

# **PERFORMANCE MANAGEMENT AND HR STRATEGIES: THE PUBLIC SECTOR IN MALAYSIA**

**Loo-See Beh**

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## **Abstract**

Performance-management reforms in Malaysia have resulted in improving efficiency at the bureaucratic and public service delivery systems. Within many policies and frameworks, numerous standards of practice have been introduced since 1970s until the recent Public Service New Scheme in 2012. Numerous attempts have been made by the government in its continual effort to refine the strategies in enhancing public administration in the country. This paper details the various policy standards and administrative devices in transforming better performance among public servants with the various schemes and changes including the challenges involved in implementations. This paper also highlights the results of a recent survey among public administrators on their performance management scheme and their views on the HRM strategies in their agencies.

**Key words:** performance management, public sector, Malaysia

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## **Introduction**

Woodrow Wilson argued that civil service reform should be concerned with both improving personnel systems as well as the performance of the organization as a whole. Recent efforts to improve government performance in making the organizations and the public employees more accountable to the public for results embody these tenets of Wilson's arguments. The conventional wisdom was that stability contributes to public administration performance, "change", "development", and "reforms" seem necessary to keep bureaucracy effective (Osborne and Plastrik 1997; O'Toole and Meier, 2003). Numerous attempts have been made by the government in its continual effort to refine the strategies in enhancing public administration in the country. This paper details the various policy standards and administrative devices in

transforming better performance among public servants with the various schemes and changes including challenges involved in implementations.

The interest in reforming public sector human resource management has been associated with politicians and management reformers seeking to implement aspects of new public management (NPM) and public choice theory. In an effort to enhance efficiency, public management reformers have advocated decentralizing and deregulating decision making in public HRM (Battaglio Jr & Condrey, 2006; 2009). Performance management reforms in Malaysia have resulted in improving efficiency at the bureaucratic and public service delivery systems. Civil service systems have employed market-like mechanisms (e.g. pay-for-performance and outsourcing) to facilitate efficiency in the public sector (Kellough and Nigro, 2006). This paper also highlights the results of a recent survey among public administrators on their performance management scheme and their views on the HRM strategies in their agencies.

## **1. Reforms and Performance of Civil Servants**

The Malaysian civil service formed the largest employment with 1.4 million including the strategic military, navy and police officers. The number of public servants at federal level stands at 1.03 million whilst there are 181,287 at state level and 173, 459 at statutory bodies. Malaysia's civil service is much influenced by its colonial past of the British. The main central agency in the Malaysian civil service is the Public Service Department (PSD). Reforms in the Malaysian civil service were largely initiated during the 1980s with "The Look East Policy" introduced in 1982 to emulate work ethics from Japan and South Korea. "Malaysia Incorporated" was implemented a year later which saw a closer cooperation between the public and private sectors where the public sector provide the infrastructure and environment for Malaysian businesses resulting in the setup of Malaysian Business Council (MBC) and the Malaysia Incorporated Officials Committee (MIOC). The MBC is the highest forum platform for consultation of both the public and private sectors. The implementation of the Malaysian Incorporated strategy was associated with two major policies for public sector reform: privatization and total quality management.

All appointments in the civil service are made in accordance with the required qualifications in the specific scheme of service already determined by the PSD. The introduction of the New Remuneration Scheme (NRS) saw 574 schemes of service reorganized and reduced

to only 274 schemes and 19 classifications based on similar roles and functions. The NRS was the first performance-based reward system introduced with an entirely new salary structure, known as the Matrix Salary Schedule for all sectors of the public service except for those in the premier grade posts (JUSA). This is different from the previous fixed one-line salary structure where the movement of salary was fixed according to seniority. Currently, the NRS allows for salary movement to be either in the form of static, horizontal, vertical, or diagonal movements which is linked directly to the individual based performance appraisal which comes under the New Performance Appraisal System. A civil servant whose performance appraisal found to be not satisfactory will not receive any increment (static) while those whose performance is satisfactory will be given horizontal pay progression (one step increment). Vertical pay progression (two-step pay increment) and diagonal pay progression (equivalent to three-step increment) are given to those who excel above average of their annual performance appraisal. These two types are restricted to about 2 – 3 % of the population of the agency. The impact of NRS has been significant as the overall improvement in the civil service performance was experienced across the board. Nevertheless, there were much dissatisfaction in its implementation in terms of biasness and subjectivity in evaluation, lack of consistency among various agencies and sectors, and inadequate knowledge and skills of raters in rating their subordinates. In spite of these shortcomings, another pay-for performance plan was introduced in November 2002, known as the Malaysian Remuneration Scheme (MRS).

The MRS retains the elements of the Matrix Salary Schedule but now reduced to only two tiers as compared to three previously. In addition, the competency assessment component was introduced with knowledge and skills enhanced in the evaluation. This means that a civil servant would have to pass the competency assessment even though he/she excels in the annual performance appraisal before one entitles for the vertical or diagonal salary progression.

The New Public Service Scheme which was supposed to be introduced in 2012 was scrapped due to too much of increment proposed for the higher positions compared to the lower ranks. Thus the MRS stays with a further increment of 8 – 13% given to various positions and ranks in the civil service in 2012.

