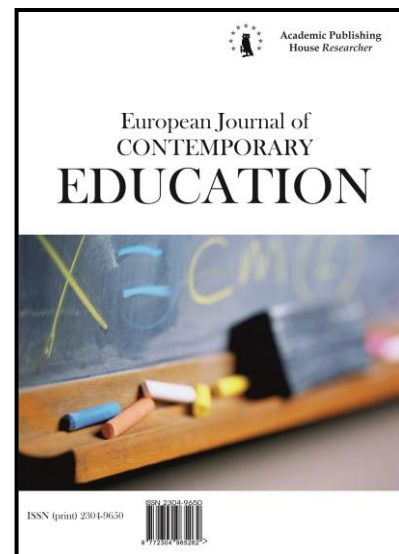




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## Implementing New Performance Pay-Based Schemes in Higher Educational Institutions

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### Abstract

The paper presents a review of the study and practice pertaining to the effectiveness of performance-related pay with a particular emphasis on higher educational organizations. The overall research question guiding the review was to establish the extent to which performance pay-based practices have been successful undergoing great changes in management practice, and in particular, whether the implementation of new performance-related pay schemes is likely to be effective in higher educational institutions. It proves to be evident that the urgency and severity of the issues to increase the efficiency of the entire institution performance, its competitiveness and quality of products or services provided is straightforwardly related to the level of staff satisfaction, engagement, efforts, initiatives and commitments. The core objectives of the modern PRP schemes are to motivate, stimulate personnel by encouraging them work on results, implementing a strategy of organization growth and development, providing tangible rewards at the expense of incremental improvements of performance and transparency of appraisal systems. The research findings are based on the analysis of the contemporary methods of the performance measurement, which prove to improve the effectiveness of the whole organization focusing primarily on the requirements and needs of all stakeholders. Overtly, linking pay to performance is proven to increase workers' motivation, effort and loyalty to the company, covertly, it can generate psychological stress and perverse effects.

**Keywords:** performance-related pay, educational institutions, staff performance, measurement criteria, increase efficiency, ranking, tangible rewards.

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## 1. Introduction

In the employment relationship management pay plays an utmost role as it is of equal interest to the employer, employee and government. From the employer's point, as it represents a significant part of his costs, it is increasingly important to staff performance and to competitiveness, and affects his ability to recruit and retain labour force of high quality. For the employee pay is fundamental to his standard of living and welfare and is a measure of the value of his services or performance. Referring to the government, it affects aspects of macro-economic stability such as employment, inflation, purchasing power and socio-economic development wholly. Employers being mostly concerned about labour costs rather than wage rates per individual, follow the tendency of increasing and implementing a mix of fringe benefits having an important impact on pay levels.

Pay determination has a range of objectives classified broadly under four core headings which are quite controversial. The first is the concept of equity, which is directly related to pay differentials based on divergent skills and contribution, diverse commitment levels. The second is efficiency, which is closely interrelated to equity. Efficiency objectives are reflected in measurement schemes linking wages to productivity and profit, individual or group performance, skills acquisition and application, work commitment and engagement. The third objective is achievement of high macro-economic stability as it is of utmost importance to ensure high employment level and low inflation to avoid adverse impact on social morale. So, the fourth objective is efficient allocation of labour force in the labour market for preventing the increased flow of human capital to areas with higher wages, therefore, causing tough competitions, as well as creating labour deficit in less developed industrial areas. The misbalance in pay schemes can provoke increased employee turnover or *brain drain* which may lead to long-term instability both in micro and macro-economic environments.

The essence and practice of employee reward encompasses how people are rewarded in accordance with their value to an organization. It refers to both tangible and intangible (financial/nonfinancial) rewards based on diverse strategies, policies and schemes developed and implemented by companies. According to Frederick Herzberg (1968) 'Insufficient monetary reward cannot be compensated by good human relations'. Moreover, the straightforward technique to attract, retain and motivate highly qualified competent people is to execute multifaceted reward patterns. In return for their job commitment and contribution, employees expect first financial rewards, such as decent level of salary, fringe benefits, bonuses, one-time awards, profit-sharing and share options. Secondly, they look for other encouraging rewards and privileges, like management recognition of individual competence, achievement, responsibility, influence and personal development. In case of wrong implementation of employee reward strategies, organizations can face noticeable long-term side effects on the level of motivation, commitment, efficiency and, thus, personnel morale.

