aspects and many factors that should be considered when designing and implementing organizational reward system. According to Heneman and Dixon (2001), organizational reward system can most effectively work to organizational performance when they carefully tailor the design and implementation of their reward system to the business strategy, structure and culture of the organization.

## Reward system

To have a well-designed reward system, organizations have to consider, accommodate and articulate many factors that influences employees' working performance in their reward system. One the most important thing organizations must consider is employees' motivation at work. Lacan (1980) as cited by Jackson and Carter (2007:189) defined motivation in a broad term, "motivation could be seen as, not about acquisition of satisfactions, material, or otherwise, but about the search for identity, for positive valuation from the other."

In terms of organisational reward system, Armstrong and Murlis (2005:58-62) divide employees' motivation into two broad aspects that are financial motivation as extrinsic motivation and non-financial motivation as intrinsic motivation that driven employees' motivation come at work. Extrinsic motivation could be in form of salary, wages, praise, bonus, and promotion that are given by employer in order to manage employees' performance in organizations.

There are several theories about financial motivation that driven employees at work, the first one is equity theory that suggests about fairness in the reward system. Second is expectancy theory which explains about the linking of reward toward performance. Thirdly, reinforcement theory that stresses the importance of people's experience about reward, and the last is agency theory that emphasises separation between ownership and employee and reward and risk (Cieri H. D. and Kramar R., 2007:492-496).

Those theories only emphasise financial aspect that that driven people at work. To implement those theories into reward system, organizations have to

examine a wide range of factors such as tasks, education, skills, and responsibility which are needed to be performed by employees. The term to examine those factors is defined as job analysis (Dessler G., et al, 2004: 142).  In valuing those factors into reward system such as pay level, for wages and salaries, usually organizations can get information about the value from labour market (benchmarking), minimum wage regulation, and their peer group. From equity and competitive perspective it is very important to know what other organizations pay their employee. By knowing what employees' motivations are and job analysis, organizations' structure and culture as well as business environment. Organizations can design and implement what kind of reward system that is suitable with them to improve their performance.

Organisational reward system which is based on financial motivation can has significant effect to motivate employee in certain organisations. We can see this at McDonald, where employees are highly controlled, less amount of physical exertion, reducing intrinsic motivation. By focusing their reward system based on financial motivation, McDonald can be one of the most popular fast food restaurants in the world.

However, in designing and implementing a reward system which is based only on extrinsic motivation is not effective to manage employees' performance. Organisations also should know and align their strategy with other factors that might influence employees' performance such flexibility at work and employees' structure or job class.

Howard and Dougherty, (2004:41) point out that in designing organizational reward systems, organisations should also consider employees' structure or class. Based on their study, by so doing it can help organizations to attract, retain, and motivate employees and ultimately it can support organizations to achieve their goals.  They studied 154 employees from 10 different kinds of organizations in America to see a relation between employees' performance and reward strategies from employees' reactions. They categorized the employees into two categories namely blue collar workers for employees that doing clerical and administrative jobs and white collar workers for employee that doing managerial jobs. Based on the study, they found that blue collar workers prefer to have rewards system which is based on group performance. Meanwhile white collar workers have different expectations and prefer to have reward system which is based on individual performance. Therefore, the type of reward system that organizations used can plays a strategic role in managing organizations' performance is a crucial. In other words, by implementing improper reward system will decrease organizations' performance to achieve their strategic goals.

In addition to above evidence, McKnight, et al.(2007:42) give a nice example about how reward system, technology, human resource activities, and employees' performance involved managing an organization performance. The Medical Centre Columbus had faced a staffing issues problem that was open shifts. This was caused by depending on manual sign-up sheets for filing open shifts and nurses had limited access to the list. As a consequence, each nurse manager spent around 8 to 12 hours making phone calls a week to organize schedule and staff. To give their nurse's flexibility, The Medical Centre Columbus implemented computerized sign-

up sheets for filing open shifts that can be accessed from everywhere and introduced shifts rewards with point incentives. After the implementation, benefits that The Medical Centre Columbus has are the vacant shifts and a decreasing of cost and time needed to make phone calls. As a result, nurses will be more flexible in conducting their job. This lead to a better coordination in team work, and introducing internet and web-based technology that nurses experienced will ease the way for The Medical Centre in implementing information system in the future.

In The Medical Centre case, by conducting job evaluation, implementing a new reward system based on technology they can solve their problem and improve organizations' performance. Well conducted and regular job analysis can be a tool to recognize and reward good performance and to manage under-performance. By so doing, organizations will have updated and well defined position description that can help them reducing cost that is caused disputes over performance standards and remuneration level, and discrimination (Dessler G., et al., 2004: 143). At this point, performance appraisal plays an important role. In evaluating employees' performance, organizations must be objective and fair in conducting this role.

Based on those evidence, just rely on employees' extrinsic motivation in designing and implementing reward system to manage performance is too risky, especially in the globally and competitive business environment that change rapidly. Organisational reward system must be tailored with other aspect that might influence employees' motivation at work. In broad term, the other aspects that might be influence employees' performance are business strategy, structure and culture of the organization. Organizational reward system can most effectively work to organizational performance when they carefully tailor the design and implementation of their reward system to the business strategy, structure and culture of the organization (Heneman and Dixon, 2001). Since, every organisation has their own culture, structure, and business strategy. As consequence, a certain type of organisational reward systems that is used in certain organizations might not be fit to implement in another organization Allen and Helms (2001).

## Conclusion

All reward systems are based on the assumptions of attracting, retaining and motivating employees and to achieve certain level of performance. Undoubtedly, money is a main employees' motivator at work and has significant effect to manage employees' performance. However, only rely on employees' extrinsic motivation in designing reward system is too risky. Employees' motivation at work is complex; it is not only driven by extrinsic motivation but also other factors such as flexibility at work and job class. To be effective, those factors should be accommodated when developing organisational reward system. Fail to accommodate one of those factors in the reward system will influence employees' performance and at the end organizations' performance.

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