Committee for Publiic Management Research
Discussion Paper 5

The Use of Rewards in Civil Service Management

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Contents

Foreword

This discussion paper is one of a series commissioned by the Committee for Public Management Research. The Committee is developing a comprehensive programme of research designed to serve the needs of the future developments of the Irish public service. Committee members come from the Departments of Finance, Environment and Rural Development, Health and Children, Taoiseach, and Public Enterprise, and from Trinity College Dublin, University College Dublin, and the Institute of Public Administration. The research is undertaken for the committee by the research department at the Institute of Public Administration.

The discussion paper series aims to prompt discussion and debate on topical issues of particular interest or concern. Papers may outline experience, both national and international, in dealing with a particular issue. Or they may be more conceptual in nature, prompting the development of new ideas on public management issues. The papers are not intended to set out any official position on the topic under scrutiny. Rather, the intention is to identify current thinking and best practice.

This paper looks at the use of rewards in the civil service. Rewarding good performance is a challenging task. Yet it is one which is necessary to support improvements in performance sought through the Strategic Management Initiative. Rewards are an important component of any effective performance management system. The paper identifies a range of rewards that are available, and establishes a framework to assist managers consider when and where rewards are appropriate, and which rewards work best in defined circumstances.

We would very much welcome comments on this paper and on public management research generally. To ensure the discussion papers and wider research programme of the Committee for Public Management Research is relevant to managers and staff, we need to hear from you. What do you think of the issues being raised? Are there other topics you would like to see researched?

Research into the problems, solutions and successes of public management processes, and the way organisations can best adapt in a changing environment has much to contribute to good management, and is a vital element in the public service renewal process. The Committee for Public Management Research intends to provide a service to people working in public organisations by enhancing the knowledge base on public management issues.

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General information on the activities of the Committee for Public Management Research, including this paper and others in the series, can be found on the world wide web site of the Department of Finance: www.irlgov.ie/cpmr (this site is currently being developed).

1. Background

In *Delivering Better Government* (1996:38), the Co-ordinating Group of Secretaries indicate: 'The design of appropriate ways of rewarding performance will involve considerable research and discussion with the various interested parities. The group believes, nevertheless, that suitable mechanisms must be designed and implemented in order to bring about and underpin improvements in performance and to put in place an effective performance management process'.

Creating appropriate reward mechanisms for good performance in the civil service is a challenging task. There is not the same freedom as in the private sector to introduce bonuses or offer 'perks' like company cars and holidays. The definition of what constitutes outstanding performance can be difficult. Much good performance comes down to effective team work rather than necessarily that of individuals. Poorly constructed reward schemes may distort performance achievements. For these and for other reasons, rewarding performance in the civil service is not straightforward.

Rewards are inter-linked with motivation. Much of the research on reward systems finds its basis in the work of Maslow (1943), who developed the needs-hierarchy theory. This theory indicates that needs are structured in a hierarchy, with biological needs at the base and esteem and self-actualisation needs at the apex. This needs-hierarchy theory is adapted to the workplace by Hertzberg (1966), whose work was influential in promoting the concept of job enrichment, and the identification and differentiation of extrinsic and intrinsic rewards and their role in motivating staff. As Jabes and Zussman (1988:206) note: 'Extrinsic rewards are usually defined in the workplace as salary, fringe benefits and working conditions. Intrinsic rewards refer to feelings of competence, achievement, responsibility, challenge, accomplishment and the independence that tasks generate.'

Other research has shown that the impact of rewards varies from individual to individual, and that some individuals respond more to extrinsic rewards, whilst

others respond better to intrinsic rewards. Expectancy theories of motivation build on these findings, to indicate that individuals are motivated to perform well if they value the mix of rewards on offer and see that their performance will lead to them gaining those rewards (Nadler and Lawler, 1977). It is also deemed to be important that extrinsic and intrinsic rewards are distributed fairly and that the process is *seen* to be fair and equitable.

In summarising much of the literature on the various theories concerning motivation and rewards, Jabes and Zussman (1988:209) state:

> We can summarise current motivational thought by suggesting that individual needs influence which rewards will be valued in an organisation. Performance would depend on the availability of those rewards and the expectation that performance would lead to them. The resulting motivational state would bring about performance whose end product is extrinsic and/or intrinsic rewards, which if judged to be equitable and fair, would bring about job satisfaction.

This discussion would seem to indicate that to be effective, reward mechanisms need to be adapted to the requirements of the workforce, and to combine a mix of extrinsic and intrinsic rewards. These issues are examined in more detail in subsequent sections. In section 2, some information on the types of rewards valued by public sector employees is outlined. Section 3 outlines a framework for identifying and categorising rewards. Finally, section 4 provides some concluding comments.

