

AMERICAN UNIVERSITY OF ARMENIA

PERFORMANCE-RELATED PAY IN CIVIL SERVICE: INTERNATIONAL
EXPERIENCE: IMPLICATIONS FOR ARMENIA

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Introduction

“I look on that man as happy, who, when there is question of success, looks into his work for a reply.”

Ralph Waldo Emerson

The purpose of this policy internship project which is carried out in the Ministry of Finance of the Republic of Armenia is to observe and examine one of the remuneration systems, which is experienced in many countries, namely performance-related pay. This pay system is already being used in different countries and the results are divergent as well. The chapter covering international experience of the performance-related pay system will reveal practices of selected countries and will show whether there is an opportunity and possibility for Armenia to implement this system in the public sector, mainly in the civil service.

While considering performance-related pay system this paper will touch upon such controversial issues like equity and fairness, motivation and productivity, effectiveness and efficiency, appraisal and evaluation within the organizations which are linked to the concept of performance-based pay.

The paper will also discuss Armenian reality. It will investigate the Armenian Law on Remuneration of Civil Servants and find out main aspects of pay system of Civil Servants in Armenia.

The purpose of this internship policy paper is to compare the Armenian remuneration of Civil servants with the experience of foreign countries and find out whether there are possible implementations for Armenia.

Performance-related pay

“Where performance is measured, performance improves. Where performance is measured and reported, the rate of improvement accelerates.”

Thomas S. Monson

Every organization gives pivotal importance to the motivation of its employees to do their best and tries to work out a system best suited for the interests and finance of the organization and the employees. There are different types of such pay systems like “merit pay, alternative pay, variable pay, incentive pay as well as performance-related pay”(De Silva, 1998).

Mainly over last thirty years governments of many countries face a real problem of public sector and civil service employees’ displeasure by being either overpaid or underpaid. Today when time is passing very quickly and new technologies invade the market private sector becomes more attractive for the employees especially when public sector does not introduce luring pay systems. The only choice for governments is to combine the existing pay system which is based on the increase in salary according to the years of experience with a new system which is based on the performance of the employees. This system is already being widely used in public administration sphere in OECD countries during last 20 years (OECD, 2008).

Performance –related pay is not a general wage structure like pay for the general job, but it is added to general wage structure based on the performance standards. In most of the pay plans the supplement to the base pay is determined according to the performance or just the opposite, the base pay may be reduced in order to make room for the performance-related pay.

The money that organizations pay to their employees is considered as cost for the organizations; while the work and effort made during the job implementation is difficult to measure. As a result organizations are inclined to establish a system which will encourage the employees to do their best to fit the goals of the organizations (De Silva, 1998).

Apparently the central aspect in the employee-employment relationship becomes pay. Pay is powerful tool for each organization which seeks to maximize its efficiency and productivity. Nevertheless it must be taken for granted that not in all organizations the same system of performance-related pay is effective (Brown & Heywood, 2002). The launching of the system must be arranged with care taking into consideration the type and culture of the organization and employees.

Performance-related pay can be considered as a common concept that relates pay to any kind of performance measure. It can be accumulating and non-accumulating. In the first case the pay for performance is added to the base salary and that amount becomes the base for the next performance pay. In non-accumulating case every time the performance pay is added to same base salary. Second type is more beneficial for organizations because it is less costly (Brown & Heywood, 2002).

The characteristic feature of the pay for performance is to link and correspond the interests of the employees with the goals and objectives of the organization they work.

Most organizations are lured by the pay for performance concept. This is the reason why they try to integrate this system at least in the form of merit pay. Nevertheless there are some problematic aspects relating to performance-related pay. One of them is the expensiveness of the system. A lot of financing is needed for proper implementation of PRP.

Another undesirable aspect of PRP is the issue of equity. Same job can be performed at different levels. This is the problem that can always rise especially when the program is not well organized and communicated or when people do not consider

performance as a variable according to which a pay can be determined. PRP system makes employees within the organization to compete with each other which is not so efficient for the organization itself as the best results can be achieved through cooperation. This is not proper especially in the organization where people work in groups and have different pays. This phenomenon can lower productivity and effectiveness of the group performance (De Silva, 1998).

Here it is worth to mention about the free-rider problem. This occurs when many people work in groups and equal benefits are delivered to all members regardless of their efforts. This phenomenon usually happens when there are incompetent and inefficient people within the group. This situation can be ameliorated by emphasizing the individual performance even though the group performance is prioritized.

The main tools for the successful PRP implementation can be considered to set clear objectives, to develop proper appraisal systems, and to link outcome of the performance to pay- deciding who gets what.

Several decades ago almost all civil servants in OECD countries were paid according to the old incremental system. The only incentive for the employees was promotion in the workplace. Fortunately gradually pay system and remuneration became another type of incentive to increase productivity of public employees (Cardona, 2007).

By the beginning of 21th century almost all OECD countries implemented performance-related pay system in public sector. The main reason for shifting to such remuneration system was the improvement of individual motivation and performance. Another reason for this shift was the private sector and successful implementation of this system in private sector which has become a norm for them (Cardona, 2007).

There are cases when actual performance-related pay theory and its implementation are very different, because there was no actual appraisals of individual performance and these

existing appraisals wear formal meaning (OECD, 2005). The same situation can be observed in Armenia. Another aspect worth mentioning concerning performance-related pay is that it can be considered both as extrinsic and intrinsic reward. Extrinsic as a monetary reward, and intrinsic, as recognition of achievements and efforts by the employees themselves.

