

PERFORMANCE RELATED PAY IN THE
AUSTRALIAN PUBLIC SERVICE¹

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Abstract

*'Governments must strive to do things better, with fewer resources, and above all, differently'
(OECD, 1995:6).*

Public sector reform seeks to develop a performance-oriented culture in an effort to increase efficiency and effectiveness in the provision and delivery of public services. The implementation of a performance management system and in particular performance related pay, is integral to the achievement of such public sector reform. There are however two research paradigms which inform the assessment and analysis of performance related pay. In this paper these paradigms are explored through a study of the implementation of PRP in the Australian Public Service.

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INTRODUCTION

In an effort to increase the efficiency and effectiveness of both the management and delivery of public services many Western democratic governments have implemented public sector reform programs (Hughes, 1998). Underlying the emerging model of public sector management, known broadly as the 'new public management' (NPM) (Hood, 1991; Pollitt, 1995), is an emphasis on individual choice, performance and competition (Hughes, 1998). Changes to employment relations in the public sector are critical if reform is going to lead to the development of a new results-based, performance oriented 'culture' (Hughes, 1998; Kessler and Purcell, 1992).

Performance related pay (PRP) exemplifies the centrality of pay in the employment relationship. Two broad research paradigms have informed the assessment and analysis of PRP (Kessler and Purcell, 1992). The first paradigm rests on the problem of indeterminacy in the employment relationship. Defining explicit performance standards in the 'wage-effort' bargain, and consequently paying employees incentives above a pre-determined level, can overcome this indeterminacy. PRP is then an opportunity for heightened management prerogative or a 'return to contract' (Streeck, 1987), where labour is perceived and treated as a commodity to be controlled (Heery, 1998).

The second research paradigm centres around the notion that PRP can also be construed as central to capturing employee commitment or providing 'extension of status' (Streeck, 1987). Negotiating performance standards with employees and their representatives, and then rewarding employees for the attainment of these standards can achieve commitment. As such the introduction of PRP can be central to promoting employee participation. PRP can therefore be seen as a means of eliciting cooperation as well as exerting control in the employment relationship.

The introduction of PRP is one means of encouraging and/or ensuring compliance with performance standards in the public sector. Two phases of PRP can be identified in the APS. The first phase being from the early 1980s to 1995, under the ALP federal government and the second phase from 1996 to the present under the Coalition federal government. Enterprise bargaining in the Australian Public Service (APS) has provided an opportunity for negotiating the introduction of PRP.

In this paper the importance of performance and in particular performance related pay to the new public management will be examined in the context of the two research paradigms of PRP. Further the incidence and spread of PRP in the APS will be examined through a case study of the Centrelink enterprise bargaining agreement, while the context for PRP in the APS will also be explored. The purpose of this paper is therefore to examine the intention and outcome of PRP introduced through enterprise bargaining in the APS to see whether it represents opportunities for extending management control or enhancing employee commitment.

THE 'NEW PUBLIC MANAGEMENT'

The transformation in the global economy over the last few decades has highlighted the need for public sector reform. Holloway (1996 in Millett and Neylan, 1997: 49) identifies six fundamental drivers for public sector reform in Australia: an open economy; perennial fiscal constraints; increased complexity of delivering government programs; increased public expectations of public services; fundamental rethinking of the role of the public service in contemporary Australia; and a commitment to social improvement. The bottom line is essentially the view that the public sector needs to become more like the private sector and importantly, competitive.

There is a growing body of literature as to the shape, form and content of reforms needed to increase or make public sectors competitive, however ideas under the broad heading of 'the new public management' (NPM) have emerged as the type favoured by many Western democratic governments (for example US, UK, Australia, New Zealand, Canada, Sweden, Germany, Norway, Finland etc) (Pollitt, 1995; Hughes, 1998; Fairbrother, 1997 etc).

Proponents of NPM believe that it will deliver 'greater economy, greater efficiency, rising standards of public service, keener 'ownership', and enhanced autonomy for service managers/providers and, last but not least, greater responsiveness by staff to users of public services of all kinds' (Pollitt, 1995: 138). This fairly 'ambitious list' (Pollitt, 1995: 138) is one against which the success or otherwise of the implementation of NPM ideas can be assessed.

Pollitt (1995: 134) argues there are eight elements to go into the 'shopping basket' of those Western industrialised societies, who wish to modernise their public sector. These elements are:

- Cost cutting, capping budgets and seeking greater transparency in resource allocation (including activity or formula based funding and, most recently, a shift to accruals accounting).
- Disaggregating traditional bureaucratic organisations into separate agencies ('executive agencies', 'government business enterprises', 'responsibility centres', 'state owned enterprises' etc) often related to the parent by contract or quasi-contract ('performance agreement', 'framework document' etc).
- Decentralisation of management authority within public agencies ('flatter' hierarchies).
- Separating the function of providing public services from that of purchasing them.
- Introducing market and quasi-market type mechanisms.
- Requiring staff to work to performance targets, indicators and output objectives (performance management).
- Shifting the basis of public employment from permanency and standard national pay and conditions towards contracts, PRP and local determination of terms and conditions.
- Increasing emphasis on service 'quality', standard setting and 'customer responsiveness'.