2. Staff preferences regarding rewards

There is relatively little information available concerning the types of rewards that civil servants value. Three sources which provide some information are a 1986 survey of attitudes of senior managers in the public and private sector in Canada (Jabes and Zussman, 1988), a 1992 survey of employees in the Australian public service (Task Force on Management Improvement, 1992), and an OECD study of performance pay schemes (OECD, 1997).

Jabes and Zussman undertook a comparison of managerial attitudes to rewards in the public and private sectors in Canada. They found that in both sectors, intrinsic rewards were valued equally highly among all managers. However, there were significant differences regarding extrinsic rewards. Public sector managers placed a lower value on these than their private sector counterparts. Senior managers in both sectors, but particularly in the public sector, were also found to perceive rewards to be fairer than did those lower down the hierarchy they also tended to be more satisfied with the system. In general, private sector managers were happier with the fairness of the reward systems than were public sector managers. Drawing from these findings, Jabes and Zussman (1988:223) found that there is a need to create a climate in public sector organisations which is "visibly and objectively intrinsically satisfying ... The provision of public recognition, frequently and immediately after appropriate performance, the opportunity to be assigned to important and powerful committees, and ways of reinforcing task variety through assignments which require new knowledge and skills are some means to consider".

In Australia, the Task Force on Management Improvement conducted a sample survey of all staff in the Australian public service as part of their evaluation of the management reform programme. Part of this survey related to recognition of staff performance and staff preferences regarding rewards. With regard to recognition, staff were asked how satisfied they were with the recognition they received for doing a good job. Overall, staff satisfaction with the recognition they received was fairly low; only 41 per cent were very satisfied or satisfied (Task Force on Management Improvement, 1992:453).

With regard to their preference in terms of rewards for doing an outstanding job, the rewards most preferred by staff were: personal recognition from senior management (45 per cent) and more career development options (44 per cent). Both of these were chosen more frequently than extrinsic rewards such as cash and performance bonuses. Males, however, selected extrinsic rewards as their first choice, as did more senior managers (those in the Senior Executive Service).

An OECD study conducted in 1994-95, in eleven public sector agencies in five countries – Australia, Denmark, Ireland, the United Kingdom and the United States – found that performance related pay (PRP) was constantly ranked lowest in managers' expressed preferences for thirteen different work conditions (OECD, 1997). The survey showed that a substantial majority of managers do not value PRP as much as many other work characteristics, such as challenging job opportunities, a sense of accomplishment, recognition for one's achievements and respect and fair treatment from one's colleagues.

The findings from these three surveys would tend to indicate that individuals in the civil service value different types of rewards, depending on their position and personal predilection. Some prefer extrinsic rewards, others intrinsic rewards. There does, however, seem to be a significant emphasis on intrinsic rewards such as recognition and development opportunities. There is also an indication that arrangements for managing rewards are less than satisfactory. Many public servants in Australia feel that they do not get sufficient recognition for the job they do. In Canada, public sector respondents were less happy with the reward systems than their private sector counterparts.

These results beg the question of why there are differences between the public and private sectors in terms of reward perception. There is little evidence on this question, though Jabes and Zussman (1988:214) indicate that serving the country in work that is interesting and challenging – providing public service – is valued by public servants and helps explain a preference for intrinsic over extrinsic rewards. Other arguments that could be put forward are: that the level of extrinsic rewards

on offer in the public service is not sufficient to provide additional motivation; the impact of the unified service structure on reward structures; and the difficulties in measuring output and performance effectively. It is likely that there is a significant cultural context influencing attitudes to rewards in the public service (OECD, 1997).

3. A rewards framework for improved performance

As discussed above, there are a range of possible rewards which are available to promote improved performance. Figure 1 categorises rewards in a framework. Derived from work by Wholey (1983), this framework illustrates a range of rewards that can be used in a civil service context. Some of the rewards are aimed at the individual, others at teams or sections of the organisation. Also, some of the rewards are financial incentives in that they have a direct financial impact on an individual or team, whilst others are intangible incentives, largely focused on intrinsic rewards.

3.1 Individual based intangible rewards

The focus here is on rewards aimed at individuals in the civil service and which are biased more towards intrinsic rewards. These rewards aim at increasing the motivation and satisfaction of individual employees by enhancing their sense of worth and involvement in the organisation.

Personal recognition. As cited in the Australian survey of the public service quoted above in section 2, personal recognition can be a powerful reward and motivational tool. A simple 'thank you' for a job well done can often act as a positive incentive to staff. Yet it is an incentive which is often overlooked or underused in its application.

Removal of constraints. The constraints acting on civil servants undertaking their duties need constant scrutiny. Whilst many constraints are needed, and serve to ensure accountability and probity, over time regulations can build up and become counter-productive. The removal of unnecessary constraints can act to reward individuals through giving them more discretion.