A couple of decades ago the quantifiable measures were the priorities for the identification of performance. Today the situation is different: non-quantifiable measures are of vital importance and this brings to flexible and accurate appraisal forms by line management. When each organization develops its own flexible appraisal and rating system the process becomes more reliable because verbal and qualitative methods are more emphasized. Also performance appraisal includes the discussion with the line manager and after which follows a written report. This is required in the countries like Canada, Hungary and France. This performance appraisal form is more informal. Usually the appraisal occurs once a year, but there are countries where the evaluation occurs two times a year (OECD, 2005).

Identical Trends of Performance-related Pay System

There is no one common model of PRP in all OECD countries. The divergence of the models depends on the nature of civil service and pay systems, degree of centralization and decentralization as well as the level of delegation of human resources. Nevertheless there are main directions in PRP which are identical in all countries and which will be useful for Armenian Civil Service when considering the implementation of PRP.

1. In all OECD countries policies of PRP extended from management level to various categories of staff.
2. The use of collective performance and team performance models increased.

3. Standard PRP models were developed for a long run.
4. Performance was estimated based on the outputs, competencies and social skills
5. Usually merit increment was 5% of the base salary, in PRP system, which substituted merit increment, the percentage was not higher than 20% of the base salary of civil servants (OECD, 2005).

Although there are identical trends of PRP in many countries there are also costs to be expected, like the time and money allocated for the project, peoples' reaction and readiness for the new project, proper tools for supervision and impartiality.

Anticipated Costs!

“I can make more generals, but horses cost more.”

Abraham Lincoln

PRP model is very attractive for Governmental organizations but overall its implementation is thorny and complex. In some countries the PRP turned to be unsuccessful mainly because motivation was not appropriate for effective performance, also problems occurred with the design and implementation, and the most important was that the estimation of the performance was very complicated in public sector. Successful PRP system requires proper managerial supervision on one hand and effective performance appraisal, goal setting, task identification, skill training, friendly relationship between manager and employee, team-work encouraging, and flexibility on the other hand.

Introduction and implementation of PRP should be incremental process. From 5 to 10 years are required for full implementation. For example Denmark needed 8 years for full integration into the system (OECD, 2005).

For proper implementation of PRP the appropriate funding is needed, because the system is costly. For instance, the limited use of PRP is a result of the absence of proper funds. Proper funds are needed because employees who are expecting to get additional pay for better performance, at the end are paid a little. This phenomenon will be disappointing and can have de-motivating effect.

Overall each step must be thought thoroughly and immediate effects must not be expected.

For the purpose of finding possible ways of implementation of PRP in Armenia the following research questions have been introduced:

RQ1. What kind of rewards people value more- intrinsic or extrinsic?

RQ2. Does Armenia need to implement PRP in civil service?

RQ3. Does performance-related pay system serve as a motivation for better performance in civil service?

Methodology

The study uses primary and secondary data analysis. The purpose of this research is descriptive and exploratory.

The primary data was collected through face-to-face interviews with civil servants of the Republic of Armenia. An original questionnaire was designed based on the information needed for this study. The secondary data analysis comprises relevant literature review and analysis of legal documents.

For the purpose of this research the RA Civil Service Council (CSC) was contacted for the list of all civil servants of Government bodies since one of the functions of the Civil

Service Council is the regulation and registration of all the civil servants in the Republic of Armenia.

The sampling frame includes 7,911 civil servants, out of which 128 civil servants were chosen. The margin of error is 8.3%. The sample was created using multistage cluster sampling method. The first stage involved 46 State governmental bodies. From these 46 Government bodies 32 were randomly selected using random number generator. For the second stage four civil servants were randomly selected from each of those 32 Government bodies.

The target population is the civil servants of the Republic of Armenia. As a whole 128 interviews were conducted in February 2011. A pretest was done after which all measures were adjusted correspondingly. All data were input in SPSS for analysis.

Armenian Reality

Every organization gives pivotal importance to the motivation of their employees, because motivation serves as a driving force for better results in their work. Motivation in its turn is closely interlinked with pay and remuneration systems within the organizations. So it can be concluded that pay is the core concept in each organization both for the employees and for the employers.

The Republic of Armenia Law on Remuneration of Civil Servants, which was adopted in 2002, is considered to be the main tool according to which the pay system is being implemented in civil service. This law regulates main criteria of the pay and reward system, and ensures their proper implementation. According to the Republic of Armenia Law on Civil Service all positions in Armenian civil service have their position passports where all the responsibilities, rights and duties of civil servants are embedded, and the employees are being

appraised according to their position passports¹. Actually position passports are the job descriptions of the employees.

Nevertheless today there is a need for constant improvement and alignment to modern quality and requirements, ensuring equity, professionalism, fairness and honesty of civil servants.

When speaking about performance-related pay system in Armenian civil service it is very important to mention that existing pay and reward system is far away from the performance-related pay, which is being implemented in foreign countries.

Figure 1.1. The Pay Structure of Armenian Civil Service.

Levels of the salaries		Junior positions			Leading positions			Chief positions			Highest positions	
		3-rd subgroup scale	2-nd subgroup scale	1-st subgroup scale	3-rd subgroup scale	2-nd subgroup scale	1-st subgroup scale	3-rd subgroup scale	2-nd subgroup scale	1-st subgroup scale	2-nd subgroup scale	1-st subgroup scale
11	No increase	1.34	1.56	1.81	2.09	2.43	2.81	3.26	3.78	4.38	5.08	5.89
10	3 years	1.30	1.51	1.75	2.03	2.36	2.73	3.17	3.67	4.26	4.93	5.72
9		1.27	1.47	1.70	1.97	2.29	2.65	3.07	3.56	4.13	4.79	5.55
8		1.23	1.43	1.65	1.92	2.22	2.58	2.99	3.46	4.01	4.65	5.39
7	2 years	1.19	1.38	1.60	1.86	2.16	2.50	2.90	3.36	3.90	4.52	5.23
6		1.16	1.34	1.56	1.81	2.09	2.43	2.81	3.26	3.78	4.38	5.08
5		1.13	1.30	1.51	1.75	2.03	2.36	2.73	3.17	3.67	4.26	4.93
4	1 year	1.09	1.27	1.47	1.70	1.97	2.29	2.65	3.07	3.56	4.13	4.79
3		1.06	1.23	1.43	1.65	1.92	2.22	2.58	2.99	3.46	4.01	4.65
2		1.03	1.19	1.38	1.60	1.86	2.16	2.50	2.90	3.36	3.90	4.52
1		1.00	1.16	1.34	1.56	1.81	2.09	2.43	2.81	3.26	3.78	4.38