## **2. Pay-for-performance and HRM Strategies**

The powerful role that financial incentives can play in influencing behavior has been widely acknowledged. Traditional pay systems such as in the old remuneration scheme may experience the following problems: pay becomes an entitlement, benefits are given for tenure, base pay is a function of levels and not performance, merit increases do not differentiate performance sufficiently and even bonuses become an entitlement. Recent research has examined a variety of ways in which pay-for-performance (PFP) impact individuals, groups, and organizations (Stajkovic and Luthans, 2001).

Motivation theories such as expectancy theory of Vroom 1964 and goal setting theory (Chun & Rainey, 2005) where goals that are clearly specified and accepted by employees can improve their performance have demonstrated much appeal and enjoy considerable empirical support. Performance improves in approximately two out of three programs. There has been a growing interest in group pay-for-performance systems and the conditions under which they are most effective (Gomez-Mejia, Welbourne, & Wiseman, 2000).

Success or failure in performance management depends on organizational philosophies and the attitudes and skills of those responsible for its implementation and administration, together with the acceptance, commitment and ownership of appraisers and appraisees. The HRM strategies in this paper are employee empowerment (EE) and in-role behavior (IRB) which are expected to be aligned where pay-for-performance are achieved. The strong link between performance pay and EE and IRB is presumed to produce a greater incentive to work hard and achieve greater rewards. Proponents of reform assume that pay-for-performance will increase productivity, accountability, responsiveness, and so on among civil servants though some limitations occur. When an employee feels empowered, it is expected to have a direct and positive impact on the IRB. This article aims to contribute to the literature by studying the link between pay-for-performance and employee empowerment and in-role behavior among civil servants in Malaysia.

### **3. Methodology and Measurement**

Six federal agencies were selected where the head of the agency identified a contact person which is a senior person in the HR division of the agency. Paper-pencil survey was used in which

242 government employees were approached and 205 responded representing a response rate of approximately 85 per cent.

The respondents' in-role behavior (IRB) was measured using Williams and Anderson (1991). The four items were measured on a scale ranging from 1 (never) to 5 (always). Reliability (Cronbach's alpha) of this scale was 0.86. The pay-for-performance scale was measured with three items with a reliability scale of 0.88. In addition, the employees' empowerment was measured using the scale by Spreitzer (1995) of 8 items, with a reliability of 0.83.

#### 4. Findings and Discussion

Table 1 summarizes the demographic profile of respondents with the variables gender, age, education, income, type of employment, length of service in the particular agency and in civil service, and the percentage of those civil servants holding supervisory positions.

**Tab. 1: Demographic profile of respondents**

Variable	Categories	Response Percent
		(N =205 )
Gender	Male	53.7%
	Female	46.3%
Age	Under 35	52.7%
	35-44	33.7%
	45-54	12.2%
	over 54	1.5%
Education	high school	12.2%
	vocational education	4.9%
	university degree	82.9%
Annual income (in the country's currency)	\$30,000 and below	29.3%
	\$30,001 - \$50,000	41.0%
	\$50,001 - \$70,000	16.6%
	\$70,001 - \$90,000	8.8%
	\$90,001 - \$110,000	3.4%
	\$110,001 - \$130,000	0.5%

	Over \$150,000	0.5%
Employment	Permanent	87.3%
	Fixed term contract	12.7%
Supervisor/manager		63.0%
Average length of service	-agency	7.4%
	-federal/government	9.6%

**Tab. 2: T-test**

Item	Mean (SD)
Pay-for-performance (PFP)	5.19 (1.65)
Employee empowerment	5.45 (0.76)
IRB	4.25 (0.57)

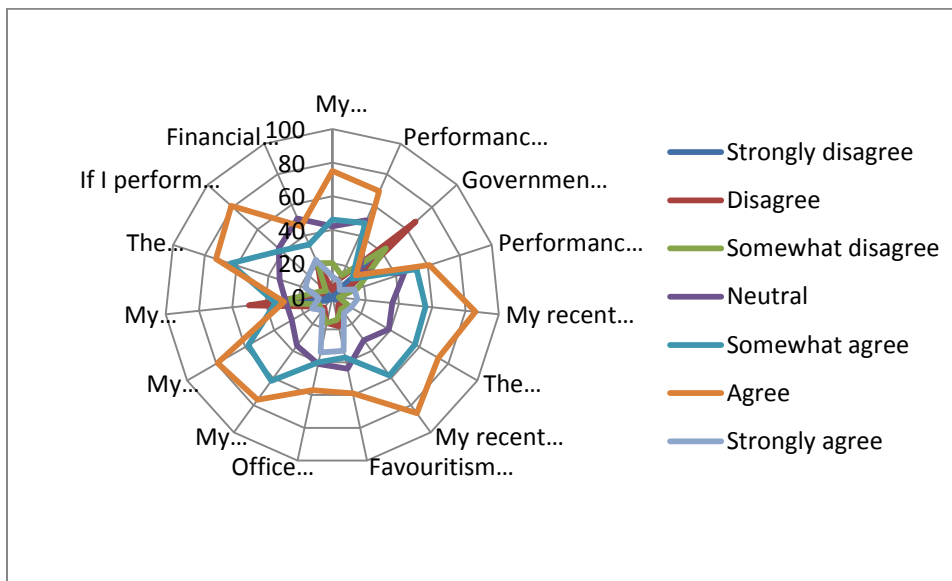
Table 2 shows that the respondents experienced pay-for-performance, employee empowerment and in-role behavior (IRB) in their work. A big majority receive a higher pay than the base pay for higher than satisfactory performance. Further training and development needs are identified for the employees who do not perform that well. Table 3 shows that their perceptions of the performance management system that they are experiencing and majority have received more than their base salary with exceptional performance. It was also found that the employees engaged in formal and prescribed activities (IRB) where favorable perceptions of pay-for-performance were found to be positively related to employee empowerment. The correlation was found to be significant at 0.46 (p-level at 0.01) for employee empowerment and pay-for-performance.