Figure 1: A Rewards Framework for Improved Performance.

	Individual-based rewards	**Organisational/team-based rewards**
Intangible rewards	• Personal recognition • Removal of constraints • More interesting/challenging assignments • Delegation of authority and responsibility • Career planning and development	• Public recognition • Removal of constraints • Delegation of authority • Challenging new projects • Team-based awards

Financial Rewards	• Pay awards
	  – increments
	  – performance related pay
	
	• Promotion
	
	• Staff suggestion schemes
		• Team-based pay awards
		
		• Discretionary use of savings/user charges
		
		• Allocation of discretionary funds

(This figure is derived from work by Wholey, 1983: Table 9.1, 184)

More interesting/challenging assignments. One way of rewarding individuals deemed to have performed well is to give them specific challenging or interesting tasks, such as providing the secretariat to a task force or preparing a brief on a topic of particular interest. Such assignments act as recognition for the previous good performance of the individual.

Delegation of authority and responsibility. Involving individuals in setting their own work goals and targets can enhance their sense of responsibility and hence reward good performance, provided challenging targets for performance are set as a

result. Such moves can be linked to the delegation of authority to individuals. For example, in the Australian Tax Office, personnel and financial delegations have been pushed out of corporate services to front line programme managers (Task Force on Management Improvement, 1992:450). These managers then set goals and targets within their new areas of responsibility.

Career planning and development. Rewards can be associated with the planning of training and development initiatives, allied to individual performance appraisal. Jabes and Zussman (1988:221) indicate that career development can: 'heighten the sense of caring on the part of the organisation that seems to be lacking among senior managers in the public sector. By demonstrating organisational commitment one would certainly obtain an increase in personal commitment to the department'.

3.2 Individual-based financial rewards

Here, the focus is on financial-based rewards that can be given to individual civil servants in return for good performance.

Pay awards. There are usually two main pay-related rewards for individuals: the granting of increments and performance related pay.

The use of increments for rewarding good performance is one potential but often untapped reward system. The experience of the Australian public service, as documented in the report of the Task Force on Management Improvement, is not unusual, where increments tend to be granted automatically and are not seen as a reward mechanism by most managers. However, the report also states that the potential for using increments as rewards is changing (1992:451):

> The scope for [incremental rewards] has increased as structures have become flatter (and the salary range at the new levels has widened), and can develop further with new emphasis on proper appraisal and feedback (and their role in avoiding future under-performing officer situations). Proper

operation of the incremental system is, in fact, of sufficient importance to warrant inclusion in managers' own appraisals.

Performance-related pay (PRP) is a major topic, and could be the subject of a paper in its own right. From the perspective of its use as a reward mechanism, two key points emerge from the literature:

- PRP is a growing feature of civil service management practice. In some countries, such as Denmark, the Netherlands and New Zealand, PRP is applied at all levels. In other countries, such as Australia, Canada and Ireland, schemes are confined to senior managers (OECD, 1995: 57).

- Despite this widespread adoption of PRP, the effective allocation of performance pay awards to managers remains a difficult problem in the civil service. An OECD study of practice in eleven public sector agencies in five countries found that none of the schemes surveyed fully satisfied the motivational requirements for effective PRP schemes. The study recommends that if PRP schemes are to be introduced, they should be designed to incorporate specific and verifiable measures of performance if they are to have a chance of securing a positive impact (OECD, 1997).

The OECD (1995:57) also notes a recent change in PRP schemes, with departments being given more discretion to develop their own schemes or adapt PRP schemes to organisational requirements with regard to performance specification.

Promotion. Promotion is a traditional reward for high standards of performance. However, the ability to use this mechanism is limited, due to constraints on public service numbers and grades, and the international trend towards flatter structures in civil service management.

Staff suggestion schemes: Schemes such as INPUT, run by the civil service, grant small cash rewards to individuals for ideas to improve efficiency or quality of service provision.

3.3. *Organisation-based intangible rewards*

Here, the focus is on intangible rewards that can be applied at the level of teams, sections or the whole organisation. The emphasis is on promoting intrinsic rewards for good performance.

Public recognition. As with personal recognition at the level of the individual, public recognition for good performance on the part of a team/section/organisation can be a powerful reward mechanism. Wholey (1983:190) cites an example from the Office of Child Support Enforcement in the United States. The Office tracked the performance of each state's support enforcement agency against a range of performance indicators. High performers on selected indicators were recognised in a newsletter.