Source: RA Law on Remuneration of Civil Servants

Table 1.1 shows that in the same civil service position each year the increment during the first four levels of salary is 3% for each year, and from fifth, to seventh levels of salary the increment is 3% each two years, from eighth to tenth level of salary the increment is 3% each three years, and there is no increment in the last eleventh level of salary. This is supposed to raise motivation in the employees, but on the contrary this calls for no

¹ (RA Law on Civil Service, 2008)

motivation. The Budget Law of RA defines the base salaries of the civil servants which constitutes 40.000 AMD. Apparently this amount is not high; consequently the increments are low as well, that is why employees do not give much importance to this increase in salaries as it is not tangible. Hence this system is not motivating at all. Armenian civil servants are mainly motivated by their positions and the prestige related to them.

One of the core elements of PRP is proper appraisal system which is linked to pay. The appraisal system in Armenia holds a formal character. Usually it is a formal document where all the duties and responsibilities of the employees are embedded, and which tells about the performance of the employees during a year. This document is signed by the manager once or twice a year (depending on the organization), without giving significance to it and sometimes without even reading it. So the document does not reflect the actual performance of the employees and consequently the employees cannot be appraised according to their actual contribution. This is the reason why when asked about how frequent they want to be rewarded most of the employees wanted to be rewarded every month without even thinking about the level of their contribution. This is the result of improper implementation of existing appraisal system.

There are four kinds of pays which Armenian civil servants get during their working years, depending on their experience or additional consequences. They are: 1. Seniority pay, which is the increment in the wage system determined according to the position, comprising 3% of the salary. 2. Addition, pay determined according to the working conditions (dangerous for health, far from home, etc.). This kind of pay is conditional: not everyone gets it. It composes 12-24% of the salary depending on the conditions and consequences. 3. Extra pay (premium), which is delivered in cases when the civil servant has higher classification grade than his current position and is composed of 5% of the salary. 4. Reward, which is a kind of pay determined according to the performance and delivered once a year or twice a

year, when usually the amount is divided into two parts and delivered in the end of each six months. The amount equals to a monthly salary and comprises 8 % (see Table 1.2) (RA Law on Remuneration of Civil Servants, 2011). This type of remuneration is the possibility of PP without exact mechanism.

Table 1.2 Main Pays in Armenian Civil Service

Seniority	Pay determined according to the position in civil service system	3%
Addition	Pay determined according to the working conditions	12-24%
Extra Pay	If civil servant has higher classification grade than his current position	5%
Reward	Pay determined according to the performance and delivered once a year.	8%

Source: RA Law on Remuneration of Civil Servants

As it can be concluded the only pay determined according to the performance is reward, which is not the amount of money greatly motivating the employees, that is why people in Armenian civil service are not encouraged to do their best and to get more, their rewards are fixed and anyway determined, regardless of their job and contribution.

Here it is important to mention the absence of the proper appraisal form in Armenian civil service. This is a huge issue because the whole routine of fair pay system goes around the proper implementation of the appraisal form. As it can be assessed from the international experience almost in all countries where performance-related pay is implemented the vital role plays appraisal form and its accurate implementation.

Further international experience will show that proper implementation of the appraisal brings to the solution of many problems and gaps within the remuneration system of civil servants.

International Experience

When considering the PRP it is important to assess that PRP objectives and goals, implementation and monitoring differs across countries. For example while considering Nordic countries personnel development aspects are emphasized, while considering Westminster countries motivational aspects are more emphasized and in countries like France and Italy leadership is prioritized.

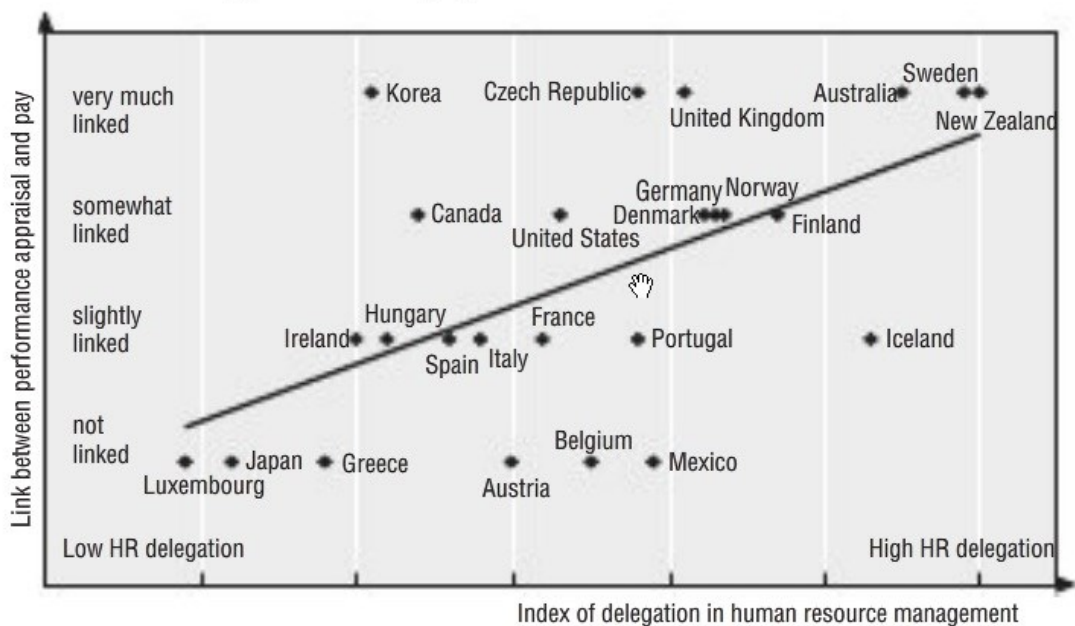
Overall the countries which have full and complete implementation of PRP system are Denmark, Finland, Korea, New Zealand, Switzerland and UK. Mostly succeeded the countries which managed to align the performance appraisals and pay as a motivation and which had “highest delegation of responsibility for human resources” (OECD, 2005). It can be assessed that successful development and implementation of PRP is closely related to human resource delegation. Most OECD countries like Canada, Denmark, Korea, Italy, UK, US, Norway worked out separate performance management systems for staff and separate for senior managers.

