



RESEARCH ARTICLE

PERFORMANCE-BASED PAY AS A MOTIVATIONAL TOOL FOR ACHIEVING PUBLIC SECTOR ORGANIZATIONAL PERFORMANCE

*¹Dr. Rahul Sharma and ²Rupali Soni

¹Dept. of Management Studies, Dr. C. V. Raman University, Kargiroad, Kota, Bilaspur

²Research Scholar (Commerce), Dr. C. V. Raman University, Kargiroad, Kota, Bilaspur

ARTICLE INFO

Article History:

Received 26th February, 2017
Received in revised form
19th March, 2017
Accepted 16th April, 2017
Published online 19th May, 2017

Key words:

Compensation, Motivation,
Rewards, Performance Pay,
Incentives.

ABSTRACT

The issue of employee's performance in furtherance of organization objectives has occupied manager's attention for long. Difference in levels of performance has been attributed to differences in skills and abilities on the one hand, and to different theories of money on the other. This study examined the issue of performance based pay as a motivational tool for achieving organizational performance, using the situation in public sector organization. The main objectives of the study was to assess the impact of performance related pay on the motivation of employees and, subsequently, on the achievement of organization goals. In all, one hundred respondents took part in the survey. The main research instrument was the questionnaire. The result of the study revealed that the effect of performance based pay on employee's performance is minimal, and the motivational effect of merit pay is often blunted by biased performance appraisal. The main limitation of the study is that it could not cover all the state bank of India in Raipur within the target population, due to time and financial constraints. In this respect, the interpretation of the results of the study should not be over generalized.

Copyright©2017, Dr. Rahul Sharma and Rupali Soni. This is an open access article distributed under the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

Citation: Dr. Rahul Sharma and Rupali Soni. 2017. "Performance-based pay as a motivational tool for achieving public sector organizational performance", *International Journal of Current Research*, 9, (05), 50118-50121.

INTRODUCTION

Performance Related Pay (PRP) is a common way of managing pay by linking salary progression to an assessment of individual performance, usually measured against pre-agreed objectives. But despite the wide use of Performance Related Pay schemes, questions stills remain around the effectiveness of Performance Related Pay as a motivator. The factsheet explores the rationale for linking pay and potential issues around implementing performance relation pay schemes, both generally and with a specific focus on performance related pay schemes in the public sector. It also provide an overview of key issues including the role of line managers, measuring performance, distribution of awards and the impact of employee behaviours. In comparison, the performance related pay rise system would see the rewards given in the form of a pay rise. The better the performance of individual or team the larger the rise, likewise, if the performance was poor the associated rise would be minimal, if any at all. The rewards is the pay rise: with an expectation of a high pay rise for high performance and a low or zero rise for low performance. System of performance Related Pay have been extended to practically the whole of the civil services

over the last few years and are now widespread within the public sector at large. It is still the case that for virtually all staff the important of the Performance Related elements is small in relation to total pay. But the direction of change is unambiguous performance related pay in the public sector is likely to become move extensive over time and to comprise a growing part of the typical public sector workers pay pocket.

Objectives of the study

- To study the concept of performance related pay in public sector organisations.
- To identify the impact of Performance Related Pay system on motivational level of the employees.
- To examine that how Performance Related Pay system can be helpful in increasing employee loyalty with the firm and improving their retention level.
- To assess the role of Performance based pay system in improving the overall performance of the organization.

Review Literature

Isaac(2001) in his research paper titled "Performance Related Pay: The Importance of Fairness" says that Performance Related Pay (PRP) has been revived as a 'new idea' in recent years in connection with work place reform and enterprise

*Corresponding author: Dr. Rahul Sharma

Dept. of Management Studies, Dr. C. V. Raman University, Kargiroad, Kota, Bilaspur

bargaining. Yet it has been tried many times in the past without achieving the increase efficiency promised by its advocates. The challenge for PRP is to establish a pattern of pay which is seen as fair by employees, which uses reasonably objective measures of performance, which can stand the strain of change, which sustains the object of the system, is not too large a portion of the pay packet and is not too costly to administer. If a 'conventional' view of fairness is maintained in relation to PRP, the net returns may not be sufficient for the majority of employees. Much depends on whether a new concept of fairness is emerging which accepts differential increase based on performance rather than the rate for the job.

Marsden (1992) in his research paper titled "Motivation and Performance Related Pay in the Public Sector: A case study of the Inland Revenue" says that Performance Related pay has been extended to practically the whole of the civil services over the last few years, and the chancellor of the exchequer recently announced the government intention to enlarge its role even further. Almost no serious work on seems to have been published on whether the existing system have succeeded. The present study, directed solely at the Inland Revenue in 1998. The reason for doing this is not completely clear but the central justification for performance related pay must surely be that it acts as motivator. We therefore wish to establish whether Revenue staff have been motivated to improve the quality and quantity of their work in response to performance pay.