Performance management and in particular, PRP are clearly critical components of public sector reforms, being ways to facilitate change in individual behaviour and/or work activity to achieve greater responsiveness of staff to public service users. As Marshall (1998: 403) argues, 'performance management is intended to improve the overall performance of an agency by encouraging employees to achieve objectives that are critical to the furtherance of the organisations strategic direction'. In other words performance management and PRP are critical to the development of the hoped for performance oriented 'culture' in the public sector.

PERFORMANCE MANAGEMENT (APPRAISAL AND PAY)

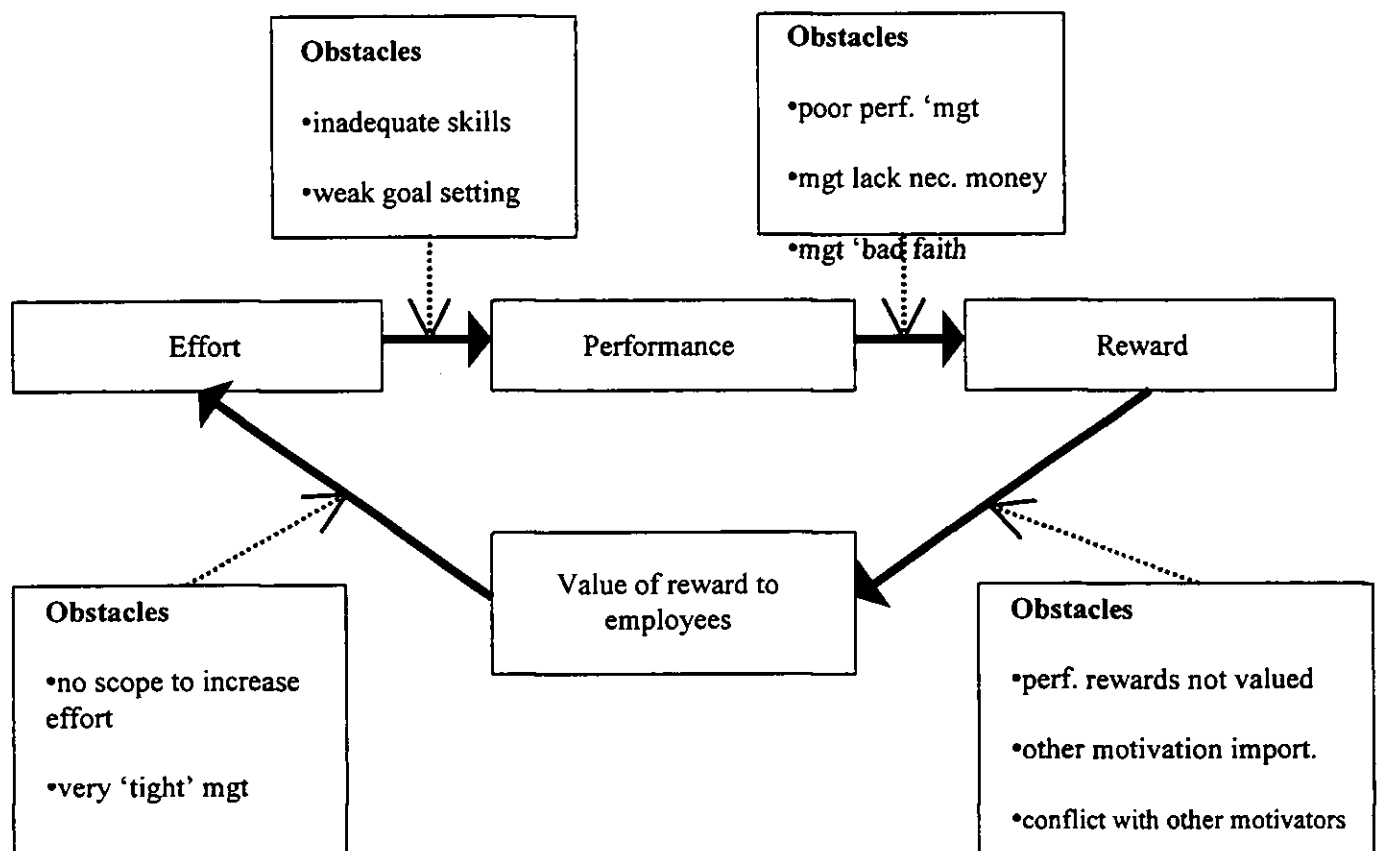
Performance management as a generic term, embraces human resource management activities which include 'performance evaluation, performance measurement, individual goal-setting and development planning' (Cherry, 1993: 97), and is often used synonymously with performance appraisal and assessment. Lansbury offers a 'best practice' definition of performance appraisal, which is consistent with a management style that promotes an 'extension of status' of employees (Streeck, 1987), while acknowledging that performance appraisal can also be an opportunity for exerting management prerogative and control:

A comprehensive definition of performance appraisal is the process of identifying, evaluating and developing the work performance of employees in the organisation, so that organisational goals and objectives are effectively achieved while, at the same time, benefiting employees in terms of recognition, receiving feedback, catering for work needs and offering career guidance. This describes a comprehensive system of appraisal that involves a genuine two-way approach between employees and their supervisors. However, many appraisal systems take a more limited approach and are often more orientated to the needs of the employer than the employees (Lansbury, 1995: 125).

As a means to meet organisational goals through improved individual productivity and performance PRP has been included as part of an organisation's 'performance contract' with employees. This heightened interest in PRP has also been promulgated by the decentralisation of wage fixing in the Australian public and private sectors: there are examples of PRP as part of wage negotiations in the banking industry in 1987 (Cherry, 1993; Lansbury, 1995; O'Donnell, 1998).