The diversity of the coverage of PRP across the countries depends on the centralization and decentralization of management of Public Service. In centralized countries PRP refers to the general government as a whole and is more standardized, in decentralized countries each department has its own PRP system (OECD, 2005).

Figure 1.3 shows the link between performance appraisal and pay and human resource delegation. From the table we can see that there are countries Sweden, New Zealand,

Australia, UK, and Finland where there is a link between performance appraisal and pay and there is a high delegation of HR. Also it is possible to separate the countries like Norway, Germany, US, Canada where there is a link between performance appraisal and pay but have lower level of HR delegation. Countries like Luxemburg, Japan, and Greece have very low level of HR delegation and almost no links between appraisal performance and pay. Although it is worth mentioning that Czech Republic and Korea have low level of HR delegation but have strong links between performance appraisal and pay. On the contrary Iceland has low links between appraisal and pay but high level of HR delegation. Exceptions always occur!

Figure 1.3. **Relationship between delegation and link between performance appraisal and pay in OECD member countries**



Note: Figure 1.3 excludes the Netherlands, Poland, the Slovak Republic, Switzerland and Turkey in the absence of sufficient data.

Source: Performance-related pay Policies for Governmental Employees (2005) OECD

From the figure 1.3 it can be concluded that though with some exceptions high level of HR delegation matters when considering the link between performance appraisal and pay.

So overall the most important criteria which are mentioned in the reports of all OECD countries are the following: outputs achieved by the employees, skills and proficiencies of the employees, ability and desire to be involved in teamwork, control and management abilities, and contribution. Countries like Canada and Denmark also mentioned such criteria like ethics and innovations (OECD, 2005).

Performance-Related Pay: Denmark

The introduction of PRP in Danish public service was launched in 1987 by pioneering an individual wage system. In 1997 this system covered only 2% of total wage payment, besides it had very low budget. As this system was not so popular in Denmark, they decided to reform it in 1997. The implementation of the new system was incremental. Initially the system was effective in some organizations, but gradually it became popular and by 2002 almost all public organizations implemented this system.

The main reasons for introducing PRP in Denmark was 1. To make public sector pay system more attractive, in order to compete with private sector. 2. To link pay with the goals and objectives of the employees and organization. 3. To ensure that pay reflects qualifications and performance. 4. To compensate work in not ordinary conditions.

In Denmark the PRP system was rather decentralized leaving for each organization to decide its own pay system. Each institution worked out the criteria and agreements for the pay system. There is no law about PRP. Collective agreements with the employees determine the rules and regulations of PRP (OECD, 2005).

The design of PRP in Denmark includes 1. Function-related pay - pay for different functions in the organization, for instance, mentoring, working out large projects. 2.

Qualification–related pay - pay for various qualifications and competencies. 3. Performance-related pay- individual or group pay for the good results and effective performance.

Salary policy is determined for the whole staff. There is no one PRP scheme for all government organizations. The pay scheme consists of 3 elements. 1. Basic pay- an amount which is determined by the Ministry of Finance and the organizations, 2. Superstructure - an amount agreed on local level which is given for special function of the job and which is based on employees' qualifications and performance. 3. PRP – an amount agreed on the organizational level and given for the employees' qualitative and quantitative traits (OECD, 2005).

Appraisal Criteria

All rewards and benefits are decided according to individual appraisals. The appraisals are the results of the employee manager dialogue. This process is called salary discussion and is incorporated in yearly “performance interview.” The agreement is achieved and signed by the manager.

Desirable Results

As a result of implementation of PRP some positive effects were noticed in Denmark, which are: more concentration on the individual appraisals and remuneration, strong link between pay and performance, more possibilities for recruitment, and possibilities for dialogue between employee and manager.

Undesirable Results

Among undesirable side effects which are worth mentioning are huge amount of administration, uncertainty among employees, the expensiveness of the project lack of knowledge about the system among the employees and there are managers not courageous to discriminate employees during the appraisals.(OECD,2005).

Performance-related Pay: Finland

In Finland the core of the employment ethics is collective bargaining. Performance-related pay was introduced in Finland as The New Pay System which dates back to 1980s when the modernization reforms began. Result-based reward system was worked out to encourage and motivate employees to do their best in order to be concerned and meet organizational goals. Pay became a tool for management for effective development of the organizations and the employees as well (OECD, 2005).