## 2. Materials and Methods

Systematic Literature review and documentary analysis

The importance of pay underwent further reformation since 1980s being named initially as performance pay-based (PRP) system and reflecting the aim to move away from service-related pay and collective bargaining models to skills-based ones linking pay directly to employees' contribution in terms of input and output, which is rather popular as *merit pay*. The continuous reforms in managing public services during the last decades is realized through 'importation of market-type practices aiming at improving the quality of performance, creating new forms of relationship between public and private sector organizations, and new types of regulation and accountability' (Mwita, 2002).

Based on some documentary analyses and empirical studies of PRP it should be noted that after its first wide-scale introduction in the UK at the end of the 20<sup>th</sup> century many companies had great hopes that it would bring about cultural changes and encourage both organization and staff to perform better and more effectively (Kessler & Purcell, 1992).

Yet some researchers from the Institute of Employment Studies (Suff et al., 2007) detailed that at that time PRP schemes were strongly criticized by reward specialists, in-company psychologists and academics. It was advantageously considered as an effective motivational tool providing a direct incentive and being a tangible means of identifying employee's achievements and

helping to preserve key staff. On its disadvantage, PRP was criticized for being discriminatory and demotivating the majority of employees at the expense of a few high-achievers, thus weakening the very notion of fair pay and equality.

Just a decade later in 1990s it became obvious that PRP could not meet expectations of all stakeholders. As Armstrong (1999) states: 'In the post-entrepreneurial 1990s there has been a backlash against performance-related pay'. First-generation schemes introduced in 1980s failed to deliver the expected results and could not prove any connections between merit pay, performance and productivity. But even with undermined efficiency and increasing problems in implementation PRP was still being applied.

Far ahead IPRP model was in advancement and was defined as a pay progression system where an individual receives a financial reward based on his performance. As Lawson (2000) diversifies IPRP involved individual performance criteria linked to the actual performance of an individual judged or assessed against the established performance criteria, the level of employee commitment and reward received, and the established connection by the management system between the performance of the individual and the performance of the organization.

Further methodical review exposed that PRP has constantly preserved its dominating position in some sectors being the key reward tool encompassing elements both of merit-based and purely performance-related remuneration; whereas in the public sector PRP schemes appeared with some delay.

Henceforward, performance related pay being rather commonplace in the private sector, is relatively uncommon in the educational sphere. The academic labour market has always been strongly regulated by collective arrangements and widely supported by institution managements as they seek to recruit and retain highly qualified workforce. Academic work is completely profession-based and unique, as it is highly autonomous, yet collegial.

Nonetheless, the nature and environment of Russian educational system have undergone substantial changes and developments over the last decade. The whole reconfiguration is dictated by increasing percentage of student exchange programmes, universities reliance on full fee-paying international education, therefore strongly committed to meet the requirements of global educational standards. Though labour skills have been reflected in pay differentials, pay systems have still been insufficient to encourage skills acquisition and application. Whereas highly industrialized countries have built their competitive advantage by sustainable improvement of technology, productivity and quality, consequently, assuring high earnings and standards of living.

Traditionally wages and payment systems have been under government regulations determining minimum salaries based on negotiations with unions, decisions of labour courts, and employment contract. Pay increases have been affected rather by total profit than individual or collective performance, job assessment, seniority, cost of living, manpower shortage or abundance, the negotiating power of unions.

Generally accepted pay systems for junior staff have mostly demonstrated standardized character within state-owned sectors and private enterprises. National markets being protected from foreign competition were less concerned about such issues as performance, recruitment or good staff retention. Indeed, standardization benefitted both employees who considered it being equitable in terms of payment and employers who faced reduced competition on labour costs. The traditional labour market has changed its features since economies gradually entered the world trade opening up to foreign investment, cooperation and competition. The advantage of being a global player forces the local employers to compete with sophisticated technology, a much higher level of providing goods and services. Enterprises moving towards decentralization and seeking to progress and compete in the global market are necessitated to develop competitive advantages, which are affected by costs and quality. Therefore traditional pay systems were not sufficient to provide incentive to acquire skills and target global standards facilitated by correct investment in education and training. In these circumstances pay systems are management practices of enterprise level objectives and strategies, with more attention being paid to how they fit into the overall human resource management policies of enterprises (Sriyan, 2016).