The prescriptive view of performance appraisal and PRP (being heavily influenced by organisational psychology), together form the overall notion of performance management, and are integral components to an 'expectancy' framework, linking work motivation and performance. The logic of the 'expectancy' framework relies on a closed circuit, premised on employee effort leading to performance, which is recognised and rewarded by the employer and valued by the employee, and consequently leads to further effort by the employee (Lawler, 1971). The 'expectancy' framework is graphically represented in Figure 1 below:

Figure 1: Outline of the 'Expectancy' Framework (Marsden and French, 1998:3).



The core process in the 'expectancy' framework is a precarious and fragile system, that is easily disturbed by a series of factors, leading to, at any point in the system, a failure in the PRP scheme (Marsden and French, 1998: 3). Each identified 'obstacle' is a material issue, and together, they seriously undermine the

ideal, prescriptive model of linking individual employee effort to an individualised assessment and pay scheme. Indeed, these 'obstacles' alone and combined, have been, and continue to be, the focus of academic research, and the central concern motivating intervention by managers of the employment relationship (Fells, 1992; Streeck, 1987). In this sense, the 'expectancy' framework can be construed as representing the indeterminacy of the wage-effort bargain at the crux of the employment relationship.

Performance Appraisal

Performance appraisal, as one element of performance management, is in itself, a fraught concept and poses a particular challenge in the context of public sector values of 'equity, industrial democracy, public consultation and access' (Cherry, 1993: 99). A performance appraisal system also requires a certain set of factors to be materialised, which are cogent to the system before it can operate effectively. Specifically, Cherry (1993) and Lansbury (1995) identify factors integral to a 'management by objectives' approach to organisational operations, which include:

- Clearly defined goals at an organisational, departmental, work group and individual level.
- A clear link between organisational strategy, individual and work group inputs and outputs, and eventual outcomes.
- Widely agreed and measurable quantitative and qualitative performance indicators and standards.
- Clearly defined accountability, responsibilities and delegation of resources per the individual and work group level.

Public sector organisations, described by Cameron (1980 in Cherry, 1993: 99) as 'organised anarchies', can be typified by the converse of these requirements; where goals are often poorly defined and contradictory; there is no necessary link between articulated strategy and outputs; no shared criteria for success due to varying stakeholder demands; and tensions between role responsibility and inadequate devolution of resources (Cameron 1980 in Cherry, 1993: 99). If performance appraisal, as one half of the performance management equation, sits uneasily in the public sector environment (O'Donnell, 1998), can PRP, as the second half of the equation, realistically be considered and successfully implemented in the APS?

Performance Related Pay

PRP exemplifies the centrality of pay in the employment relationship. Two broad research paradigms have informed the assessment and analysis of PRP (Kessler and Purcell, 1992). The first paradigm rests on the problem of indeterminacy in the employment relationship. Defining explicit performance standards in the 'wage-effort' bargain, and consequently paying employees incentives above a pre-determined level, can overcome this indeterminacy. PRP is then an opportunity for heightened management prerogative or a 'return to contract' (Streeck, 1987), where labour is perceived and treated as a commodity to be controlled (Heery, 1998).

The second research paradigm centres around the notion that PRP can also be construed as central to capturing employee commitment or providing 'extension of status' (Streeck, 1987). Negotiating performance standards with employees and their representatives, and then rewarding employees for the achievement of these standards can achieve commitment. As such, the introduction of PRP can be central to promoting employee participation. PRP can therefore be seen as a means of eliciting cooperation as well as exerting control in the employment relationship.

If PRP represents a 'return to contract', certain intentions can be revealed indicative of this managerial objective or unilateral managerial style (Kessler, 1994; Heery, 1998). These managerial objectives are namely: a perceived need to improve poor employee performance; the introduction of a PRP scheme as a vehicle for shoring up hierarchical structures and enabling a strengthened line management function. Further, there should be evidence of unified management implementation objectives. However, the introduction of a PRP scheme is often more 'complex, and to some degree contradictory' (Heery, 1998: 78) and can be indicative of a softer human resource management style, with the central need to elicit employee cooperation and the integration of interests into the goals of the organisation. Therefore, in the public service, PRP can be a means to recruit and retain quality employees required in the 'new public management' environment of customer service and delivery. There is a desire to attract prospective employees from the private sector, bringing with them an entrepreneurial ethos to be replicated in the public sector. As Heery states, PRP can 'provide(d) a politically acceptable method of raising the pay of public service workers' that can be further enhanced by salary packaging options, where non-salary benefit items are incorporated into the 'total employment cost' (Heery, 1998: 78).