Richardson(2011) in his research paper titled "Evaluating Performance-related pay for managers in the National Health service" says that Paper evaluates the schemes of performance related pay facing NHS managers, using both quantitative and qualitative data from a questionnaire survey. We find that the schemes are modestly successful. On the basis of self-reported data from managers covered by the scheme, there is clear indication that it has raised motivational levels, and induced more effort, albeit for only a minority of the managers. These result stand in some contrast to those from a number of earlier UK studies, and may show what happens in relatively mature PRP systems. In seeking to understand why the schemes was not more successful, we found that motivational and behavioral change was less likely among those who thought that certain aspect of the objective-setting process were done badly, or that assessment were conducted inappropriately, or that the subsequent rewards were unattractive. We finish by drawing out some implication for HR policy.

Nicholas, (2012) in his research paper titled "The impact of performance related pay on employees: a case study of a Maltese listed entity" stated that Performance related pay (PRP) is a schemes that intends to boosts employees performance and motivation by linking financial incentives to individual's performance. This study intends to conceptualise the various elements that contribute towards the success and failure of a PRP scheme implemented in an organization. This research is conducted using a qualitative case study to investigate a public-listed financial institution based in Malta within a real life scenario. Data was gathered through a series of interviews with managers and employees subjected to the PRP scheme implemented by the organization.

MATERIALS AND METHODS

As this research is based on the impact of Performance Related Pay policy on employee's motivation and organization

performance hence all employees of selected public sector organization constitute the population of this study. Researcher wanted to study the impact of PRP policy with respect to banking sector, hence branches of State Bank of India in Raipur is selected as target organisation. Sample size of 100 respondents is decided for this study which were selected from the population using purposive sampling technique as researcher wants to have a control over the research which have a definite purpose of knowing the impact of performance related pay policy. A survey is conducted among the employees of State bank of India in Raipur city and data is collected through structured questionnaire.

Performance related pay in public sector organizations

Pay-for-performance has become a widely utilized means of improving productivity and decreasing costs in the public sector. That, at least, has been the hope and expectation of governments around the world. This paper examines pay-for – performance schemes in the experience of different nations around the world to illustrate the success and failures of pay-for-performance in the public sector. It offers recommendations for instituting a successful pay-For-Performance scheme, and concludes with the observation that even planning but choosing not to implement such a scheme can have a positive impact on a nation's civil service. The subsequent questions became, of course, how to achieve this goal. To attempt to answer the questions of how to increase productivity in the public sector, many countries turned to the private sector in search of a model. One possibility, which seemed in many ways intuitive, was to fundamentally alter the ways in which the pay for government workers was disbursed. Specifically, many governments instituted some form of pay-for-performance schemes for government workers. Also called merit pay or performance-based-pay, such schemes tie an employee's base pay or bonuses to their productivity on the job.

Objectives of Performance-Related-Pay

The overall objectives of performance related pay is to motivate the performance of individual and organizational performance through the provision of incentives and rewards. The appearance of fairness has lead to the growth of performance related pay and to its supposed incentives effects. The single most important objective of performance-related pay is to improve employee's performance by:

- Specifying to all employees the objectives and targets of the business.
- Supporting and building a performance orientated culture by paying for result
- Emphasizing individual performance or teamwork through various schemes.
- Setting objectives and performance standards for employers to meet.
- Rewarding top performers.
- Motivating employees.

Arguments For and Against Performance Related Pay

One of the strongest arguments in favour of PRP is that it is right and equitable to reward people according to their contribution. PRP provides a tangible means of recognizing achievements. It also ensures that everyone understands the performance needs of the organization.

- Measurement Problem\– It can be difficult to measure individual performance objectively, especially in the demand-led or process jobs and unfair assessments may be made in such circumstances because ratings tend to be both subjective and inconsistent.
- Narrow focus-it can encourages people to focus narrowly on the task that will earn them increased pay and to be less concerned about innovation, longer-term issues and quality.
- If there is undue emphasis on individual performance then teamwork will suffer.
- It can lead to pay rising faster than performance if proper control is not exercised there is always a tendency for PRP drift upwards without any commensurate improvements in performance.

Advantages of PRP

- Pay the right people the right amounts.
- Weeds out lazy workers
- Defines the clear objectives of the business.
- Improve goal setting.
- Retains skills- Employees are attracted and retained as the company recognizes achievement through the pay system.
- Increased efficiency through improved company performance. Focuses efforts of employees where the business needs it.
- Improves individual/team performance, productivity and quality of work.
- Provides a direct incentive.
- Identifies poor performance.
- The flexibility may help retain valued staff.

Disadvantages of PRP

- If not carefully planned and managed PRP can cause as many problems as benefits.
- Conflicts between employees competing with each other.
- Undermines co-operations and teamwork.
- High costs of implementation and awards may be arbitrary.
- Needs commitment from employees.
- Difficult to measure levels of performance.
- Union and employees acceptance.
- This demotivates if goals are too hard to achieve.

Key trends in performance-related pay

- There is no single model of PRP across organisations and countries. Models are diverse and vary according to the nature of the service system, the pay determination system and the degree of centralisation or delegation in financial and human resources management. However, common trends are clearly emerging across groups of countries:
- PRP policies have spread from management level to cover many different categories of staff in the past ten years
- Among PRP policies, there has been some increase in the use of collective or group performance schemes, at the team/unit or organisational level.