Removal of constraints/delegation of authority. These two reward mechanisms are taken together here, as they are often applied together at the organisation level. Delegation of authority arises from the removal of previous centralised constraints on procedures. For example, the Increased Ministerial Authority and Accountability (IMAA) initiative in Canada aimed to delegate authority to departments and reduce constraints imposed by the Treasury Board of Canada. The Treasury Board reported that the number of submissions made to them by departments was down 50 per cent between 1984 and 1989. Fewer submissions, it is contended, means less paper burden and more flexibility for managers, greater scope for decision making within departments, and freeing managers to redirect their energies to more productive and creative work (Treasury Board of Canada, 1989).

Challenging new projects. Work teams or sections, no less than individuals, can be rewarded by assigning them challenging new tasks. The awarding of such assignments can be seen as recognition for good performance on the part of such teams. In Bord Gáis for example, a Participation Forum was established in the 1980s to promote employee participation. This forum established a number of sub-committees which were given particular assignments to deal with pressing issues, such as communications, health and safety and a staff magazine. Participants in

these sub-committees were enthusiastic about their task, and were pleased to have been given the opportunity to contribute (Savage, 1988).

Team-based awards. With an increasing emphasis on team-based working, developing team-focused rewards as well as individual-based awards is a challenging task. In the U.S. Office of Child Support Enforcement cited above, award ceremonies were held honouring states with outstanding performance. In Britain, the Charter Mark Award scheme has been introduced to improve service standards through creating competition for official recognition. Organisations are encouraged to make a submission to be assessed for the Charter Mark. The Charter Mark, if granted, is official recognition of attainment of a certified quality standard (Wilson, 1996).

3.4 Organisation-based financial rewards

Here, the focus is on financial reward to teams, sections or organisations. These mainly centre around budgetary initiatives. This is recognition of the fact that in government departments the budget is a major organisational incentive.

Team-based pay awards. Group incentive schemes are an increasing feature of pay awards, complementing traditional individual-based PRP schemes. They are seen as fitting in with the often espoused civil service culture, where team work is valued above individual contributions. In Britain, for example, some agencies operate group incentive schemes under Treasury guidance. The bonus awarded takes the form of a lump sum, which is taxable and non-pensionable. These lump sums are generally available to all members of staff except the chief executive (who has a separate PRP scheme). However, individuals who are not deemed to have performed satisfactorily in their performance appraisal are excluded from receiving the bonus. The bonus is usually related to increases in efficiency above those provided for in business plans (Kessler, 1993:335-337).

Discretionary use of savings/user charges. Giving managers more discretion in their application of budgets, particularly administrative budgets, is an increasing

feature of civil service management. It can act as a reward mechanism in that it provides incentives for managers to improve performance and offers a tangible reward for movement in the desired direction. In Australia, for example, departments are allowed to retain savings above the base line running costs savings requirement determined by the government. In some cases, departments are also allowed to retain a share of the revenue from the sale of surplus assets (Boyle, 1995:24-25).

The introduction of net appropriations is also aimed at providing rewards for good performance. Net appropriations allow organisations to retain all or some revenue raised from user charges. Gross outlays can be increased to the extent of the additional revenue retained (OECD, 1995:31).

Allocation of discretionary funds. Many departments have some limited discretionary funds at their disposal. Contingency funds set up as part of the administrative budget regime may offer one source. Such funds can be allocated to reward good performance according to agreed criteria.

4. Conclusions

If an effective rewards system is to operate in the civil service needs to action be taken in a number of areas. The central departments (Finance and the Taoiseach) need to review practices and procedures operating across the civil service to ensure that an appropriate rewards framework is in place. In particular, the budget and appropriations processes need to be scrutinised to ensure that good performance is rewarded through these mechanisms. Top management in departments and offices need to review practice in their own departments, and assess the mix and range of rewards on offer. Personnel officers will have a key role in supporting top management in this task, and ensuring that reward systems are an integral part of the human resource management strategy for the department.

One lesson from this discussion paper is the importance of asking staff what rewards they value and will respond to. Such information is a key element in planning the design of reward systems. Jabes and Zussman (1988:225) for example, in discussing their own survey of public sector managers state: `...rarely if ever do these surveys get repeated using the same instrument and a similar methodology. Therefore departments, central agencies and thus the public sector as a whole, lack comparative data over time which would be useful for policy making regarding personnel selection, promotion, career development and other human resource management issues`.

Another lesson from this paper is that the rewards framework in Figure 1 provides a useful framework for those wishing to develop or promote reward systems in the civil service. It is likely that departmental-based reward systems will need actions in each of the four cells in the matrix of the framework. There is a need for both individual and organisation rewards, and for both financial and intangible rewards. The precise mix will be dependent on the particular circumstances and culture of a department. But the framework, and the illustrative examples provided within it, give a menu which departments can select from or add to in developing reward systems that promote good performance in the civil service.

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