The 'return to contract' versus 'extension of status' PRP paradigms can also be discerned and tested by assessing the design of the PRP scheme, scheme management and scheme effects (Kessler and Purcell, 1992; Heery, 1998), as summarised in Table 1 below:

Table 1: Indicators of 'Return to Contract' and 'Extension of Status' in PRP Scheme Design, Management and Effect

Performance Related Pay Scheme Component	Indicators of 'Return to Contract'	Indicators of 'Extension of Status'
Scheme Design	<ul style="list-style-type: none"> • Schemes rely on output measures alone • High level contingency pay • Management control of performance review process • Gross distinctions between employee performance 	<ul style="list-style-type: none"> • Assessment of work process via employee survey/ratings • Low level contingency pay • Employee consultation on process and standards • Team based work assessment • Employee assessment against series of categories & commendation of 'extra contractual performance'
Scheme Management	<ul style="list-style-type: none"> • Strict application of scheme rules • Scheme used specifically to: <ol style="list-style-type: none"> 1. Identify poor performance 2. As disciplinary measure 3. Monitor employee compliance 	<ul style="list-style-type: none"> • Informality of scheme operation: <ol style="list-style-type: none"> 1. Performance contracts not rigorously enforced 2. Managers not complying fully with administrative expectations of scheme • Combination of formal & informal assessment methods • Managerial desire to reinforce 'extra contractual' behaviour • Employee attitudes incorporated in scheme operation
Scheme Effects	<ul style="list-style-type: none"> • Increase in work effort • Narrowing of work behaviour; neglect of 'intangible' elements of job • Focus on cost saving rather than quality service • Diminished team working 	<ul style="list-style-type: none"> • Little change in employee work effort • Employee suspicion of equity of scheme • Negative reactions from low-rating employees • Commitment to 'public service' overrides potential narrowing of work

Informality in the administration of a PRP scheme by management (as an indicator of 'extension of status', may not necessarily work in the interests of employee development (as would be expected under an 'extension of status' paradigm'). An ad hoc, or partial application of the scheme rules may give rise to problems of equity, in that employees may not be assured that the PRP scheme is applied on a non-discriminatory basis. Informal or partial application of scheme rules may also run contra to an formal appeal process, intended to promote employee interests.

Heery (1998) concludes that there is partial support for the view that there is a 'return to contract' in the implementation of PRP in his study of local government in Britain. He states 'PRP appears at best to be a partial or compromised indicator of the contractual model' (Heery, 1998: 90) and highlights a number of 'contradictions and tensions in public service employment' (Heery, 1998: 90)

Heery (1998) proposes a 'dualism' in the application of PRP in the public sector, giving rise to the implementation as a 'negotiated order' rather than an 'imposed management strategy'. At the workplace level, employees are not malleable adjuncts to the process and outcomes of the PRP scheme, but are active participants in the implementation process who contest the potential for 'return to contract' inherent in such schemes. Contradictions and tensions also arise at an ideological level. 'New Right' government(s) actively seek and promote a private sector model of public service (in the interests of cost effectiveness and service delivery), whose ideas press up against (and perhaps support) academic management thinking on the need for organisational change by flattening organisational structures, flexible working practices, and extending employee participation under the rubric of 'empowerment'.

PHASE 1: PRP IN THE APS 1983-1995

There are a number of studies (for example: Marshall, 1998; Yates, 1998) from which a detailed overview of change in the APS from the early 1980s to the conclusion of the second APS Enterprise Bargaining Agreement in 1995 can be gathered. The emphasis in this section is, however, only on the evolution and implementation of PRP in the APS during this period. The developments are briefly mapped below in a chronological fashion and then an assessment is made of the success of PRP in the context of the objectives of the NPM.

During the 1980s tentative movements were made in the APS towards the development and implementation of a performance management system. However in the main these initiatives revolved around performance appraisal and neglected performance pay. It was not until the late 1980s that performance pay came to the fore when salary packaging and a bonus system was introduced for the Senior Executive Service (SES) in 1989. In part this initiative was to ensure some comparability in SES salaries with private sector managers, but they were also to compensate the SES for their reduced security of tenure (Marshall, 1998). In late 1989 the Australian Industrial Relations Commission (AIRC) approved the concept of PRP and its inclusion in agency enterprise bargaining agreements. This decision opened the way for the central agencies to develop proposals for the introduction of a full performance management system.

In early 1990 the Senate Standing Committee on Finance and Public Administration initiated an inquiry into the proposal and in their report expressed serious reservations. The reservations centred on the following: that PRP had not worked well in the international context; that there were issues of subjectivity and equity; that there was potential for individual bonuses to work against a team environment; that there was a lack of coordination amongst the three central agencies; and finally that there was an absence of a coherent implementation plan (Marshall, 1998). To overcome some of these problems the Committee recommended that before PRP was introduced a cost-benefit study should be conducted. In addition PRP should be trialed in agencies with some experience of PA, and further that a taskforce should be established to manage the implementation of PRP in the APS. These recommendations were, however, largely ignored by the government and central agencies (Marshall, 1998).

A performance management system was contained within the service-wide APS Agreement 1992-1994, which was reached after more than 18 months of negotiations. PRP was linked to productivity measurement

and appeared in the new, two-tier pay system. The first tier involved some funded pay increases linked to several APS-wide productivity initiatives. The second tier involved pay negotiations over workplace reforms at the agency level on a self-funded basis provided that agency agreements did not alter job classifications or six 'essential' employment conditions. Part of the achieved productivity gains were to be folded back to cross-subsidise pay increases in those agencies which did not reach agreements (or provided only small, if any, pay increases), thereby minimising the dispersion in pay outcomes across the service (Yates, 1998: 83-84). Essentially this pay system meant the maintenance of a core of service-wide pay and conditions, as well as the introduction of productivity-based bonuses. These bonuses were non-recurring, however there was agreement that should the productivity increases prove enduring they could be incorporated into the pay structure at the conclusion of the agreement (O'Brien, 1998).