In the case of Finland every organizational unit was responsible for its personnel management. Here the division of responsibilities is spread also on remuneration policy. The introduction of New Pay System became mandatory for all organizations. All organizations face the challenge to work out their NPS and implement it thoroughly. Gradually every agency became involved in this process. General framework was worked out in central level and only after this each organization developed its own NPS. Agencies and organizations had freedom in developing their job evaluations, appraisals, as well as dealing with expenses. So they developed their system aligned to their budget. As in Denmark, in Finland as well, there is no low regulating NPS. The rules are defined within the framework collective agreements. The system developed by each agency is for a long run but every year it requires to be revised. (OECD, 2005).

There are three main elements of PRP in Finland -pay by demand of the job, pay by performance of individual employee and result-based pay. Usually pay by demand of the job and pay by performance are interlinked and serve as a component of collective agreement. Result based pay is independent as it is not a component of collective agreement.

Finance for the PRP in Finland is allocated both from the budget and from the organizations (OECD, 2005).

Appraisal Criteria

In Finland every organization has its own criteria for measuring individual performance. Usually some 3 to 5 criteria are agreed upon as a result of collective bargaining with the employees. This agreement includes a table where all the possible pays for the performance as a percentage of the base salary are incorporated. Generally the immediate managers or supervisors give their written appraisals about the employees' individual contributions and effectiveness after having discussed them with the employees (OECD, 2005).

Desirable Results

Wages and remuneration in the organizations which implement PRP-NPS are in better shape than those which did not. As a result of PRP the management process became more developed. When feeling that performance is linked to pay people become more enthusiastic towards good management.

In Finland employees of most organizations perceive performance-related pay as incentive. It has also positive effects on trainings of the employees and increased enthusiasm in team working. (OECD, 2005)

Undesirable Results

The very slow character of the process can be mentioned as negative feature of the system in Finland. Collective bargaining and collective agreements are carried out very slowly. As the system was very expensive, it was impossible to implement it properly with modest budget. Difficulties occurred with the staff communicating. The initial period of the implementation was complicated, as there were always people who think that they were being evaluated unfairly and were dissatisfied with the system (OECD, 2005).

Performance-Related Pay: United Kingdom

In UK the civil service distinguished by its two features 1. It was the duty of the departments and agencies to delegate pay, performance and grading within the scope of their department. 2. Performance appraisal was applied to all organizations. Before delegation the pay and grading systems and the working conditions were centrally agreed upon by the Treasury of UK taking into consideration employees' point of view. Prior to 1990 the departments had no independence in delegating pay and grading of the employees. In 1990 when performance-related pay was introduced departments get the power and independence of delegation of pay and grading of employees. The main reason for introducing performance-related pay in UK was to give agencies more independence and control over their pay system and delegation of grading. Another reason was to make pay structure in public sector more competitive with private sector. PRP was introduced also to make sure that money was paid to the employees for their quality, effectiveness and productivity, and to make sure that laziness is penalized. The introduction of PRP ensures the transparency of the pay system and create link between pay and performance (Mwita, 2002).

In UK all categories of staff are under the system of performance-related pay. Usually each agency in UK has the power to modernize and work out its own pay structure and reward system (OECD, 2005).

Appraisal Criteria

In UK the civil servants' appraisals include four main objectives for a year that reflect the priorities of the organization. These objectives must be clearly defined and SMART-specific, measurable, agreed, realistic and time-related. Another aspect that performance appraisals must include are the criteria of how the work must be performed classifying the

abilities, skills and competencies expected from the employees for the effective performance of the job (OECD, 2005).

Desirable Results

The positive effect that PRP has made is the fact that departments and agencies received independence and flexibility in delegation of pay and grading of their employees. Chief executives decide and develop different ways of motivating, rewarding and recruiting their employees. The management process became developed and effective. Most of the employees consider PRP in UK as motivation and as a result employees become more involved in their job (Mwita,2002).

Nevertheless in UK pay is motivator but not the only one. People are more motivated by their intrinsic rewards and by the position that they have than by the amount of money they get as performance-related pay. Maybe this is connected with the fact that in UK the salaries of public sector are rather high as compared with mentioned countries (OECD, 2005).

Undesirable Results

The implementation of PRP in United Kingdom was rather smooth and successful that is why there were not so much undesirable consequences concerning PRP. The only thing worth mentioning was the fact that there were employees who were discontent with the existing system and felt that they were being appraised unfairly during the appraisal process. But it is important to mention that this is the phenomenon that cannot be escaped as this kind of problems occur everywhere and while launching new program this aspect must be considered in advance (OECD, 2005).

Overall some basic principles of PRP must be mentioned concerning foreign experience: proper implementation of appraisal systems, dialogue between employer and

employee, more recruitment possibilities, strong link between pay and performance, independence in delegation of pay and grading, and effective motivations. All these must be kept in mind while implying PRP in Armenia.

Intrinsic or extrinsic reward: Which one is preferable?

“Nothing great was ever achieved without enthusiasm.”

Ralph Waldo Emerson

Throughout this research it became obvious that performance-related pay is closely linked with the concept of motivation. Of course motivation plays huge role in the quality of work and performance of the employees. Motivation can be considered as a cause of the effect of which is good performance or best result in workplace. Motivation can have the form of reward which in each turn can be either extrinsic or intrinsic. First of all let's figure out the meaning of intrinsic and extrinsic rewards.

Extrinsic reward – is “a positive outcome that is obtained by performing work but which is separate from and not inherent to the work task” (A Dictionary of Business and Management, 2006). For instance the monetary pay that employees get in return for their work can be considered extrinsic reward. Another example can be not monetary, for example the recognition of the work, praise or further career development also can be regarded as extrinsic rewards.