### **3. Findings**

Referring to current scientific research in the field of performance appraisal policies it is worth mentioning the term the *Performance Prism* suggested by Cranfield University. Further we

would base our research on the philosophy and exclusive approach of the Performance Prism implemented for measuring employee commitment and contribution. The Performance Prism is an innovative performance measurement and Performance Management framework of the second generation and its advantage over other frameworks is that it covers all stakeholders of an organization (12 manage, 2017).

In case of tertiary educational institutions principally the stakeholders are the government, education regulators, employers, students, sponsors and employees. The reciprocal relationship with each stakeholder is perceived by considering and meeting their unique requirements and needs. 'The Performance Prism is based on the belief that those organizations aspiring to be successful in the long term within today's business environment, have an exceptionally clear picture of who their key stakeholders are what they want'. In essence the Performance Prism has five distinct but logically interlinked perspectives, i.e. five facets – stakeholder satisfaction, stakeholder contribution, strategies, processes and capabilities. By defining all these components clearly and carefully an organization creates a clear business model and an explicit understanding of what constitutes and drives good performance.

According to Performance Prism vision organizations should start performance measurement with stakeholders, rather than with strategy, in other words, measures should be driven from stakeholders' needs. This notion completely contradicts the well-accepted concept of 'driving measures form strategy'.

Hereafter, we would cover the analysis of measurement design by answering the key five questions based on PRUE personnel performance appraisal strategy.

1. Stakeholder satisfaction: who are the key stakeholders and what do they want and need?

In public higher educational field key stakeholders are considered the government, education regulators, employers, learners, sponsors and employees. Dating from historical periods the states with strong army and high knowledge management policy, scientific advancement and development are regarded as the most progressive and welfare nations. Currently, to comply with global educational standards and demands education regulators control the whole teaching and learning process by reforming and regulating those principles. Learners and their sponsors, in case of tertiary education, parents or supporters, want and need to acquire skills and qualifications which would be compatible in today's global employment market. Consequently, the employers set performance objectives to meet the requirements of all above mentioned core stakeholders. Employees, referred as the cornerstones of any organization, are to realize the demands of all the others by ongoing improvement and enrichment of their professionalism and work effectiveness (Atkinson et al., 2004).

2. Strategies: what strategies does the organization have to implement to meet the requirements of its key stakeholders?

In this situation the organization pursues strategies encompassing performance measurement, gradual enhancement of employee commitment and development to ensure that value is delivered to other interested sides.

3. Processes: what critical processes are required to execute these strategies?

Execution of performance related pay scheme starts with the procedure of regulations in higher educational sphere, government policy changes in global economy and world affairs, thus dictating both radical and incremental changes in tertiary education.

4. Capabilities: what capabilities are necessary to operate and enhance these processes?

Coming to capabilities and competencies, which are required to manage and evolve these processes, they are based on developing human capital and improving knowledge management. Here, the best solution is hidden in setting clear objectives for every level of academic staff and promoting the new performance-based pay scheme.

5. Stakeholder contribution: what contributions are demanded from stakeholders to develop and maintain these capabilities?

Definitely, the utmost important roles do play the government and ministry of education with forthcoming regulations, reforms, financial support and widening international network in academic sphere. Secondly, the employer should develop and implement effective knowledge management strategies to achieve its targets. Finally, the personnel need to cooperate and communicate efficiently in all directions leading to self-development, academic proficiency and self-realization (Midova et al., 2016).

Hitherto some theorists believe that ‘money can act as a goal in itself and can be valued by employees as a symbol of external status and internal recognition’, while others argue that people, in case teachers, can gain the greatest satisfaction from work factors such as responsibility, achievement and recognition (Suff et al., 2007).

**4. Discussion**

**The pay scheme changes – PRUE case**

We now pay workers not for output produced, nor even for labour input provided, but simple for time spent on the job (Rappaport, 1999). This quote directly illustrates the payment system accepted in the educational institutions, likewise in PRUE (Plekhanov Russian University of Economics), where payment of faculty encompasses fixed pay for lecture hours delivered and academic research completed covering a range of performance criteria.

