

THE IMPACT OF PAY REFORM ON THE ORGANIZATIONAL PERFORMANCE (A CASE STUDY: IMPLEMENTATION OF REMUNERATION AT UNIVERSITAS PADJADJARAN)

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ABSTRACT

Unpad needs a new payment system as the demand in improving the performance and legality of compensation payment based on the level of responsibility and the needed demand of professionalism. By proposing the principle of pay for performance, since 2015 Unpad has conducted pay reform known as remuneration. Meanwhile, the purpose of remuneration system at Unpad is to obtain human resources with the appropriate qualification so that it makes sure that they work professionally, retains good and high achieving employees, motivates employees to work productively, gives rewards to employees based on their performance and work achievements, and controls the employee cost. This paper would explain how pay reform affects the performance of Unpad, particularly in achieving *tridharma perguruan tinggi* (the three obligations of universities). The research method applied was the qualitative with collection data techniques of participatory observation, interviews, and literatur review. The research result showed that the implementation of pay reform which has been conducted by Unpad since 2015 has a significant impact on the improvement of organizational performance, especially *tridharma perguruan tinggi* (the three obligations of universities). It is because besides the principle of pay for performance, the implementation of remuneration also refers to the principle of pay for position and pay for people.

Keywords: *Pay Reform, Pay for Performance, Pay for Position, Pay for People, Remuneration, Organizational Performance*

Introduction

After becoming a Public Service Agency (BLU) in 2009, Unpad needs a new payment system as the demand in improving the performance and legality of compensation payment based on the level of responsibility and the needed demand of professionalism. As a Public Service Agency and also a government working unit Unpad practices flexible management of state finance in accordance with prevailing legislation.

By prioritizing the principle of pay for performance, since 2015 Unpad has

conducted pay reform known as remuneration. Meanwhile, the purpose of the remuneration system at Unpad is to obtain human resources with the appropriate qualification so that it makes sure that they work professionally, retains good and high achieving employees, motivates employees to work productively, gives rewards to employees based on their performance and work achievements, and controls the employee cost.

The remuneration system will become the guidance for managing finance and also it will improve the service quality of Unpad. Moreover, the existence of

remuneration hopefully will change the culture of employees in performing their works. The remuneration system practiced up till now by Unpad basically has approached the empiric practice.

The objective of this research is to find out how remuneration has been implemented at Universitas Padjadjaran and its impact on the organizational performance, particularly in the fulfillment of *tridharma perguruan tinggi* (the three obligations of universities).

Conceptual Framework

The demand for remuneration for universities with a status of Public Service Agency is absolutely needed in accordance with the mandate that the remuneration system is necessary as the legality of compensation payment to employees based on based on the level of responsibility and the needed demand of professionalism. Some mandates for regulation relating to this matter are among others:

- (1) Other Input Cost Standard (SBML) at State Universities of 2014: ...”The honorarium cost unit which is basically remuneration for officials of Public Service Agencies and supervisory boards should be processed in accordance with Government Regulation which regulate management of Public Service.”
- (2) Regulation of the Minister of Finance 71/2013 Ps 8(4): “The usage of other input cost units which adds income and/or facilities referred to section (3) must obtain the approval of the Minister of Finance.”

Milkovich & Newman (1999) proposed that remuneration refers to all forms of benefits, both financial

(transactional) and non-financial (relational) ones. In principle remuneration is a tool to realize the vision and mission of an organization because remuneration itself aims to attract skillful and experienced employees, to retain qualified employees, to motivate employees to work effectively, to motivate the establishment of positive behavior, and to become a tool to control expenses, in which they are factors that assist in achieving the vision and mission of the organization.

Further, the definition of remuneration is compensation, which may be in the form of salary, honorarium, permanent allowance, bonus for achievements, severance pay, and/or pension (Regulation of the Minister of Finance Number 10/PMK.02/2006 Article 2). Remuneration is given to management officials, Supervisory Boards, and Employees of Public Service Agencies based on the level of responsibility and the needed demand of professionalism. Components of remuneration are stipulated by referring to the nomenclature in Regulation of the Minister of Finance Number 10/PMK.02/2006, Regulation of the Minister of Finance Number 73/PMK.05/2007, and Regulation of the Minister of Finance Number 10/PMK.02/2006.