Intrinsic reward – is “a positive outcome of performing work that is integral to the work task itself, such as love of or pride in one's work, a sense of challenge or achievement, etc”(A Dictionary of Business and Management, 2006). An obvious example of intrinsic reward can be considered an employee's dedication to his work and sense of doing it with excellence, or the sense of duty which is deeply rooted in the employee's mind or love and responsibility towards his/her work. Intrinsic motivation and intrinsic rewards are mainly

concerned with the satisfaction with the process of the work, not the result of the work.

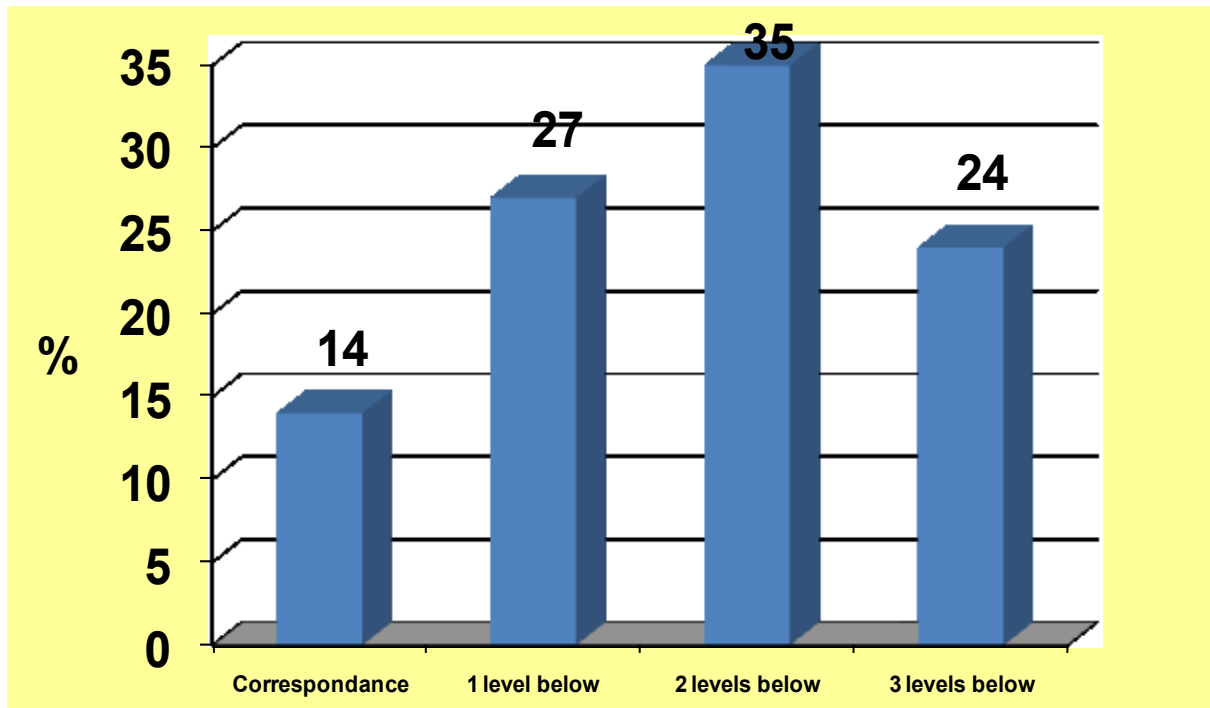
People are mostly successful and creative when they do their work with enthusiasm and love, when the desire to do the work with excellence comes from within and is not linked with some consequence (Beswick, 2007).

Extrinsic rewards can be best described as financial while intrinsic rewards are more of a psychological type.

So having defined the meanings of intrinsic and extrinsic rewards it is time to find out what kind of rewards people value more-intrinsic or extrinsic? For that purpose a survey was conducted where employees were asked some question concerning the type of their desired rewards. At the beginning it became obvious that most of the employees (90%) do not get additional benefits or rewards except for monetary. The monetary reward as it has been mentioned before is a one-time reward equal to a monthly salary. Of course this is a very trifle amount, especially when taking into consideration the fact that a monthly salary of civil servant in Armenia is very insignificant. This phenomenon brings to the fact that employees feel not valuable for their organization. They mechanically do their routine work and get their one-time reward without paying attention to the quality and quantity of their job. They are not awarded for their good or excellent job.

Another side effect of this is the lack of motivation. Low level of salaries and trifle rewards do not motivate employees for better performance. The absence of performance-related pay structure does not give employees the opportunity to be appraised according to their actual performance. This also brings to the lack of motivation and that is why many of the employees having high position classification are doing the work corresponding to the positions one or two levels below.

Table 1.4. Correspondence of Actual Work Done by Civil Servants to Position Passport Requirements



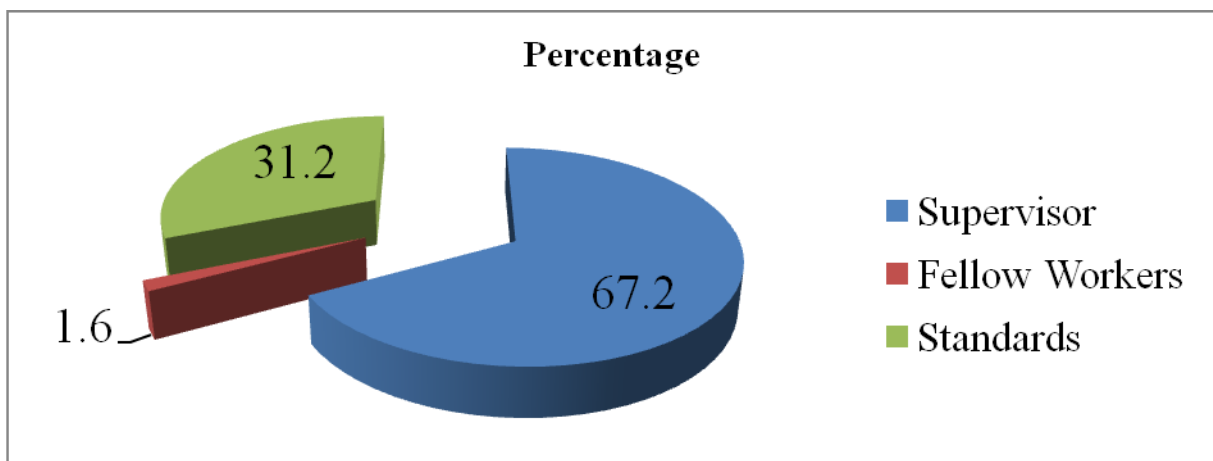
Data source: Estimate from the Ministry of Finance of RA, 2011