In the late 2000s educational sphere as well experienced some shrinks in allocation of government funding in universities, tough competitiveness in a crowded global marketplace and inevitable organizational changes that aligned university performance closely with the interests of private sector practices. To achieve the targets not surprisingly educational institutions have introduced a range of routes leading to success, such as performance appraisal systems, commercialization of research and education, merger and takeover bids. An insight into performance-related systems reveals an evident link between staff performance measurement and organizational objectives realization as these two factors are strongly correlated and interconnected, i.e. the inefficient commitment of staff causes a significant decrease in company performance, workforce motivation and self-esteem.

Performance-related pay was not common for Russian education sphere previously, though recently a number of universities and schools have shown interest in implementing more individualized pay arrangements. It is unsurprising that the management of PREU has shown interest in implementing more individualized pay arrangements by introducing newfangled PRP. Staff appraisal scheme called *Effective Contract* was first announced for academic year 2015-2016. The scheme is called **Academic Staff Rating (ASR)** including a central plank, the new possibility of personnel being able to win a reward or bonus equal to X per cent of their current substantive salary. High achievers would be rewarded for accomplishing a number of performance measures, and funds would be sufficient for nearly 30 percent of the permanent staff (*Top 300* people amongst 1151 employed in Moscow branch of PRUE).

**Table 1.** Presents Key Performance Criteria

<b>Teaching performance</b>	<ul style="list-style-type: none"> <li>▪ Rewards in professional contests (local and overseas)</li> <li>▪ Lecturing courses in English</li> <li>▪ Delivery of lectures overseas</li> <li>▪ Publications in foreign journals (articles, monographs, textbooks)</li> <li>▪ Development of online courses, e-learning materials</li> <li>▪ Coursebooks published by leading Russian publishing houses</li> <li>▪ Learner feedback</li> </ul>	40 %
<b>Research performance</b>	<ul style="list-style-type: none"> <li>▪ Publications cited in HAC (RSCI), Scopus, Web of Science, etc.</li> <li>▪ 99 h-index</li> <li>▪ Patent / Invention registration / License</li> <li>▪ Local / International research work</li> <li>▪ Supervision of post-graduate studies for degrees (PhD, Doctor)</li> </ul>	45 %
<b>Social event participation</b>	<ul style="list-style-type: none"> <li>▪ Mass media publications</li> <li>▪ Social events and projects</li> </ul>	15 %

Though the above illustrated list is not complete and is still under discussion and consideration of faculties, it is noticeable that the significant proportion of efficiency measurement is allocated to research work carried on either individually or in groups with the implementation of modern teaching approaches and technological advances.

Whether the assessment criteria would lead to success or not we can understand after analyzing the progress of university research performance, in particular on the platform of elibrary.ru, which is a scientific electronic database providing a huge space for researchers, educational institutions and publications to combine their academic and scientific interests, upload and download research works, thus share professional interests and points.

In this globalized electronic database of science PRUE has its honorable position with just 6743 registered authors, 80309 published articles and research works with the total number of 225156 citations in elibrary, with overall 67250 works with 184054 citations in RSCI (date views 06.09.2017) recording 99 h-index [elibrary.ru, 2017].

**Table 2.** Illustrates changes in the number of publications for two previous years –Annual Index 2014-2016

Index nomination	2014	2015	2016
Total number of publications in elibrary	8850	10952	15824
Total number of publications in RSCI	7895	9557	13148
Articles cited in Scopus / WoS	100	141	312
Articles cited in RSCI (Core Collection)	217	302	454
Articles cited in HAC (Higher Attestation Commission)	3366	3404	3319
Total number of journals cited in RSCI	162	198	213
Patent registration	3	0	3
Monographs	218	254	266
Publications with overseas coauthors	46	78	213

(Date views 06.09.2017)

A detailed analysis of research performance of the university faculty reveals that there has been over 40 per cent increase in the total number of publications compared to the previous years (2014-15) when the performance pay-based scheme was just under the development, later being announced and implemented only during 2016-2017 academic year as per the *Protocol of ASR 2016-17*, ratified in 10.03.2017. The numerical data of the previous year illustrate a constant rise in every aspect of scientific and research performance of the entire organization with doubled results and in some points even triple outcomes, publications with coauthors abroad – 213 works and registration of patents – 3 units respectively.

The meticulous examination of one definite department will throw light on the argument that the perseverance and rigorousness of the concerns to increase the productivity of the whole institution, its competitiveness and quality of products or services provided is directly linked with the level of employee satisfaction, determination, commitment and expertise.