Some theories applied in determining remuneration are as follows:

1. Equity theory (Berman, 2020:201)¹ which emphasizes the balance between contribution made by the individual and the rewards received from the organization. This philosophy also assumes that there is correlation

¹ Philosophy of Pay is *Equity theory*, which stated that the basis of pay program must be balance between contribution made by individual and the rewards received from the organization

- between performance and pay (Vroom:1964).
2. Theory of pay structure based on content which ranks positions based on the skill required (skills and knowledge), complexity of task (work achievements produced by a position and how they are produced; what tasks are done), problem solving and or responsibility (what kinds of behaviors are performed). Job based structure emphasizes the work performed, which includes what people are doing and what they produce (purpose of task /the expected outcomes.
 3. Theory of job analysis and job evaluation which proposes that:
 - a. Job evaluation is based on a combination of job content, skills required, and values of the skills to the organization.
 - b. Content refers to what work is performed and how it gets done (Milkovich 2011:129-130). Work Content of Jobs elaborate tasks, ability/behaviors in performing the work and standard/work target (responsibilities) (Milkovich, 2011: 95-96,186)
 - c. The process of Job Evaluation is begun with Job Analysis, which is formulated in job description and it becomes the input in job evaluation (Milkovich, 2011:131)
 4. Theory of equity in external competitiveness or labor markets (Berman, 2010: 222) which proposes that determination of salary structure needs information on salaries of the same position in similar organizations.
 5. Theory of supply and demand for labor which proposes that proposes the determining factor in pay levels of employees is supply and demand.
- However, organizations need to ensure that their income ability sufficient for paying the expenses, including compensation (Milkovich, 2011: 2013). If the demand for goods/services produced by the organization is high, it will affect the improvement in the organization's ability to pay all expenses, including the increase in the expenses for paying salaries/wages of its employees.
6. Theory of *Pay structure based on value* which proposes that salary structure refers to values/benefits that a good or service produces by a position or the proportion of contribution of skill, task and responsibilities to the organization's objectives (Milkovich, 2011:72).
 7. Theory of Balance Scorecard which measures performance through four perspectives, namely Financial Perspective, Customer Perspective, Internal Business Perspective, Learning and Growth Perspective (Norton & Kaplan, 1992).
 8. Theory of Person based Structure which focuses on individual characteristics of employees relating to skill/ knowledge and competencies. Value of Skill can be proven, among others, by certificates obtained by attending certain education/training. This proof is considered to be accurate that it can assess employees fairly (Milkovich, 2011:169).
 9. Quantity value can be determined by skill level or competency level (Milkovich, 2011 :186)
 10. Theory of Job Evaluation Methods which proposes that there are three methods generally used in performing job evaluation, namely
 - a. Ranking

- b. Classification
- c. Point Method

(Milkovich, 2011:134)

11. Point Method is an approach of job evaluation which is mostly used in the United States and Europe. This method has three characteristics, namely compensable factors, factor degrees numerically scaled, and weight reflecting the relative importance of each factor. Each indicator is given a degree and it is multiplied by weight and the result is the position value. (Milkovich, 2011:134)

The implementation of remuneration at Universitas Padjadjaran applies paradigm of pay structure based on content, in which remuneration emphasizes job grading and work achievements produced. Therefore, the paradigm of this research is as follows:

1. To map the policy of remuneration at Universitas Padjadjaran;
2. To conduct job evaluation to determine job grading;
3. To measure the impact of the organization's performance after remuneration.

Method

This research applied the qualitative method, aiming to find out the implementation of remuneration and its impact to the performance of Universitas Padjadjaran. The data collection technique which was performed in semester 1 of 2006 was conducted through:

1. Literature studies, particularly documents of relevant legislation.
2. Focused group discussion.
3. Participatory observation, in which researchers were involved in preparing

the implementation of remuneration at Universitas Padjadjaran.

Result and Discussion

I. Remuneration Policy at Universitas Padjadjaran

There are three components of the remuneration system at Universitas Padjadjaran :

1. Pay for position is payment for positions calculated according to the job value produced by a position. For the position of lecturers, pay for position is in the form of salary from Non-Tax State Revenues (PNBP) paid to fulfill the task load of tridharma of more than 12 semester credit units, for education, research, and community service and also other supporting tasks.
2. Pay for performance is the incentive for performance paid for the work achievement and the achievement of performance target (KPI). The requirement for the payment of incentives is the fulfillment of the target of work achievement and standard workload.
3. Pay for people is an individual benefit program paid for welfare, including children's education, security protection, and comfort.