The table 1.4 shows that only 14% of the employees do the job corresponding to the duties embedded in their position passports. These are mainly employees belonging to junior group and whose duties are basic and simple. While 27% of the employees do the job corresponding to the position passports one level below, 35% of the employees do the job corresponding to two levels below than their actual position and 24% do the work corresponding to position passports 3 level lower than their actual position. This situation is devastating for Armenia because state pays to the people more than their actual work is worth.

The research revealed that in reality employees want to be appraised according to their actual performance, but lack of proper implementation of appraisal system does not let this happen and that is why employees have nothing to do but to rely on their supervisor's prevision. Majority of the respondents declare that they want their rewards to be decided by their supervisor and not according to some standards. To tell the truth there are no standards

and no proper estimation of job done. That is why employees prefer to be estimated and appraised by their supervisors (see table 1.5). On the other hand this phenomenon may bring to patronage system because sometimes the supervisor's opinion can be biased as well. It is not right to let the whole process be decided by one person.

Table 1.5 Percentage of the employees wishing to be appraised by supervisor, fellow worker or according to some standards.



Data source: Survey Research of the Ministry of Finance of RA, 2011

Side by side with the fact that people prefer extrinsic rewards it is worth to mention another point: employees also want to be greatly motivated for their work. Of course in Armenia and also in other countries employees get motivated by their rewards, be it monetary compensation or praise by the supervisor, career development or vacation, but they also want intrinsic rewards. They want to be dedicated to their work and feel responsible for their job done. Both aspects greatly matter but they cannot substitute each other especially when salaries are low like in case of Armenia.

The Need of Performance-Related Pay in Armenian Civil Service

“Success is the ability to go from one failure to another with no loss of enthusiasm.”

Winston Churchill

The successful examples of performance-related pay system in different countries bring to the thought that there is nothing impossible if there is a desire. Today the situation in Armenian civil service is not promising; there are many gaps which must be filled as soon as possible in order to bring some success and attractiveness to Armenian civil service.

Nowadays especially when private sector becomes more and more attractive for the employees with its high wages and competitive package of benefits and rewards there is a great need to do everything to make public sector especially civil service more desirable for the employees. During the interviews people were very much aware about the fact that their professions in private sector are well paid and that the employees in private sector benefit from their jobs much more than they do. In public sector what people have are the titles of their positions, nothing more.

From the analysis in the preceding chapter it became obvious that employees prefer extrinsic rewards because of the low salaries, absence of fringe benefits and privileges. Civil servants need some attention towards the job they do and the effort they make in their workplace. This is the reason why while speaking about the amount of reward that the employees would like to receive most of the respondents (23%) chose the highest amount of money without even thinking whether they deserve it or not. No one answered according to my performance, or according to the work done. One of the reasons of this phenomenon is the low level of salaries that makes them want more. The other reason is the human nature- man always wants more. Another aspect that I would like to add is the absence of proper appraisal system and performance-related pay system. Today people otherwise get their

rewards without even thinking that these rewards can be reduced or increased. If there was a proper appraisal system and what is more important proper implementation of this appraisal system I think that the results of the interview would have been different. When people realize that they get according to the quality and quantity of their work they would prefer to do their work with excellence in order to get more and be promoted.

It can be concluded that there is a huge need to imply performance-related pay in Armenian civil service. The essential thing is that the proper implementation cannot be immediate; the process is incremental. Some from five to ten years are needed to integrate both the system into the reality and the reality into the system. Performance-related structure will change employees' mentality and approach towards their work and achievements, it also will raise peoples' confidence in what they are doing and motivation at the same time helping the supervisors to define hard-working and perspective employees from lazy ones and free-riders.

Performance-related pay system also can contribute in bringing order to the civil service remuneration meaning that nobody will be underpaid or overpaid. As it has already been mentioned there are employees whose actual performance do not correspond to the duties embedded in their position passport, while corresponding to the positions lower than their present ones. So they are being overpaid, by the same token there can be employees doing the job which can correspond to the positions higher than theirs.

So taking into consideration the success of international experience and keeping in mind some five to ten years for proper implementation and integration I think that it will be possible to imply performance-related pay system in Armenian civil service and improve the quality and approach towards civil service.

Performance-Related Pay as Motivation. Myth or Reality?

“Enthusiasm is that secret and harmonious spirit which hovers over the production of genius.”

Isaac Disraeli

When analyzing extrinsic and intrinsic rewards it was revealed that nowadays people mostly prefer extrinsic rewards, although it is important to mention that many scholars think that there is an inner link between these two concepts. Extrinsic rewards are closely interlinked with intrinsic motivation causing employees to be motivated towards the quality of their work.

