Effects of Performance Management and Incentive Allocation on Development of Thai Public Services and Officers

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ABSTRACT

The Public Sector Development Commission implemented a performance management system comprised of goal setting, performance appraisal, and incentives for performance in 2004. The ultimate objective was to improve the ability and standard of Thai public services and to continually improve the efficiency of Thai public officers. This study aims to investigate the effects of this performance management system during the period 2004-2007, and to give some recommendations on how to improve the system. The research methodology includes both secondary and primary data collection. In-depth primary data is obtained from interviewing top management and concerned officers from 20 selected units; broad primary data is obtained from questionnaires. There are two groups of respondents - management and staff. They are stratified using multi-stage sampling with a 37.1% response rate from management and 59.31% from staff. The findings are: (1) Both goal setting and performance appraisal, at almost equal levels, have a significant effect on the efficiency and effectiveness of both units and individuals. The effect on units is higher than the effect on individuals. (2) The effects of incentives vary between the two methods. Equal results for usefulness and not-usefulness to public sector development from the interview study, and some effect to public sector development (increasing unit efficiency, and employee satisfaction leading to efficient and quality working improvement) from the survey study, with more effect on organizations and units than individuals. Some management recommendations are also included in this research.

INTRODUCTION

Annual performance agreements and annual performance evaluations are standard practices in Thai government units. They are carried out according to the Royal Decree on Criteria and Procedures for Good Governance, B.E. 2546 (2002). The performance agreement initiative, started in fiscal year B.E. 2547 (2004), it regarded as one of the crucial mechanisms for leveraging government capacities and as the official government working standard. As stated in the Royal Decree, one of the objectives of government development is to improve responsiveness which is regarded as one of the government development strategies. Annual performance agreement and annual performance evaluation are practical applications of the strategic management system. The concept is to tighten measurement of mission or project success by employing incentive motivations such as reward allocations to organizational units or individuals that achieve set standards.

The annual performance agreement reflects an important change in the conceptual framework of Thai government administration which previously concentrated on processes, regulations or budgeting to a results-based management orientation. This new approach follows the management by objectives principle which primarily bases performance on results. The predefined objectives, activities, methods, venues, timing, responsible persons, resources, and subsidies requirements are clearly determined. The annual performance agreement methodology as well as performance management evaluation is a systematic vehicle for reaching strategic objectives with clearly defined results according to the annual Thai government development plan (B.E. 2546 – B.E. 2550).

The Balanced Scorecard concept has been adapted to derive four standard strategic perspectives which are used as the performance evaluation framework according to the agreement. These include the process perspective (efficiency practice), results (effectiveness as planned), customers (the quality of the services), and organization development. These perspectives cover both methods of strategic achievement and performance data as well as future readiness levels of the organization and personnel. In addition, the weighting priority of each perspective reflects the modern organization management philosophy which emphasizes ultimate goals together with crucial management foundation - organization and personnel development.

The performance management evaluation framework as principal requirements for annual performance agreement is a mandate for monitoring of operations to agree with the top level of the Thailand strategic management plan. The evaluation framework obliges the particular organization units to follow the four perspectives of efficiency, effectiveness, quality of services, and organization development. This management system, similar to
The idea of performance management is not new, it has long been recognized that performance needs to be managed. This is true whether we are concerned with performance at the organizational level, the individual level, or any level in between. And over the years we have seen many practices, techniques, tools, systems and philosophies which have as their aim the management of performance. However, there are a number of perspectives on performance management. In the Thai public sector, performance management is focused on the organizational level. Bredrup (1995) sees performance management as comprising three main processes – planning, improving and reviewing. These three processes can be applied to the management of performance at whatever level of analysis one chooses – organization, business unit, department, team, or individual. At the organizational level, performance planning is concerned with such activities as formulating the organization’s vision and strategy and defining what is meant by performance. Performance improvement is seen as a process including such activities as business process re-engineering, continuous process improvement, benchmarking, and total quality management. Performance review embraces performance measurement and evaluation. Waal (2007) views the performance management process as consisting of various subprocesses: strategy development, budgeting target setting, execution/forecasting, performance measurement, performance review and incentive compensation. These integrated subprocesses create the performance-driven behavior of employees that is needed to become and stay a high-performance organization.