The first cycle of PRP occurred in late 1992 and took in only the SES and senior officer groups (about 10% of the APS personnel) (Marshall, 1998). Although the guidelines for the process had been laid down by the Department of Industrial Relations (DIR) and the Public Service Commission (PSC), who also had a limited monitoring and review role, each agency was able to develop their own approach consistent with their corporate goals. However no payments were to be made until the PSC had approved the system, while the results were also to be moderated across the APS to ensure comparable worth. Furthermore, agencies were only allowed to spend no more than 50% of the amount that would be reached if the maximum bonus were paid to all eligible staff. Maximum bonuses ranged from approximately 7% of annual salary for those on lowest classification to approximately 15% of annual salary for those on the highest classification (Marshall, 1998).

The objectives of the PRP process were to: improve individual performance against corporate goals; foster employee's understanding of his/her work responsibilities; enhance communication between managers and employees; identify training and development needs; encourage adaptability and flexibility of officers; provide a basis for awarding performance pay; and facilitate the weeding out of unsatisfactory staff. Appraisers and appraisees were to negotiate an individual performance contract containing mutually agreed objectives and outcomes. Performance was then to be rated on the following five-point scale: unsatisfactory, adequate, fully effective, superior, outstanding. However, only those rated fully effective and above were eligible to receive bonus pay.

In 1993 separate reviews of the system were conducted by the Auditor General and the Senate Standing Committee on Finance and Administration. The reviews confirmed that many of the problems other organisations had experienced with PRP systems were repeated in the APS. For example, a joint survey found the following distribution of ratings: 0.2% unsatisfactory; 5.3% adequate; 62.5% fully effective; 30% superior; 2% outstanding (Australian National Audit Office, 1993: 9). When it came to the payment of bonuses it was found that although some organisations supported payment of the full bonus where appropriate, 44% of agencies allowed for a differential of less than \$500 at each level, while some paid all eligible officers at the same rate. Further, the outcome of the moderation process saw 9% of ratings across the service modified, rising to 20% in a few organisations and 100% in one (Australian National Audit Office, 1993: 38). It was perhaps then not surprising that the review also found that in terms of the integration with organisational objectives, about 30% of agencies reported that they did not envisage that the scheme would improve individual performance against corporate goals, while more than 50% did not view the scheme as enhancing the adaptability and flexibility of officers. Almost 60% thought the cycle would have no impact on the management of under-performing staff (Australian National Audit Office, 1993: 52). Despite these findings the second cycle of PRP went ahead in 1994. A bonus was received by 92% of officers (Department of Finance, 1995) in a comparable distribution to the previous cycle.

The union had been largely effective in removing PRP from the bargaining agenda by the conclusion of negotiations for the second service wide enterprise agreement. The APS Enterprise Agreement 1995-1996 contained a pay increase of 5.6% for all staff members in return for initiatives leading to productivity increases. In terms of performance management, appraisal of senior officers and senior executives was retained, however the performance pay scheme for senior officers was removed. Senior officers could vote in individual departments to continue with bonus pay if they wished. Bonuses for the SES were retained

although they were restricted to the top 25% of strongly performing executives and were to be paid at the discretion of the departmental secretary (Yeats, 1998; O'Brien, 1997).

Assessment

By the end of the first phase of PRP in the APS a number of problems can be identified. Given the difficulty of measuring productivity in a service organisation, and particularly the public service, the foremost problem was that of linking productivity to performance. In addition, it is argued that the complexity of the productivity sharing arrangements through the fold back mechanism, acted as a disincentive to bargaining (PSMPC, 1998).

In reports of both the Senate Standing Committee and Auditor General the blame for the lack of success with PRP was laid with the central agencies, who they said created an unworkable system in the first place (Australian National Audit Office, 1993; Senate Standing Committee, 1993). The implementation of the system was hurried and as a result APS managers had a limited understanding of the system, its purpose and objectives. Appraisers lacked appropriate training to ensure the system operated to its full potential, and as a result, the focus of the exercise shifted from its benefits to the ratings and distortions in salaries were created across agencies.

The problems with PRP in this phase can therefore be summarised as: a lack of management skill; an inability for performance to be measured accurately; a lack of money to reward performance; and a conflict between motivators i.e.: pay and performing a public service. These problems were consistent with some of the obstacles identified earlier in the Marsden and French (1998) model. Marshall (1998) concludes that 'attempts to introduce performance appraisal and pay have not met with great success'. Similarly, after assessing the introduction and impact of PRP in the APS between 1992-1996 through interviews with senior officers, O'Donnell (1998) argues that a strong performance culture did not emerge.

It is therefore possible to argue that few of the goals of the NPM agenda were achieved in the first phase of PRP in the APS. Despite the existence of many of the eight items on Pollitt's shopping basket, the commitment needed to elicit such cultural change to bring about a focus on outcomes and a performance-oriented culture was missing. In addition, despite agencies being given responsibility for designing their own approach to performance appraisal and pay (within certain parameters), this was not enough devolution needed to achieve the goals of NPM

PHASE 2 PRP IN THE APS 1996 – 1998

The election of the Howard Coalition federal government in March 1996 and the subsequent introduction of the Workplace Relations Act 1996 can be seen as the beginning of the second phase for PRP in the APS. In combination with other legislative and policy changes, the Workplace Relations Act 1996 can be seen as a means to facilitate further devolution in the APS as appears necessary for successfully achieving the goals of the NPM.