First of all let's begin with the historical facts that show divergent results concerning extrinsic rewards and intrinsic motivation. The analysis done in 1970s showed that there was a link between extrinsic rewards and intrinsic motivation in the form that material rewards increase motivation. Nevertheless the research done a little bit later presented the results opposing the ones arrived in 1790s, marking that extrinsic rewards had negative and disadvantageous effect on motivation. Later one variable came into the scene –unexpected reward. It was found out that unexpected extrinsic rewards did not have detrimental effect on motivation like expected ones (Lepper et al , 1999). For instance in school when students know that they will have some extrinsic rewards as a result of their well doing they try to do their best, but if they know that they won't have anything tangible, they will have no interest in learning. In this case the impact of extrinsic reward is negative, but if the reward is unexpected for otherwise well done study the impact will be positive.

Another interesting finding was revealed which demonstrates that performance-related pay serves as motivation more when it is introduced in group work but not in the context of individual efforts. In this case it is easier for the employees to contribute in a group project and to achieve positive outcome than to work hard individually. But in this case a free-rider problem occurs. Overall at the end the pay for performance is divided amongst the

participants equally regardless of their contribution. This situation can be perceived as unfair and discouraging and may seem de-motivating for the hard-working employees (Marsden, 2004).

Moreover the analysis done by McNabb and Whitfield indicates that there is a positive relationship between performance-related pay and motivation, though the difference lies in the group and individual perception. The relationship is stronger when the situation is considered in a group format (McNabb and Whitfield, 2003).

The concept of motivation can be approached from different angle; the abilities can be present in the employees but the proper conditions and circumstances which will motivate them for better performance may be absent. In this case we can think that what can be better trigger for motivation than pay and compensation for the good job done. But it turns out that money does not always work in this world! People prefer prestige and appraisal to monetary compensation. They prefer career development and advancement, friendly environment and recognition, security and solidarity to the money. Performance-related pay in isolation does not play a role of motivation (UNDP, 2006).

Another reason why employees are not motivated by the performance-related pay system is that employees' rewards are determined according to their appraisals. To some employees these appraisal systems do not seem very objective, and they consider them not proper and not impartial. Also most of the employees consider the amount of money paid as a performance-related pay is not sufficient enough to motivate them. That is why performance-related pay is estimated as an expensive program. A lot of money is needed to meaningfully cover the pays allocated for the whole staff. There is also a stereotype that the work done is worth much more than is allocated for it and that small amount is not motivating to do the utmost (Marsden and Richardson, 1992).

In many countries the launching of performance-related pay is related to the raising motivation and bringing incentives for better performance. Nonetheless, for instance, in Britain it was revealed that performance-related pay does not play a role of a motivator, although preserving high success of the program. The success in Britain is mainly connected with the negotiation and bargaining process with the employees, which was one of the main features of the performance-related pay system. However it cannot be estimated that the only motivator is bargaining process or that PRP is not a motivator at all. Some employees are otherwise motivate with the PRP system when they feel that everything is done fairly and objectively and some are motivated with the negotiation process when they feel that their role and opinion is being taken into account (Mwita, 2002).

As a whole, performance-related pay with all its aspects plays a role of motivation as a tool of being promoted.

In case of Armenia employees are eager to have financial pay as a motivation because, as it has been mentioned in preceding chapters, their salaries are very low as compared with other countries where the salaries in public sector are comparatively very high, and that is why in foreign countries the pay for performance does not serve as a motivation. The amount of money which is embedded in the performance-related pay is very low as compared with the salaries, it does not comprise the amount which will motivate or will be the only motivation for better performance. But in the case of Armenia, as the salaries are low and besides there is an absence of fringe benefits and other reimbursement this scheme may work. Except for promotion and prestige employees in Armenian civil service do need some monetary reward to assure their proper living conditions.

As it has been revealed in this paper extrinsic rewards are sufficient condition for intrinsic motivation. That is why I tend to think that performance-related pay may work as a motivator in Armenian civil service, at least at the starting point.

Conclusion

Keeping in mind the successful examples of foreign countries and taking into consideration Armenian reality I have some recommendations which will ease the implementation of PRP in Armenian civil service. But before proceeding to recommendations I would like to stress that even if all the recommendations are done and the system is launched nobody can be 100% confident in a success of a new pay system, especially when most experiences of PRP are from much richer countries and there is possibility that their mechanical applications may not work. Besides time and patience is needed. Only after some period of time and practice the results can be estimated.

All we can do is to take into consideration the failures and success of performance-related pay systems in foreign countries and try to best integrate this system into Armenian reality. There is a huge literature which will help to find answers to all problems which will meet us in the way of implementation. I think that the mistakes of foreign countries will be of great importance for Armenia not to repeat them. Hopefully this paper has managed to give exhaustive answers to all research questions and will be of some help in future when initiating the introduction of performance-related pay in civil service.

Limitations

The main limitation to this study is the fact that the sample is non- representative, hence the results should not be generalized. Another aspect that can be mentioned is that for more thorough study the number of measures can be increased.

Recommendations

1. To become somehow decentralized and give each organization the independence to decide their pay system.
2. To set clear objectives both for the organization and for the employees, which will be result-oriented.
3. To engage the employees in the process of bargaining, the result of which will be the arranged pay system.
4. To give adequate and meaningful rewards valuable for the employees.
5. To arrange trainings for the managers, so that they will be able to make impartial, fair and objective decisions.
6. To increase the base salaries and rewards of the employees
7. To carry out informed and exhaustive performance appraisals, which will help managers to estimate actual performance of the employees and accordingly decide the rewards. They must be both oral and written in order to reduce the risk of patronage system.
8. To create incentives to energize the employees. Incentives must not always be in a form of money, they can be in a form of interesting work, friendly and supportive environment, inclusion in a process of collaboration or non-material benefits.

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