Organizational performance definitions are reflected in a multidimensional concept. The view that organizational performance should be broadly defined is not exactly new. The academic writings since the 1970s reflect the now widely accepted idea that performance is multi-faceted. Campbell (1977) listed various criterion measures e.g. output (productivity) and outcome, profit, internal processes and procedures, organizational structures, employee attitudes, organizational responsiveness to the environment, etc. The issue which needed further consideration is whether organizational performance can be all of these things. There are two main perspectives for individual performance definitions – outputs and behavior. A results-orientation has come to be the dominant approach in the UK for expressing performance requirements. An associated trend has been a shift away from trait-oriented appraisal. The move towards results was confirmed by a survey carried out by the Institute of Personnel Management (1992: 5, cited in Williams, 2002: 71). The view that performance should be equated with task
accomplishment, goal achievement, results, outputs, etc. is one that has been challenged in much of the psychological literature. Common today is a behavioural view of performance, one of the themes of which is that performance is not output or results. As Murphy (1990:162) makes clear “The performance domain is defined...as the set of behaviours that are relevant to the goals of the organization or the organizational unit in which a person works.” In everyday practice, however, the term performance tends to be used in a loose way to embrace both outputs and behaviour. This may be a convenient shorthand, but from a practical point of view it is likely to be more useful to be precise about what is meant as managing performance as outputs may require different interventions from the management of performance as behaviours (Williams, 2002).

A number of psychological and economic theories have supported pay for performance. The common concepts of those two groups of theories are linking pay to performance will lead to higher performance. The different concepts are the explanations of the causes. While psychological theories argue that higher performances are motivated by the impact of achievements to rewards. Economic theories focus on explanations of factors relating performance to pay, i.e. the lowest cost for employers and higher opportunity cost for employees to lose jobs (Heneman, and Werner, 2005; Milkovich and Newman, 2008). More recent research has tried to answer whether an incentive plan succeeds. Although the conclusions are positive, the extent to which this effect then leads to favorable outcomes is less certain. There is a great deal of variance in the success of incentive plans when gauged by outcomes (Heneman, and Werner, 2005).

Figure 1 illustrates the framework of this study which is synthesized from the above literature review and objectives of this research. The study investigates the effects of performance management; which is comprised of three subprocesses i.e. goal-setting, performance appraisal, and reward for performance; on organizational units and individuals in the Thai public sector.

As depicted in Figure 1, the researcher proposes that implementing annual performance agreements (goal-setting), performance appraisals, and incentive allocations, will have a direct impact on the efficiency of government agencies, the working ability of government management and staff in the Thai public sector.

**RESEARCH METHODOLOGY**

The research methodology in this study includes collecting primary and secondary data from various sources. There were 2 methods in collecting primary data: (1) *In-depth Interview*. Top management and government officers and employees who participated in the annual performance agreement and annual performance evaluation, and other general official and employees who received the incentive allocation were interviewed. The researcher interviewed target groups from stratified multi-stage sampling. Hence, the results of the study will cover various characteristics of government organizations. The organizations from which the interviewees were selected were from 10 organizations, agencies of departments, comparable departments, five provinces, and five higher education institutions.
There are 20 organizational units represented in the sample and at least five persons in each unit selected. A total of 124 persons were interviewed: 61 persons from departments/comparable departments, 30 persons from higher education institutes, and 33 persons from provinces. Of these, 26 persons (21%) were from top management, 47 persons (38%) from middle management, and 51 persons (41%) were officers. (2) Survey by Questionnaire. Questionnaires were completed by two groups including top management (the officials who were granted annual extra cash award), and the staff (government officers or government employees who were granted with incentives). The researcher focuses on the topics of the performance management, the extra cash reward, the reward allocation, and other reward allocations. The research data are from simple random sampling and stratified multi-stage sampling from officers and government employees of ministries, departments, provinces, and higher education institutes. This research includes 290 organization units. The researcher expected sampling data with an expected error of 5%; therefore, the researcher randomized 168 (rounded up to 170) organization units. In order to meet the standard sample size for the estimated population of 9,750 management, and 1,000,000 government officers and employees, the researcher has randomized 1,379 management who obtain annual extra cash rewards (using the sampling error at 5%), and randomized 1,600 staff-officers and employees receiving incentives (using the sampling error at 5%). However, because there are a lot of sampling units as well as a number of populations of officers and employees in each organization, the researcher has doubled the sample size of the research sample to 3,200 cases. The sample figures for each unit are determined proportional to the population of the organization units to be sampled.