- Long-running standardised PRP schemes have evolved into more decentralised systems, which facilitate delegation of managerial functions.
- There is an increased diversity of the criteria against which performance is assessed. Both career based and position-based civil service systems tend to converge in the attention given to outputs, but also on competencies and social skills in general.
- Performance rating systems are less standardised, less formalised and less detailed than ten years ago. Performance appraisals rely more on the assessment of pre-identified objectives and on dialogue with line management than on strictly quantifiable indicators. On the other hand, systems of rating performance which impose quotas on the numbers who can succeed under them, are more widespread across OECD member countries.
- The size of performance payments is generally a fairly modest percentage of the base salary, especially among non-managerial employees. Merit increments tend to be smaller than one-off bonuses, they are often below a maximum of 5% of the base salary. PRP bonuses, which tend to supplement or replace merit increments, are in general higher – but overall, maximum awards usually represent less than 10% of the base salary for civil servants. At the management level, performance payments are generally higher, around 20% of the base salary.

FINDINGS

- It was observed that majority of respondents (at 85%) were aware of their standards of performance in the organization and about 10% of them were not sure of their standards and the remaining
- A not-so-significant improvement in organisational performance since the introduction of PBP was observed.
- In response to respondents estimation as to whether performance based pay motivates or de-motivates teamwork, 56% of them responded yes to motivation, 25% were de-motivated and the remaining 19% were not sure as to whether it motivates or de-motivates.
- On the choice of performance based pay system, 15% of respondents opted for the individual system, 25% preferred the group-based scheme, while the remaining 60% preferred both the individual and the group-based systems of motivation.
- Almost all the respondents among 100 favourably disposed towards performance based pay (at 99%).
- There is a significant difference in the performance of the company before than after the introduction of performance based pay was confirmed by the data.
- It was found that performance related pay has led to a change in the culture of the organization to that of a performance oriented one.
- Study revealed that introduction of performance related pay has enhanced employee Job Satisfaction.
- Employees agree that team-working is greatly enhanced when it is linked to reward.
- Employees feel the main reason management introduced PRP was to increase profits, improve performance, save cost.

- Employees in the public sector believe that the financial reward linked to PRP should be substantially increased.
- Most public sector employees agree that the idea and principle of PRP is a good one and have a positive attitude towards the PRP scheme in operation in their organization.
- Public sector organization believes that the principle of PRP is a good one.

Conclusion

The research revealed that the use of Performance Related Pay was fair and motivating, and there were no adverse effects of the system on teamwork. Increasing the motivation of the employees is not an easy task to achieve there are quite a few ways in which it can be done. The best way to motivate employees is to encourage and facilitate their involvement in the decision making process as far as possible. The result of the research revealed that the effect of performance based pay on employee's performance was minimal as the motivational effects of merit pay had been blunted by biased performance appraisal. The result from the present research strongly support the expectancy model as a basis for establishing a performance related pay system that enhances and improvement in individual and team performance and the agency model also explains how employers use performance related pay to seek out ways of ensuring employees will act in the best interest of the organization.

REFERENCES

Bangoura S. 1987. Les augmentations individualisjes en 1985. Dossiers Statistiques du Travail et de l'Emploi, No.30,avril, pp.71-73. Minispre du Travail, Paris.

- Bishop J. 1987. The recognition and reward of employees performance. *Journal of Labour Economics*, vol.5,no.4, pt. 2, pp.536-556.
- Foster,G., Gupta, M.&Sjoblom, L. 1996. "customer profitability analysis: challenges and new direction", *Journal of CoswtMnagement*, vol.10,pp. 5-17.
- French Wendell, defines "Human resources management as the recruitment, selection, development, utilization, compensation and motivation of human resources by the organization no.2,june.
- Ghobadian, A. and Ashworth, J. 1994. Performance Measurement in Local Government concept and Practice. *International Journal of Operation & Production Management*, vol.14. no.5. pp. 35-50.
- Heery, E. 1998. A Return to contract? Performance Related pay in a public service. *Journal of Work Employment and Society*.Vol.12 (1).Pp.74-90.
- Herzberg, F. 1957. One more time. How do you motivate Employees?
- Herzberg, F. 1957. The motivation to work.2nd edition. New York.
- Kanji, G.k. 2005. "Sustainable growth and business excellence", *Total Quality Management Business Excellence*, Vol.16, pp. 1069-78.
- Letza, S.R. 1996. "The design and implementation of the balanced business scorecard", *Business Process Re-engineering and Management Journal*, Vol. 2 No. 3, pp. 54-76.
- Marsden D. W. and Thompson M. 1990. Flexibility agreements in Britain, and their significance in the increase in p;roductivity in British manufacturing since 1980. *Work Employment and society* vol.4, No.1.
- Verrier P.E. 1989. Y a-t-il de mauvaisfonctionnaire? *Polotiques et Management Public*, vol. 7,