By considering the three aspects above, the scheme of remuneration at Universitas Padjadjaran is as follows:

a. Salary

Each lecturer obtains extra salary besides pure salary in rupiahs (the government budget). The extra salary is paid by using Non-Tax State Revenues (PNBP) and the amount is determined according to the position, jobs, and grades. The base for salary payment is the workload above the

standard for workload of lecturers (BKD) of 12 semester credit units stated in Individual Performance Contracts and the level of achievement has been evaluated.

The amount of salary is the multiplication of job value of a position and Rupiah Index according to the finance ability of the Public Service Agency of Unpad. The stipulation of extra salary which is regulated in Decree of Rector is the maximum amount. Commitment Making Officials decides the amount of salary according to ranks and levels because they consider different levels of imposition of income tax among ranks/levels. As for anyone who has double positions, the paid salary chooses one of them.

b. Performance Incentives

The policy of the payment of performance incentives is **reward** for individual productivity of employees and managing officials. The base for the payment of performance incentives is the percentage of performance achievement levels whose achievement levels of performance target have been evaluated. The achievement of individual performance target reflects the level of dedication in performing tasks, the work output produced, and its contribution to the achievement of the institution's performance.

The percentage of performance achievement levels will be appreciated to obtain performance incentives if it has the range of minimum achievement of 25%. The achievement under 25% will not receive performance incentives. The level of performance achievement that belongs

to the extraordinary group will obtain the maximum performance incentives of 200%.

c. Determination of Points in Individual Performance Contract

Each lecturer has a fairness point of performance per semester outside the workload of lecturers (BKD) which equals to 5,000 points. This fairness point is calculated based on the work output produced by a lecturer to achieve the institution's performance target. Performance will be stated in performance contracts and it will be evaluated each semester. Meanwhile, the 5,000 points can be obtained from education, research, community service, supporting academic activities, and additional tasks.

The highest payment estimation of remuneration incentives for lecturers per month is the projection of the percentage of the performance achievements of lecturers by comparing the projection point of the performance achievements (in performance contracts) and the standard performance point (5.000 points) multiplied by the incentive tariff in the Decree of Rector according to the position.

At the end of semester an evaluation of the performance achievements of lecturers will be conducted according to the stipulated criteria. Based on the result of evaluation, the amount of incentives will be adjusted in the next semester according to the level of the performance achievements of lecturers.

II. Job Evaluation

Parameter of remuneration to determine job values and job grades according to the method of factor evaluation system (FES) is stated in Regulation of the State Minister of

Administrative Reform of Republic of Indonesia Number 34 Year 2011 on Guidelines for Job Evaluation and the calculation result of structural and functional positions in the Ministry of Education and Culture. When managerial job evaluation is stipulated, the method of FES is modified to obtain job values appropriate for job analysis.

According to the method of FES, there are at least six factors considered in structural positions, namely the scope and impact of the program, organizational

arrangement, supervisory and managerial authority, personal relationship, difficulties in work directives, and other conditions. Meanwhile, functional positions use the following nine factors: knowledge needed for the position, control from supervisors, guidelines, complexity, scope and impact, personal relationship, goals of relationship, physical requirements, and working environment.

Based on the calculation of the FES, job grades are obtained as follows:

Table 1
Grading of Functional Positions of Lecturers at Universitas Padjadjaran

Grade	Position
12	Professor
11	Senior Lector
9	Lector
8	Associate Lecturer
	Lecturer

Source: Buku Pedoman Remunerasi, 2016

Table 2
Grading of Managing Officials of the Public Service Agency of Universitas Padjadjaran

Grade	Position
17	Rector
16	Vice Rector
	Dean
15	Director
14	Vice Dean
	Head of Special Staffs of Rector