In case of the Department of Foreign Languages #1, PREU, retaining 53 employees the level of involvement and job-engagement can be demonstrated precisely based on the data delivered by Personnel Assessment Centre at the start of the academic year 2017-18 (*Protocol of ASR 2016-17*)

- In the list *Top 300* only 7 people were ranked as the best performers in 2015-16 of the Department of Foreign Languages #1, whereas this figure tripled reaching to 22 for the academic year 2016-17. The Head of the Department held the 4<sup>th</sup> honorable position for the 2016-17 rating year.

- The number of highly-rated and competitive employees has doubled since 2015-16 academic year with significant move from lower positions to higher ones (e.g. Minasyan E. holding the position 565 in ASR 2015-16 and 239 in ASR 2016-17).

- There has been an enormous surge in the amount of publications in local and overseas journals, participation in transnational conferences, attaining internationally accepted certificates, e.g. FTBE, CELTA, and in the number of registered licenses as results of intellectual activities (0 RIA license in 2015-16 and 5 RIA licenses in 2016-17 correspondingly).

▪ The Department of Foreign Languages #1 preserved the honorable ranks 7 and 10 amongst the most effective and laborious university faculties for the last two years due to its highly committed and rigorously working members.

▪ The incentive fund of the Department has accordingly increased twofold to reward the efforts of staff performance and expertise, which directly bridges the whole organization progress and growth with every employee self-realization, fulfillment and welfare.

Within the entire context of PRUE, success has been clearly articulated in official documents of the university. At this point success is defined as:

**PRUE World Ranking 2015-2017** [rea.ru, 2017]

- Qacquarelli Symonds (QS) Stars 2015: 4\*
- QS World University Ranking 2016/17: 801-1000
- University Rankings BRICS 2016: 90
- University Rankings Emerging Europe & Central Asia 2016: 70
- University Rankings by Subject 2017: 401-450
- Graduate Employability Ranking: 151-200
- EdUniversal Masters Ranking 2017: 1
- Ranking WEB Of Universities: Worldwide Rating: 4273 (07/2017); Continental: 1225; BRICS: 936; Russian: 75
- Webometrics Top Universities by Google Scholar Citations: 1736
- UniRank: Global: 2459 (07/2017); Russian: 37
- RCFA – English Web Content of Russian Universities: 14
- Round University Ranking: Global: 734; Educational: 550; Scientific: 37; Financial: 759; Reputation: 629; Academic: 690

▪ Charity Fund after V. Potanina: 58 (total score – 2,98)

▪ Positive Student Feedback: 10

▪ Times Higher Education: 25 (with total number of graduates)

Further statistics reveal the strengths and progress of the organization in other aspects of its operations, like

- An increase (to 80 per cent) in the proportion of staff with higher degrees
- Increased investment in infrastructure, research and development
- Significant rise in the number of online courses (Mail.ru rating: 4)
- National and International Accreditation of courses, teaching excellence and professional development (by European Council of Business Education, Association of MBAs, The Chartered Institute of Marketing, Chartered Institute of Management Accounts, NAC – National Anticorruption Committee, International Finance Corporation, etc.)
- Decent positions in RBK rating: 5; Forbes with 8 members; Career.ru: 5; etc.
- A 20 per cent growth in university's ranking on research performance
- A 10 per cent increase in the number of international students on the basis of exchange programmes.

The path to success has been underlain by some core drivers as highly motivated and committed staff, provision of necessary resources to achieve the above mentioned outcomes and sharing a strong culture of corporate excellence. In essence to obtain and maintain 'a culture of excellence' is realizable through implementation of performance-related bonuses apart from providing necessary infrastructure and resources. Accordingly the nomination and rewarding nearly 30 per cent of permanent workforce as being highly motivated and better performing will create a corporate culture and work environment where excellence is expected and remunerated. Consequently, the quality of employees' performance will increase mostly driven by self-development and self-sufficient factors, which will enable the university to realize success factors and meet the requirements of all stakeholders.

**Performance appraisal schemes and challenges**

Since the university embraced a new scheme of performance and development, it has been of utmost importance to support and train staff to face the changes and challenges, contribute and manage to perform the extra work duties, like monthly reviews and data completion in individual portfolios. To cope with the hard sides of change successfully is rather tough and it requires constant reviews, significant level of performance integrity, commitment of senior executives and staff, and the exceptional efforts from all stakeholders.