In November 1996 the Workplace Relations Act 1996 replaced the Industrial Relations Act 1988 and, in doing so, introduced for the first time in the federal industrial relations jurisdiction the ability for individual employment agreements to regulate workplace industrial relations. Where agreements were concerned, the thrust of the Workplace Relations Act 1996 was that the parties concerned choose the most appropriate type of agreement to regulate their workplace relations (see section 3c of the Act). This meant that if the parties so choose they need not decide to formalise their workplace agreement at all. If they did choose to formalise their agreement then the Workplace Relations Act 1996 made provisions for collective union and non-union Certified Agreements (CA) and individual Australian Workplace Agreements (AWA).

Also in November 1996, Peter Reith, Minister for Small Business and Workplace Relations, released the discussion paper, *Towards a Best Practice APS*. This document was clearly part of the push to encourage the development of a performance culture in the APS. This was evident in the statement: 'the culture of the APS

does not sufficiently promote high performance or drive innovation, and the important contribution of individual public servants is often overlooked or stifled by process and unnecessary regulations' (Reith, 1996: 1-2). There were three key features of reform outlined in the document (Reith, 1996: 6-7). The first feature of reform was legislative change via a major overhaul of the *Public Service Act 1922*.³ The second feature was reform to workplace relations and the devolution of agreement making underpinned by a simplified award (with the phasing out of paid rates awards).⁴ The third feature of reform was to strengthen APS management and leadership facilitating the development a performance culture in APS workplaces based on a clear vision and through the communication of future directions. Further, with respect to PRP the following was stated: The Government believes that Agency Heads should decide, and be publicly accountable for, the application of PRP arrangements within their agencies subject to overall budget parameters set by government. There is a need for greater flexibility in the way agencies recognise and reward performance, both through tangible and non-pay rewards. The Government supports greater experimentation and sharing of experience in how best to reward outstanding team performance or individual goal achievement (Reith, 1996: 21).

Operationally, agreement making was devolved to agencies. However, the Government maintained control of the process by specifying the parameters within which agencies could bargain. The Policy Parameters for Agreement Making, was released by DWRSB on 23 May 1997 to provide agencies with guidelines for the process of agreement making (Advice 1997/29). Of the 12 parameters, number 4 specifically referred to performance and performance pay in the context of classification structures. This policy parameter essentially required that salary movements were only to be guided by performance management (Advice 1998/4). Further, it enabled agencies some flexibility to base pay on the job with scope for a component to be paid as a supplement, one-off bonus or as an allowance.

In March-April 1997 the Community and Public Sector Union (CPSU) initiated service-wide and agency bargaining periods. By December 1998 eighty-six agreements (covering around 95% of APS staff) had been certified by the AIRC, while another awaited certification. Thirty-eight agreements were made under s170LK of the Workplace Relations Act 1996 (non-union CAs); and another 42 were stand-alone. In total, agencies employing almost all APS staff were currently involved in (or had completed) negotiating certified agreements. As agencies were not required to have AWAs cleared by DEWRSB there are no clear figures available as to their spread. However, according to the Office of the Employment Advocate, as of end-October 1998, there were approximately 2500 AWAs in the APS (DEWRSB, 1998).

Assessment

The bargaining process in the APS has produced a diversity of outcomes. Working conditions and pay arrangements now differ between agencies, while agreements range across time-scales. The lack of uniformity in bargaining outcomes became an issue after the 1998 federal election, when a wave of restructuring occurred across the APS (O'Brien, 1998). The key problem was under which terms and conditions were personnel in merged departments employed? Despite this and other problems Dr Kemp, the Minister assisting the Prime Minister on the Public Service, made the assessment that agreement making has transformed the culture of the APS (Kemp, 1998).

The massive changes that have been undertaken in such a short period across the APS have been driven by the desire to create 'a high performance APS'. Further changes are proposed in order to increase the

³In June 1998, the new Public Service Bill was introduced into Parliament, however it has since twice been refused passage through the Senate.

⁴The options for agreements included AWAs and CAs, with or without union involvement, as provided for under the Workplace Relations Act 1996.

devolution of 'people management' to agencies. Proposals include making revisions to the policy parameters with a view to their reduction; further reform to the WRA seeking to make agreements more accessible; spreading AWAs down from the SES level to all APS personnel; enabling agencies to include redundancy, leave and superannuation in agreements (Kemp, 1998).

It is perhaps, too soon to make an assessment about whether the second phase of PRP in the APS will lead to the achievement of the objectives of the NPM. Devolution, the missing ingredient in the first phase, is clearly evident in the second. Or is it? Despite the rhetoric, the Government still retains control over the whole process, as all agreements must be consistent with the Government's workplace relations and APS wage policies. In essence then the fundamental system remains centralised. The case study of the introduction of PRP at Centrelink through a process of enterprise bargaining illustrates this dilemma as well as highlights the contradictory intentions and outcomes of PRP.

CASE STUDY: CENTRELINK

'As one of the most significant reforms to Australian public administration in the post-war-period, Centrelink aims to apply world's best practice in service delivery to over 5 million customers across Australia' (Newman, 1998).