Grade	Position
12	Special Staff of Rector for Finance
	Head of Research Center of Excellence
	Head of Quality Assurance Unit (SPM)
	Head of Internal Supervisory Unit (SPI)
	Head of Procurement Service Unit (ULP)
11	Head of Department
	Chief of Study Program
	Special Staff Members of Rector
	Vice Head of Quality Assurance Unit (SPM)
	Vice Head of Internal Supervisory Unit (SPI)
	Secretary of Procurement Service Unit (ULP)
10	Head of Central Laboratory
9	Head of Laboratory
	Head of Research Center/Study Center
	Manager
8	Head of Technical Implementation Unit (UPT)
	Secretary of Department
	Secretary of Study Program
	Secretary of Research Center of Excellence
	Head of Quality Assurance Unit
	Special Staff of Dean

Source Buku Pedoman Remunerasi, 2016

III. The Impact of Remuneration

The operational performance emphasizes the operational effectiveness of the organization, parts of the organization, and its employees. Meanwhile, the operational performance of Unpad, which has been stipulated by the Minister/Head of Institution, at least considers the indicators of finance, service, quality, and benefits to the public. In this matter, the performance that will be measured will focus on the indicators of service, quality, number of output achievements of research.

1) Indicator of service

The Academic Information System available at Universitas Padjadjaran has been integrated and it is a web/online-based system. All information facilities in the academic system can be accessed and be informed online, including online Registration, online Study Plan Card (KRS), online Marks, online Field Work (KKN), online Graduation, online Lecture, online Transcript, online Diploma, and other facilities (the detail of the service is available in the appendix).

2) Indicator of quality

Meanwhile, the service performance and the quality of the organization of education are important factors in the organizational performance which can encourage the significant improvement which includes the following aspects:

- i. Improvement in the input quality of new students.

The improving quality of service and education has year by year increased the public's interest in attending Universitas Padjadjaran. It will make its level of competitiveness higher, so that the screening of new students of Universitas Padjadjaran will be tighter and it will provide a better and more competitive input quality.

- ii. Improvement in the quality of the learning system.

The learning system which uses the e-learning system and the learning program of Problem Based Learning supporting the implementation of competence-based curriculum has made Universitas Padjadjaran result in a better learning quality. Other actions which have been taken are as follows:

- Development of the Quality Management System of Education Service, Research and Study Service, and Community Service;
- Development of the Learning System that Meets the National Standard;
- Improvement of Research and Study Performance and Community Service;

- Development of human resources (educators and education staff) to support the improvement in the service quality of Education, Research and Study, and Community Service;

- Development of facilities and infrastructures supporting the learning system, Research and Study, and Community Service; and

- Improvement of the access to/funding of investment, learning, Community Service, and student affairs from various sources (national/international ones) with the basis of competitiveness and partnership.

- iii. Improvement of the Quality of Lecturers and Education Staff.

The improvement in the education quality and a better learning atmosphere are much affected by the presence and the quality of teaching staff and education staff. Universitas Padjadjaran has improved the quality of lecturers and education staff by granting scholarships for advanced studies of Strata-3 (doctoral) degrees, encouraging short courses, and enhancing expertise by sending lecturers to participate in seminars, trainings, symposiums, visits, and others.

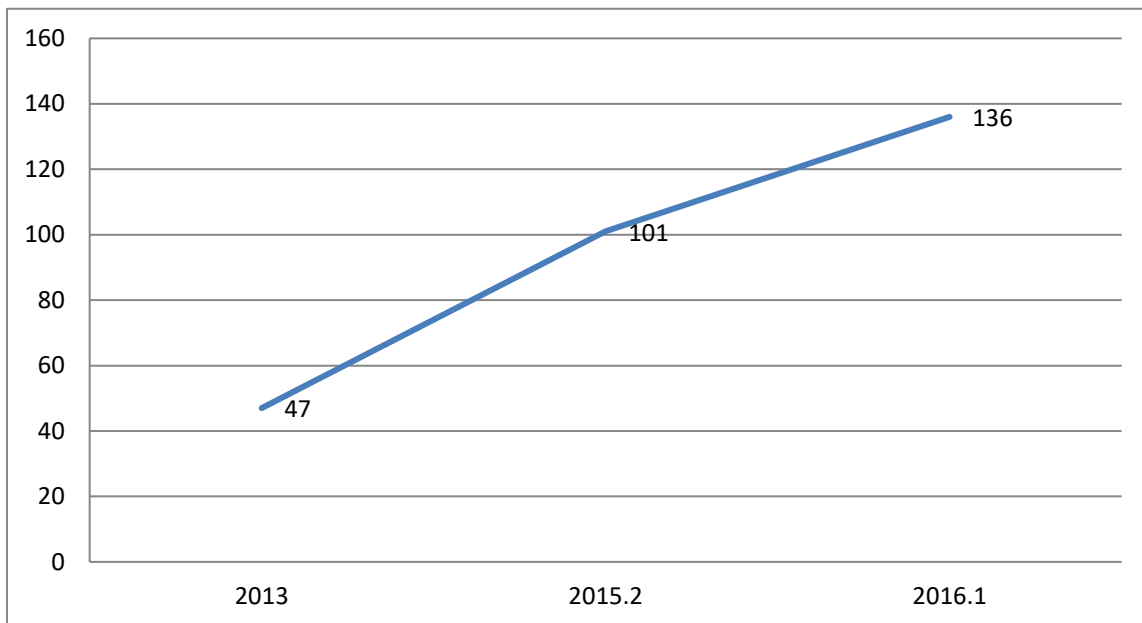
- iv. Sufficient facilities and infrastructures in the sector of improvement in the service of asset provisioning.