The pretest data has been collected using the field data survey method with 30 study cases of the National Institute of Development Administration personnel. The survey data have been aggregated for the reliability test and the coefficient of Cronbach Alpha is 0.93 which is a satisfactory level. The questionnaires have been amended by abridging or simplifying some questions making them easier to understand. The four answer choices for each question are in the form of a Likert scale, the interpretation of the answer scores is averaged and classified into four intervals as shown in the following table.

<table>
<thead>
<tr>
<th>Opinion level</th>
<th>Scores (Positive Statement)</th>
<th>Range of interpretation score</th>
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<tbody>
<tr>
<td>Strong Disagreed</td>
<td>1</td>
<td>Average Score: 1.00-1.75 Level of opinion: Very Low</td>
</tr>
<tr>
<td>Disagreed</td>
<td>2</td>
<td>1.76-2.50 Low</td>
</tr>
<tr>
<td>Agreed</td>
<td>3</td>
<td>2.51-3.25 High</td>
</tr>
<tr>
<td>Strong Agreed</td>
<td>4</td>
<td>3.26-4.00 Very High</td>
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</table>

When the actual data survey was conducted, there were 512 responses to the 1,380 questionnaires distributed giving a response rate of 37.1%. The majority of the management respondents were male (64.9%), 50 years up of age (73.4%), more than 25 years of services (76.0%), and master’s degree of highest education level (62.3%). To the 3,320 questionnaires sent to staff there were 1,969 responses or a 59.3% response rate. The majority of the staff respondents were female (56.5%), between 40-49 years of age (40.7%), more than 25 years of services (32.2%), and bachelor’s degree of highest education level (45.4%).

RESEARCH FINDINGS AND DISCUSSION

According to the analysis of data from the management and staff in the public sector, both management and staff, by in-depth study (interview), and broad study (survey by questionnaires) there are some consistent and some inconsistent results of the effects of annual performance agreement, annual performance appraisal, and incentive allocation. Most of the results relating to annual performance agreement and annual performance appraisal yield the same conclusions; whereas the conclusions from incentive allocation results are different.

The government management and staff perceive and report that annual performance agreements highly affect their work process improvement. It leverages the effectiveness of the organization’s mission and the responsiveness of public services. It also escalates the management system and quality of internal organization management. This conclusion is supported by both the interviews and the survey results from management and staff of organization units. The government management and staff agree that performance appraisal by external organizations/persons has about the same impact level as the annual performance agreement. It helps to improve working efficiency and effectiveness. It also creates an opportunity to review and to improve performance results aligned to the predefined opening Key Performance Indicators (KPI). The annual performance appraisal adopts four perspectives of the balanced scorecard concept, encouraging organizations to improve their missions to cover the
strategic goals, efficiency of the internal management process, quality of products and services to public interests / services recipients, and develop their staff competencies. The performance appraisal has influenced individuals to change part of their working behavior, although there are some weak points in appraisal operations, e.g. low standardization in performance appraisal and performance feedback, low standardization and discontinuity of the defined criteria, and lack of cascading goals through the individual level (this weakness is reflected in the performance appraisal having higher affects on organizations than on individuals). Those who change their working behaviors are limited to persons involved in, and responsible for, the performance targets / key performance indicators, but there are efforts to bring about systematic changes in all organizational levels.