**Tab. 3: Respondents perceptions on their performance management system**

What are the outcomes of performance management in your organisation? (You can tick more than one box)	
	Response Percent
We receive a higher pay than the base pay for higher than satisfactory performance.	97.6%
We receive a certificate of appreciation/excellence for higher than satisfactory performance with cash payment.	68.8%
We receive a certificate of appreciation/excellence for higher than satisfactory performance without cash payment.	43.4%
We receive other non-monetary rewards for higher than	6.8%

satisfactory performance. Please specify in the comment box provided.	
For less than satisfactory performance, we identify our further training and development needs.	39.0%
We identify our further training and development needs for future promotion application.	40.0%
Other personal benefits. Please specify in the comment box provided.	2.0%
No personal benefits whatsoever.	7.8%
Negative effects. Please specify in the comment box provided.	0.0%

**Fig. 1: Radar of Organization's Performance Management**



My agency's performance management system is a good way to motivate employees to higher performance.  
 Performance management is really a way of getting more work out of government employees without having to provide any real extra benefits.  
 Government employees do not need performance management systems to raise their performance level.  
 Performance management in my work unit are conducted fairly.  
 My recent performance assessment/review accurately reflected my job performance.  
 The standards used to evaluate my job performance have been fair.  
 My recent performance review took into account the most important parts of my job.  
 Favoritism is a problem in my organization's performance management system.  
 Office politics influence performance ratings in my organization more than actual performance on the job.  
 My supervisor is able to accurately determine different levels of employee performance.  
 My supervisor's evaluation provides feedback that often helps me improve my job performance.  
 My supervisor really doesn't know enough about what I am doing to evaluate my performance accurately.  
 The discussions I have with my supervisor during performance review help me improve my performance.  
 If I perform well, my chances of moving up are improved.  
 Financial rewards in my organization are not really related to employee performance.

Figure 1 above demonstrates interesting aspects of how the perceptions of the employees towards the performance management system. The radar gives a better picture of the degree of continuum of agreement versus those who disagree on the continuum of disagreement. It shows that those who agree with the performance management are greater than those who disagree.

The implications of this study suggest the importance of pay-for-performance and employee empowerment but the IRB was not significantly affected by the positive perceptions of the PFP schemes. Despite the positive views of the respondents, the scheme even though capable of distinguishing employees who perform and those who do not, which offer monetary rewards to those who are motivational to perform but it still lack the desirable effect on their behavior (in-role behavior) in contrast to being able to effectively impact upon empowerment strategy. Empowerment serves as an important tool in public service as public servants feel the power and self-efficacy to act in their job (Forrester, 2000).

## **Conclusion**

Performance management scheme arguably benefit both organizations and employees which can provide feedback for HR planning and remuneration schemes, career training and development programs and retention of good personnel. There has been an enormous research conducted on performance management, making it one of the most praised and debated HRM practices. No doubt the potential of performance management and pay-for-performance contribute to the motivation of individual employees and groups in their ongoing pursuit of competitive goals and it serves as a tool and evidence for success or otherwise especially among public servants.

The current study focused on two features of the PFP scheme in the public sector in Malaysia. Naturally there are other important characteristics that could affect employees' performance (Bowman, 2010). For instance, every pay performance that is envisaged has to be considered, in part, in terms of whether it is fair or unfair. The HR manager or leader or supervisor in the public agency must be sensitive to the fairness of the proposed pay performance because, if mistakes are made in this respect, employees do get illusion, enter a grievance mode of action or leave the organization which could undermine productivity and would risk bringing negative publicity, common to public service agencies.

An important question to address is what type of high-performance HR strategies are most effective and more in-depth studies to uncover how to implement HR practices and the impact they may have on organizational performance. The downside is that we are less than well informed on any new developments in detail in selection and recruitment practices in the civil service, rewards, performance management, employee empowerment and involvement and so forth.

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## Contact

Associate Professor Dr. Loo-See Beh

Faculty of Economics & Administration

University of Malaya, Kuala Lumpur, Malaysia.

lucybeh@gmail.com