Sufficient facilities and infrastructures in the sector of improvement in the service of asset provisioning has resulted in better achievements at Universitas Padjadjaran, such as the provision of adequate lecture buildings, online journals, computers and lecture equipment, laboratory

instruments, bandwidth access to the Internet on campus and others.

3) Number of Output Achievements of Research

After the implementation of remuneration, there is an increase in a number of research outputs, such as Intellectual Property Rights and other scientific publications.



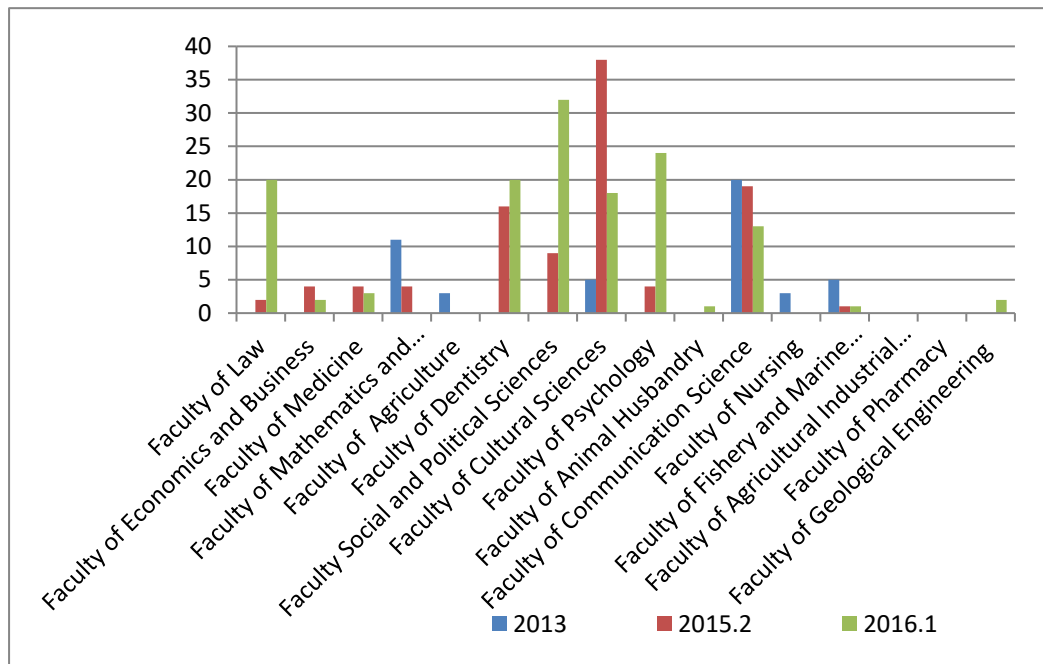
Source: Compilation of Faculty Data, 2013, 2015.2-2016.1.

Figure 1

Number of Intellectual Property Rights Owned by Universitas Padjadjaran

Based on the data above a rising trend of the number of intellectual property rights occurred after the implementation of remuneration (Years 2015.2 and 2016.1), as compared to that before remuneration (Year 2013). However, if it is viewed by the number of publications per faculty, the

increase in intellectual property rights is not equally distributed among the faculties. After the implementation of remuneration, there is an increase in intellectual property rights in all faculties, except Faculty of Communication Science and Faculty of Fishery and Marine Science (Chart 2).