In essence all people respond to an environment positively where they are treated with respect, they are involved, given clear direction and strong leadership, rewarded for good performance. In the process of change implementation there is a harsh flank of facing resistors and easy adopters. It is essential to make employees understand the rules of combat, thus in a way of communicating, educating and conversing with the all staff. Any resistance diminishes, when people feel that their face and sociality rights are respected and rewarded, they are a part of the process and get some ownership of the whole company performance. As Harkness & Schier (2011) state ‘the first thing is to create blame-free culture – hard on the issue, fair on the person’.

The primary challenge for university faculty to manage and embrace performance-related system is the limitation of academic freedom, individual interests and failing efforts to get to hard research avenues. Moreover, in knowledge-based environments there exists collegial decision making, committee goal setting, professional development and peer support. Whilst hard managerial interference and control dictated by individual performance appraisals and requirements for a greater level of accountability may lead to violating culture of unionism/collectivism, work intensification and overload causing lowered morale.

A further point of concern is the justifiable nature of performance pay-related system: whether it conforms with the employee’s contribution fairly and transparently, and whether the rewards and benefits are allocated proportionally to each employee’s enterprise input. Therefore, new PRP schemes need to be driven by such mechanisms and measurement criteria which would allow them evaluate and assess the diverse responsibilities of academic personnel directly involved in manifold activities - teaching, research and administration (Morris, 2005).

#### **Personnel perspectives**

Given a thorough look at the general findings of the research on the implementation of performance pay-based schemes in academic environment there can be highlighted some core benefits and drawbacks from the part of the enterprise and personnel. As it has been stated above, any reward system is designed to measure the employee performance through motivation aligning his efforts closely with the short and long-term objectives of the organization and driven by the strategy to meet the needs of stakeholders. These financial and non-financial payments are usually completed separately from regular salary schemes; consequently the recipients appreciate them highly as they are varied, separate and non-guaranteed. Another approach of novel PRP is the rise in an employee’s annual salary, proving to be rather helpful for retaining employees at the top of their job rating with outstanding performance.

Nevertheless, objections to the individual performance pay revolve three overlapping concerns: firstly, teaching is multidimensional and aimed at wider outcomes, than just exam results and purely scientific research fame; secondly, teaching is a team-based activity and contradicts with the notion of individual performance-based pay schemes; and finally, teaching profession is not always motivated with financial incentives (Burgess et al., 2001).

Overall, in the frames of the presented case of PRUE, the academic workforce have witnessed a range of incremental and radical changes in the entire procedure of teaching and research work accomplished per person and in a team. The performance pay-based model has doubled the effort input in delivering lectures and fulfilling research work either individually, collectively or supervising and mentoring students in their research surveys. The staff morale is heightened and driven by new targets and opportunities, though there are easy adopters and tough resistors critically referring the whole work culture to a *rat race* (Hindle, 2008). Similarly, referring to the findings of other researchers ‘incentives in the public sector could simply be optimally low, since high-powered incentives (such as individual PRP) may induce excessive competition, whereas public services require employees’ cooperation’ (Lucifora, 2015).

#### **5. Conclusion**

In the frames of the *Effective Contract* professional development is of key importance putting some pressures on the acquisition of internationally verified qualifications, skills and world-wide expertise. By comparing the academic personnel output, it is stated that the total performance per employee has increased at least by 20 percent in such measurement criteria as teaching performance – delivery of courses in English, participation in professional contests and post-graduate studies meant to attain doctoral degrees and further specializations. Moreover, there is a surge in the quantity and quality of publications in foreign scientific journals, participation in



international conferences and virtual course development. What refers to social events and media here can be noted a similar upward trend of active involvement mostly by students under the guidance of head tutors.

Hereafter, multiple goals of an organization will be achieved successfully if adequate appraisal and pay systems are implemented leading to increase in labour efficiency, improvement of employees' living standards, strengthening employee commitment, improving labour-management relations and securing corporate viability. Accordingly, the high-level contribution and commitment of all stakeholders is indispensable to develop and put in place a strategy of performance appraisal leading to stakeholder satisfaction, national welfare and scientific progress.

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