Centrelink is 'a dynamic new organisation ... established to link a range of Government services and deliver these services to customers in a simple, efficient and accessible manner. Centrelink, which came into being on 24 September 1997 (Howard, 1997), has the key strategic business focus on 'quality customer service' (Centrelink Development Agreement 1997) Through Area and National Support Offices, Call Centres and Customer Services centres, Centrelink delivers a range of social security and employment services to approximately 6.2 million customers (with \$43.4 billion per year in payments) (Centrelink Annual Report 1997-98). Service agreements have been signed with a range of Commonwealth agencies, including DSS, DEETYA, DHFS, DPIE, DWRSB, ATO, DVA plus State housing authorities. Centrelink employs around 23,750 full time equivalent staff. This new Government service delivery structure attracted overseas research interest in July 1998, with the Kennedy School of Government, at Harvard University preparing a case study which 'will highlight both the innovative structure of Centrelink and the service delivery and customer relations strategies which it has adopted' (Newman, 1998).

Centrelink's central priority has been to set a Strategic Framework, consisting of the Strategic Directions and Strategic Plan, published together in a document called the Centrelink Strategic Framework 1997-2002. Centrelink's Mission, Vision and Goals fit well with the ideals of the NPM. For example, the Vision is to 'Make a difference to the Australian community, through responsive high quality government services and opportunities and giving value for money' (CDA, 1997: 2). Performance management appears as one of the six Goals, i.e.: '3. To create an environment where people in Centrelink are proud of their contributions and are making a difference' (Centrelink Annual Report 1997-98: 38). In 1996-97, the PRP scheme in Centrelink saw \$201,294 paid to 23 out of a total of 53 SES officers, with one senior officer receiving the maximum allowable payment for 'superior' performance (Centrelink Annual Report 1997-98: 143).

The Centrelink Development Agreement (CDA) 1997-98, with the additional attachment incorporating the Centrelink Call Centres Agreement 1997 (CDA 1997: Attachment C), was certified by the AIRC in November 1997 under s. 170LJ of Workplace Relations Act 1996. At present Centrelink and the CPSU are negotiating a new certified agreement, after the CPSU served a log of claims on Centrelink management on 14 August 1998 (CPSU 14.8.98). The negotiation has taken place against a backdrop of industrial action over job losses which were proposed under the banner of the 'Special Efficiency Dividend' (CPSU 1998f). In 1998 Centrelink made 2,700 staff redundant, while a further 2,315 staff redundancies are planned for 1999-2000. The aim of this restructuring is to save \$149 million over the next three years (Murphy, 1998).

Centrelink Development Agreement 1997-98

'Using Agreements and Strategic People Management to Achieve Business Goals' (Vardon, 1998: 1)

Sue Vardon, Centrelink's Chief Executive Officer (CEO) of Centrelink, argues that the certified workplace agreement 'form(s) one of the cornerstones of our organisation's strategic success' and that it acts to 'meet our corporate goals and adapt to re-position our organisation' (Vardon, 1998: 1). The agreement is seen as mechanism for organisational change, in that it promotes a customer driven culture through the development of a customer service strategy. There is an intention to mobilise performance improvement through the certified agreement to 'elements of the new performance culture' via monetary bonuses provided to staff in workplaces who introduced a customer service improvement plan (for both internal and external customers). Further, provisions in the agreement allow local managers more discretion (rather than a 'rules' based approach) and temporal flexibility e.g. on office opening hours.

A dual rhetoric can be identified in such pronouncements. On the one hand, there is a stated desire to 'empower' staff to 'have more confidence in solving problems and adding value in a more direct and creative way'. However, simultaneously, Centrelink 'doesn't want complacent people in our organisation' (Vardon, 1998: 4).

Team Based Work

To improve customer service and job satisfaction the certified agreement contains provisions which intend to extend team-based work into genuine self managing teams (CDA 1997: 35). The 'ideal type' self-managed team is defined in the certified agreements. Teams will have responsibility for clearly defined areas of work, where team members will have responsibility for the planning, execution and feedback in the production of quality service, with the longer term responsibility for ongoing improvement in service. This 'ideal' team, will function under the aegis of a manager as facilitator. In the first instance though, team based work will be 'with the relevant managers defining the responsibilities, authority to make decisions and purpose of the team' (CDA 1997: 36).

Despite the stated intention to move to self-managed teams, there remains a controlling and facilitating role for managers. There is acknowledgment that an evolution to the 'ideal' team will have repercussions where 'managers need to recognise that in moving to teams there will be significant changes in their roles and responsibilities'. If the 'ideal' teams are successfully implemented, there should be important ramifications for salary levels and group-based PRP: with increasing responsibilities, will non-managerial employees enjoy parallel pay increases and will group based contingency pay be implemented? At present, PRP for non-SES staff is distributed from an enterprise level.

Recognition and Remuneration

The agreement provides employees at Centrelink with a 1.5% salary increase, backdated for three months from the date of certification. Further bonuses and on-going pay rises are given on implementation of the agreement and the 'Quality First' strategy, i.e. a \$300 bonus (based on employees pay) to all employees (full time, part time and temporaries – at the time of certification) for the development of agreed plans to improve internal and external customer service. A further 2% salary increase was to be paid on 30 June 1998, provided that all workplaces had commenced implementation of the customer service development plans and that there was an overall improvement in Centrelink's performance.

The measure of improved performance is if two of a series of measures constitutes 'overall improvement' (i.e. a 'balanced scorecard') (CDA 1997: 46). For example, if there is improvement in overall customer satisfaction measured by customer survey and an improvement in accuracy of decisions, compared with proceeding 3 months period then performance has improved. If improvements are not achieved (for the purpose of the 2% salary increase) by 1 July 1998, there was to be an assessment of any barriers by both parties, with a view to the increase being paid by 30 November 1998. Legislation and policy changes were excluded as reasons to delay or nullify the pay increase.