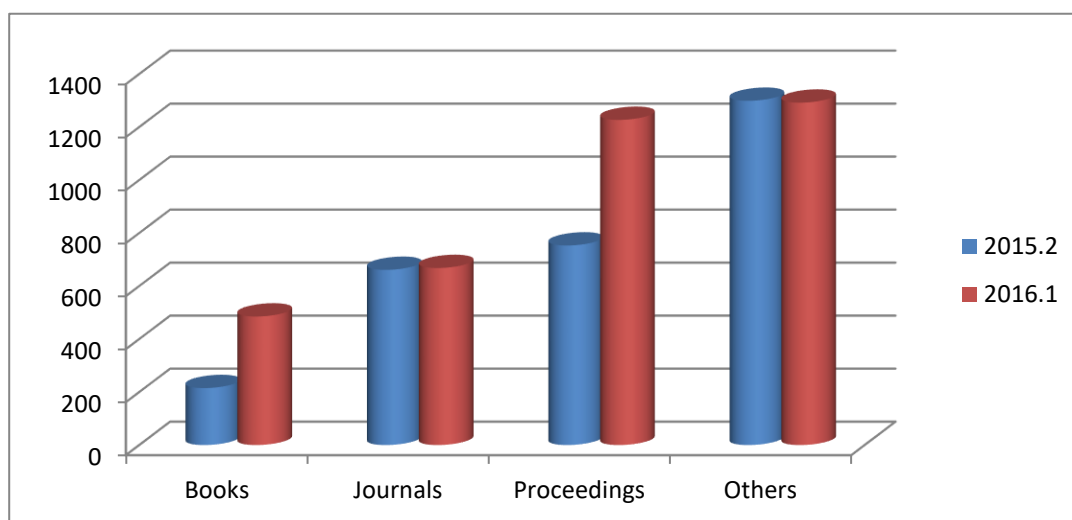


Source: Compilation of Faculty Data, 2013, 2015.2-2016.1

Figure 2
Number of Intellectual Property Rights Per Faculty of Academic Years 2013, 2015.2, 2016.1

In addition to intellectual property rights, the number of academic publications, in the forms of books,

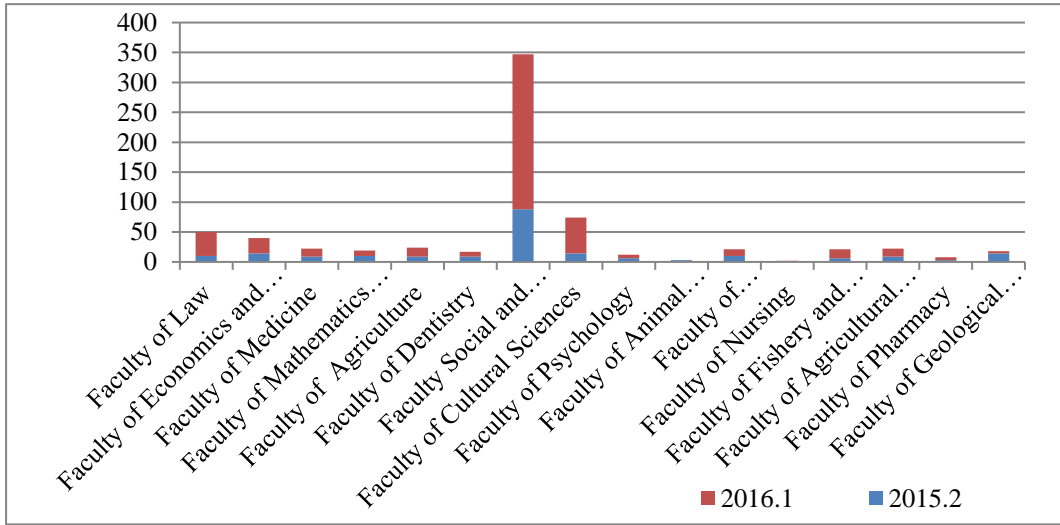
journals, and proceedings, has also increased as shown below (Chart 3):