The management interviews and the questionnaires (for both management and staff) show that the effects of the annual performance agreement and annual performance appraisal affect the government units more than individuals. This is because some organizations do not set their goals to cover the whole mission, and do not cascade Key Performance Indicators to every level thoroughly. This creates driving forces for only some sub-units or some persons, and creates weak points on individual appraisals. However, the practitioners who provided in-depth information in interviews reported that the effects of the annual performance agreement and annual performance appraisal create equal change in organizations and individuals. That is, if there are changes at the organization level, there will be changes at the individual level as well (regarding the work method modification and individual work improvement). This response by practitioners may be different from that of the management because the management have a broad picture, not one specific to one or some individuals, while, the practitioners (most of whom are the persons responsible and involved in driving the units’ key performance indicators) would clearly perceive the change in their own work.

The appropriateness of the incentive allocation criteria and procedures is one topic which shows different results between the in-depth study and the broad study. About equal numbers of interviewees reported that the criteria was either suitable or unsuitable. That is, of the top executives or middle management and supervisors, half report that the criteria and the rewarding allocation procedures (extra cash reward for management and incentive bonus for personnel) are practical and useful, and half report that they are impractical and not useful for development of the government administration. Slightly more staff report positive effects (appropriateness and usefulness). The persons who report in a positive way say that some changes at the individual level is partly the result of incentive motivation. However, the management emphasizes that extra money/incentive bonuses is not a primary working motive itself. The high achievement and contribution of personnel is not only for the sake of the extra annual cash reward or incentive bonus, but depends on the character of individuals. Some subordinates admit the cash incentive is important as additional income but that it does not affect their work performance behavior.

The conclusions from the broad survey (the survey by questionnaire) are different from the in-depth study. In the survey both management and practitioners provide a positive opinion on the criteria and procedures of the incentive allocation, report that they are appropriate and useful to the development of government administration, that they promote efficiency in organization units, increase personnel satisfaction, and improve quality of work. Furthermore, there is more success at organizational level than at unit level, and more effect to unit level than individual level.

When we compare the effects from three dimensions (annual performance agreement, annual performance appraisal, and the incentive allocation), it has been found that the in-depth study and the broad study yield similar results - that the effects of the incentive allocation has the least impact - while the interviewees report a higher impact from the performance agreement than from the annual performance appraisal. The respondents in the survey rate equally the effect of the annual performance agreement and the effect of the annual performance appraisal. Table 2 summarizes all of the above conclusions.

Five important effects that both the management and the staff report regarding the effects of annual performance agreement, annual performance appraisal, and incentive allocation are that (1) the annual performance agreement (PAG) defines more clearly the organization unit/individual objectives, (2) the annual performance appraisal supports the organization unit’s / individual’s performance achievement, (3) PAG helps leverage efficiency and effectiveness of performance, (4) PAG helps leverage the quality of management, and (5) the annual performance appraisal supports the organization unit’s / individual’s efficiency and effectiveness. The questionnaire instructions direct responders to prioritize from most important to least important. Those rankings are then averaged with the less average score indicating higher significance. The management obtained a 6 – 8 ranking concerning the units and persons awareness of assessment issues and using them to improve efficiency, effectiveness and the
quality of their performance. The answers of 9-10 ranking, are related to the incentive allocation (extra cash reward); whether it is helpful in raising the efficiency levels of personnel as well as increasing government efficiency and effectiveness.

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<thead>
<tr>
<th>Topics</th>
<th>Results of study by</th>
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<tr>
<td></td>
<td>Interview</td>
</tr>
<tr>
<td>1. Effects of annual performance agreement</td>
<td>High level</td>
</tr>
<tr>
<td>2. Compare effects of the annual performance agreement at organization unit level and individual level</td>
<td>Units &gt; Individual</td>
</tr>
<tr>
<td>3. Effects of the annual performance appraisal</td>
<td>High level</td>
</tr>
<tr>
<td>4. Compare effects of the annual performance agreement at the organization unit level and at the individual level</td>
<td>Units &gt; Individual</td>
</tr>
<tr>
<td>5. Appropriateness of the criteria and procedures of the incentive allocation</td>
<td>Half and half between Appropriate/ Not-Appropriate</td>
</tr>
<tr>
<td>6. Extra cash reward / incentive bonus have advantage to Government Development</td>
<td>Not clear</td>
</tr>
<tr>
<td>7. The extra cash reward / incentive bonus leverage Organization Units efficiency</td>
<td>Not clear</td>
</tr>
<tr>
<td>8. The extra cash reward / incentive bonus support Government Officers and Employees’ satisfaction and support their contribution and improvement more efficiency and quality of the services</td>
<td>Impact</td>
</tr>
<tr>
<td>9. Compare the effect of incentive allocation for each organization level: unit level: individual level</td>
<td>Individual &gt; Unit</td>
</tr>
<tr>
<td>10. Compare the effects of annual performance agreement annual performance appraisal and incentive allocation</td>
<td>Agreement &gt; Incentive</td>
</tr>
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Note: Organization level = the overall public sector
Unit level = Department, higher education institute, or provincial level