Centrelink Call Centres Agreement 1997

The Centrelink Call Centres Agreement 1997 appears as an attachment to the Centrelink Development Agreement 1997-98, and has been developed 'in recognition of the particular conditions which operate in Centrelink Call Centres' (CDA 1997: 60). While the Call Centres Agreement retains the language of customer service, there are some key provisions that can be perceived as 'Neo-Taylorist' interventions, or a 'return to contract' in the management of employee performance in these workplaces.

Performance improvement 'initiatives' are to be promoted in the Call Centres via a series of interventions, that for the most part reveal 'Taylorist' principles being applied to Call Centre work organisation, i.e.:

- Standardisation of operations
- Key performance indicators
- On-phone time
- Role specialisation
- Standard queue configuration
- Extended and varied Centrelink Call Centre opening hours
- Employee attendance arrangements
- Change management
- Identification of learning needs

These performance improvement interventions will also be supported by technological 'innovations' i.e.:

- Common telecommunications platform
- Load switching between Centres
- Support tools
- Automated call handling

Together, these provisions are indicative of a very different management style compared to the Centrelink Development Agreement 1997-98 and countervail the central team work provisions in the main agreement. The work organisation, supported by new technology, is clearly a 'Taylorist' form, with 'standardisation of operations' role specialisation' and 'standard queue configuration'. While 'identification of learning needs' sits uneasily with the remainder of the list, a wide range of skills or competencies would not be required, with 'role specialisation' and 'standardisation of operations' with new technology supporting 'automated call handling'. The application of 'return to contract' at the Call Centres can also be supported after an assessment of the possible outcomes of the 'Making Advancement Towards Excellence Program'.

Making Advancement Towards Excellence (MATE) Program

The Centrelink Call Centres are developing and introducing key performance indicators (KPIs), by collecting individual employee data sets. These KPIs are intended to identify learning needs and a means of developing appropriate skills. It is stressed in the certified agreement that these KPIs will not be used for assessing and comparing, or setting individual targets for employees, and will not be used for probation or disciplinary purposes. Nonetheless, performance is being measured on an individual rather than a workplace basis. While the title of the MATE Program is resonant of an employee development approach, the procedures are clearly a 'Taylorist' form of performance management. The technology and procedures in place have the potential to closely scrutinise and quantitatively assess individual employee performance, to the neglect of qualitative measures of impact on customer service and long term outcomes. With the spectre of privatisation, the hiving off of Call Centre Operations to private interests, the loss of public sector 'ethos', all in the wake of proposed redundancies, a new management may trigger the opportunities for 'return to contract'.

CONCLUSION

The purpose of this paper was to examine the intention and outcomes of the PRP in the APS, within the context of achieving the goals of the NPM. The objectives of the NPM are efficiency, effectiveness and responsiveness, with a performance management system integral to achieving these objectives. To this end, it has been shown that during the first phase of PRP in the APS, the implementation of PRP was partial and largely unsuccessful. However, a performance management system cannot be implemented in isolation, with the effectiveness of such a system requiring devolution to those managers (and employees) responsible for its implementation. Although many items from Pollitt's 'shopping basket' were present, devolution and autonomy were the missing ingredients. PRP only extended to the SES and Senior Officers, while the process for PRP at this level was fraught with difficulties and elicited a range of problems. It is still too early to assess the full effect of the second phase of PRP in the APS. However, during this phase, there has certainly been more scope for its implementation, where greater devolution has been facilitated by legislative and policy changes. Although greater devolution and responsibility for terms and conditions of employment has been provided under the Howard Coalition government in the APS, this is still somewhat illusory. Although rules have been devolved from a service-wide level to local managers, management prerogative is still retained at the enterprise level. Management decision making still occurs within the service-wide policy parameters, in effect creating a system of 'managed decentralism'.

'Managed decentralism' can be seen in the Centrelink case. Although there are contingent pay increases provided for in the CDA 1997, as well as contingent bonuses, these are based on the performance of Centrelink as a whole (not just local level). Those employed in the senior levels are still the only employees receive individually assessed PRP, while lower level employees receive PRP based on the improved performance of Centrelink. The 'MATE' program at the Centrelink Call Centres opens the way for 'return to contract', with performance management evolving along 'Team Taylorist' principles (Baldry, Bain & Taylor 1998). Performance data is gathered but not utilised to assess individual performance, though notably qualitative performance indicators are absent, which begs the question as to the purpose of the individual employee data. There may be an evolutionary process occurring with PRP at Centrelink, with the prospect of privatisation speeding up the implementation of PRP evolving along individualised, 'Taylorist' principles. For the moment, individualised PRP is not extensive.

The case of Centrelink shows that, in terms of Heery's propositions, PRP represents a duality between 'return to contract' and 'extension of status'. For example, 'extension of status' can be seen in the rhetoric of the Strategic Plan and Centrelink Development Agreement. These are means of implementing cultural change through teamwork and an emphasis on customer service. At the same time, they are resonant with a 'return to contract' as performance management can be used to monitor and control employee behaviour, while teams are to be facilitated and controlled by management. The ultimate effect of PRP, whether it represents a 'return to contract' or an 'extension of status' cannot be assessed until research takes the employees' perspective into account.

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