Source: Compilation of Faculty Data, 2015.2-2016.1

Figure 3
Output Achievements of Research (Participation as Chairman) of Academic Years 2015.2 and 2016.1

Meanwhile, the number of books, journals, proceedings, and other publications will be presented in Charts 4, 5, 6, 7 below:

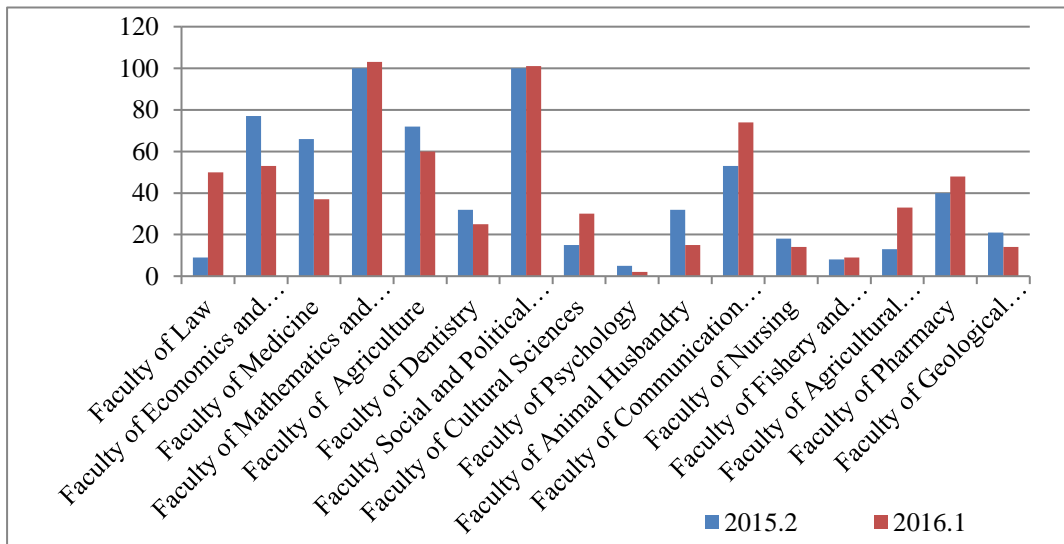


Source: Compilation of Faculty Data, 2015.2-2016.1

Figure 4
Number of Books per Faculty (Participation as Chairman)
of Academic Years 2015.2 and 2016.1

Based on Chart 4, it has been known that the number of publications in almost all faculties has increased after the implementation of remuneration. Faculty

of Social and Political Sciences has become one of faculties whose publications of books have significantly increased.



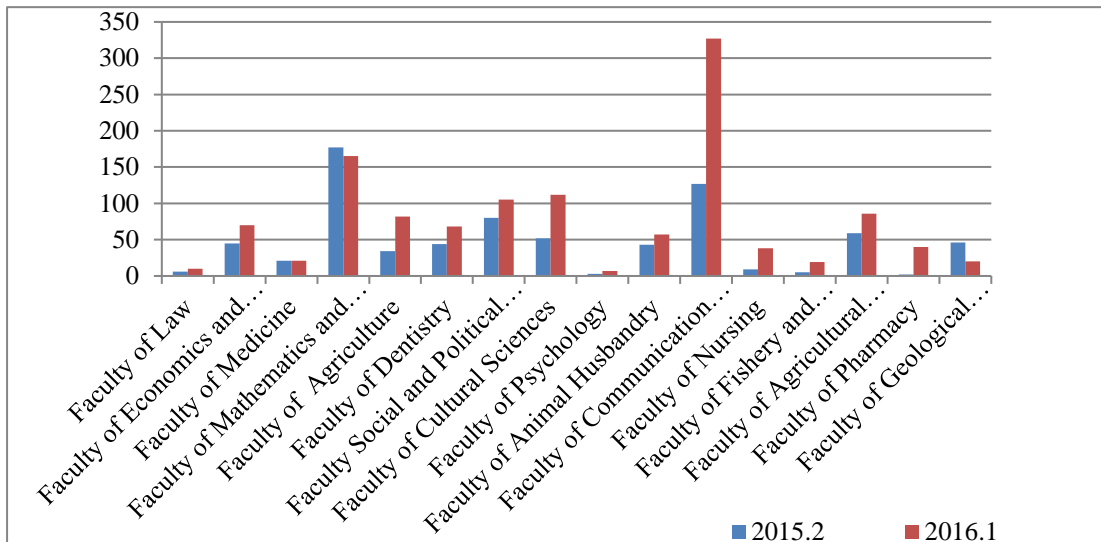
Source: Compilation of Faculty Data, 2015.2-2016.1