The staff shows a ranking of 6 regarding the extent to which the incentive allocation (annual performance bonus) affects their efficiency and quality of work. They show a ranking of 9 for how much it affects the development of government efficiency and effectiveness which is in line with the effects on the organization units/individuals taking assessment issues to correct and to improve their own efficiency, effectiveness, and quality of work. It has been found that the most important problem in implementing the Thai government performance management system (asking the respondents to rank problems in the same method as ranking the effects), from both the management and the staff, is no cascading objectives from unit level to individual level. Less important problems are appropriateness of criteria and procedures of the incentive allocation, and thorough assignment of key performance indicators to units/individuals. While the management has comments on inadequacy of budget allotted for incentives (extra cash reward), the staff has reported lack of transparency and unfair performance appraisals as the forth ranking problem. Other problems are not linking performance results to extra cash reward, indistinct effects of the incentives, delays in the incentive allocation and an increase in scope of work responsibilities (data collection, assessment reporting etc.).

CONCLUSION

Most Thai public officials and employees believe that annual performance agreements and annual performance appraisals relating to incentive allocations during the fiscal year B.E. 2547 – B.E. 2550 influenced changes in government development. However, there are also a few problems to solve. The quality of the performance management system needs to be standardized. The improvement of the performance management system should start from the annual performance agreement and annual performance appraisal which are the beginning of the process to incentive allocation. Issues for improvement include the following: (1) Goal setting at the unit level should be integrated with strategic objectives. Responsibilities for indicators by organization agencies, higher education institutes, and provinces to the offices, sections, and permanent offices should be made more effective and responsibilities should be in line with the office/section responsibilities, including an appropriate distribution of participation in strategic components as well as opportunity to achieve. The individual objectives should be clear and appropriate. (2) Performance appraisals should provide more feedback to those being assessed.
(3) The connection between performance results at each level to the various incentives should be appropriate, including timely incentive allocations to meet performance results. This will reinforce motivation according to reinforcement theory.

One important aspect of the incentive allocation concerns personnel’s perception of justice or fairness. This perception includes distributive, procedural, interactional, and informational justice. Distributive justice refers to the amount of incentive allocation, procedural justice to the procedures and steps in incentive justification, interaction justice to the manner in which supervisors act toward their subordinates in incentive allocation, and informational justice to explanations about the process used in making decisions and allocations (Robbins & Judge, 2007). Distributive justice seems to be more important than procedural justice as personnel are more concerned about the incentive amount (Newman & Mikovich, 1990). However, the incentive allocation in the public services has a limited budget and the effects of the incentive allocation cannot be shown to be in line with performance results at each level (distributive justice). Therefore, procedural justice will come to have more importance, especially if the incentive allocation is not satisfactory. Personnel should receive clear explanations of processes in implementing the incentive allocation. Clear procedures and steps in allocations and systematic links to rewards (procedural justice) will also help create a perception of fairness on the part of personnel. This will lead to unit managers being more willing to make performance assessments for subunits and subordinates. Goal setting and clear criteria for performance appraisals as well as clear communication to all individuals are the keys to successful and effective incentive allocation.

LIMITATION OF THE STUDY AND FUTURE STUDIES

Like most studies, this research employed ex post facto research design. To gain more confidence in the research findings, the research in evaluation of any interventions should design as experimentation. Besides that, most of the outcomes measured in this study are based on attitudinal measures. Future research should investigate effects on other types of outcomes including an organization’s objective performance criteria such as tangible achievements, number of improved processes, and proportion of trained personnel.

REFERENCES