Figure 5
Number of Journals per Faculty (Participation as Chairman)
of Academic Years 2015.2 and 2016.1

Almost similar configuration also prevails in publications of journals, in which almost all faculties have experienced an increase of publications of journals after the implementation of remuneration. Faculty of Social and Political Sciences is one of faculties whose

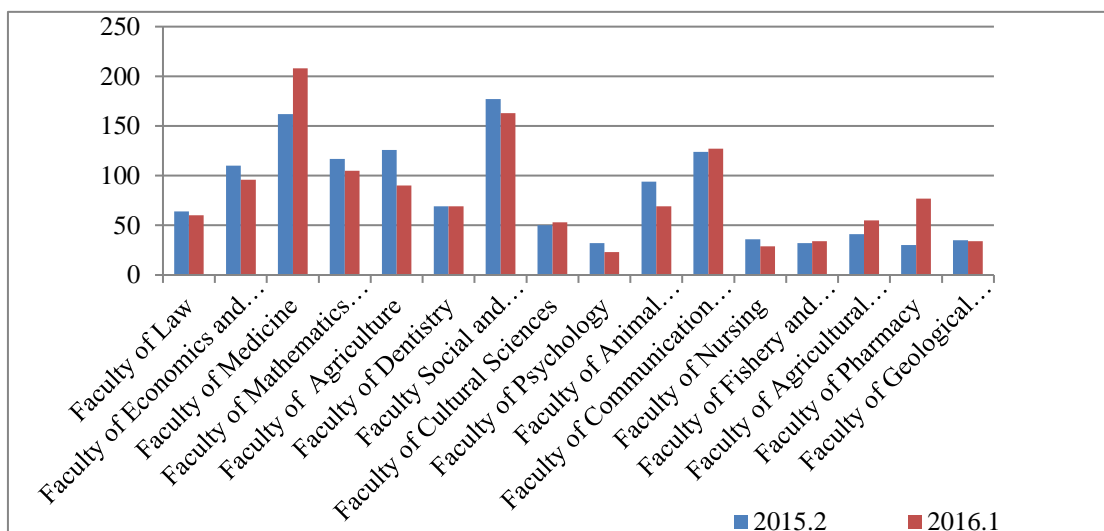
publications of journals have significantly increased (Chart 5).

Meanwhile, the increase in the number of publications in the form of proceedings is equally distributed among all faculties (Chart 6) and so are other publications (Chart 7).



Source: Compilation of Faculty Data, 2015.2-2016.1

Figure 6
Number of Proceedings per Faculty (Participation as Chairman) of Academic Years 2015.2 and 2016.1



Source: Compilation of Faculty Data, 2015.2, 2016.1

Figure 7
Number of Other Publications per Faculty (Participation as Chairman) of Academic Years 2015.2 and 2016.1

Based on the research result, it can be known that pay reform is able to improve performance, particularly at Universitas Padjadjaran, if it is viewed from indicators of service, quality, number of output achievements of research. The goal of reward schemes in remuneration contracts is to motivate managers to maximize the company's performance and shareholders' wealth. If this is the case, there should be a positive association between executive pay and corporate performance. However, in practice, a weak governance may result in little or no actual link between pay and performance (Doucouliagos, et al, 2012: 674).

Remuneration can also enhance innovation in an organization. Organizations that are seeking to gain competitive advantage through a high innovation strategy utilize remuneration practices that encourage, facilitate, and

reward strategy relevant behaviors (Schuler and Jackson, 1988:16).

Recommendation

The implementation of remuneration conducted by Universitas Padjadjaran was prepared based on legal view and then it was adjusted to some theories of compensation and job evaluation in order that the instrument is measurable. The research result showed that remuneration can encourage the improvement in performance and work productivity of employees which can directly affect the performance of Universitas Padjadjaran.

A further research on remuneration at universities may focus on employees' response to the implementation of remuneration at universities as evaluation materials for stakeholders to perfect the existing remuneration system.

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