

# **The Implementation of Performance Based Remuneration in the Public Services**

**A Position Paper by:**

**The Private Sector Organisation of Jamaica**

## **Introduction**

A long standing problem faced by private sector companies is the inefficiency of public sector bureaucracy which has hampered productivity and as a result, serves to increase costs of private sector operations. In fact, the majority of Jamaica's SMEs have identified the inefficiency of the bureaucratic system as the major obstacle which undermines their productivity. In light of these problems, the Private Sector Organisation of Jamaica (PSOJ) is recommending the implementation of a public sector reform initiative that promotes a more productive public sector. This is to be accomplished through the use of a binding Public Sector Wage Rule (PSWR). The PSWR ties all future public sector wage and salary increases to real measurable increases in productivity levels captured by improvements in rates of economic growth<sup>1</sup>.

Additionally, the PSOJ is calling for the development of the legislative framework which will support the new paradigm in which all public servants may be held accountable for failure to achieve the desired levels of productivity. It is therefore calling for collaborative efforts from the Planning Institute of Jamaica, the Jamaica Productivity Center and the Statistical Institute of Jamaica which should be given the task of aligning ministries with the country's long term growth and development plan, the application of business process re-engineering, the development of performance indicators and the collection of data to support the programme which is designed to create higher productivity. The PSOJ is also calling for the establishment of a Change Management Unit (CMU) to provide support for a new culture in work place productivity.

This is because we believe that the main plank on which economic and social development has to take place is labour and total factor productivity, and this is even more essential within the public sector bureaucracy, which provides support to the private sector and is the largest single pool of labour in the country.

Employing 148,100, or 13.3% of the paid workforce, the Government of Jamaica (GOJ) has amassed a significant annual wage bill that was at J\$161.7 billion at the end of 2013/14 fiscal year. This wage bill accounts for 52.7% of government's revenue or 10% of the total value of GDP. The government has also increased its borrowing and to date, has amassed a large public debt that stands at J\$1.94 trillion dollars as at the end of March 2014. As a consequence Jamaica has since then become the third most indebted country in the world, where debt servicing cost

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<sup>1</sup> Where the individual or entity is already at optimal, remuneration should be paid accordingly.

(interest expense) is only second to public sector wages in its share of the annual national budget<sup>2</sup>.

Jamaica's low level of productivity brought with it high economic and social costs that has placed the country on a path of economic malaise. The government has run a fiscal deficit for twenty-eight of the last thirty years. The debt to GDP ratio reached record levels of 150% in 2012 and currently stands at 132%. The reform of the public services is correctly seen as the linchpin on which future growth and development of the economy and society depends. This is because greater efficiency and productivity in the public sector is critical to a more productive and vibrant private sector, which is the foundation of sustainable economic growth.

## **Background**

A review of the Ministry Programme of Self Reform (MPS) implemented in 1973 reveals the major causes of its failure were a lack of delegation of decision-making authority, wide disparities in emoluments within the public sector and duplication caused by overlapping functions. The Administrative Reform Programmes of the 1980's emphasized programme management through a performance budgeting system and decentralization of authority to sectoral ministries. The reported failures of this particular programme were due to a lack of clear vision and articulation of objectives, poor use of consultants, lack of ownership of the project by the civil services, lack of continued commitment by the government and the World Bank to the longer term and overly ambitious targets that were set without due consultation with various ministries (Strategy for Restructuring the Public Services: Ministry paper).

Following the failure of these initiatives the government instituted the Public Sector Modernization Programme (PSMP) 1996-2002, and this programme revolved around privatization of some public entities, down-sizing and strengthening the work force of executive agencies. In 2002, the government instituted the Public Sector Vision and Strategy 2002-2012 with three of its most important tenets being sustainable development, customer service and the application of technology. The PSOJ believes that while these reform programmes may have achieved limited success, they have not created long lasting changes in these organizations because there has never been a link between remuneration and performance. Furthermore, the many attempts at public sector reform, since the 1970s, shows that what is needed is fundamental reform that will serve as a game changer. The missing element of the reform programmes over the years is that they lacked the required accountability and linking compensation to performance measurements.

Public sector reform (PSR) has been a universal phenomenon; many countries have undergone a series of reform over the last thirty years, and many have ended in failure. However, some have had good success. These countries include Canada, the United Kingdom, New Zealand, Ireland,

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<sup>2</sup> 2014/15 Budget – Interest expenses account for 31.01% and Wages & Salaries for 37.78%, of Total Revenue projections.

Holland, Austria, Australia, and Guyana. Recurrent themes in the PSR in these countries include pension reform, reduction of administrative burden, privatization, improving work incentive benefit programmes along with productivity based remuneration, reforming the tax system and social partnerships. The results in these countries are overwhelming, they include higher productivity, higher rates of sustained economic growth and improvement in global competitiveness; see figure 1 (Staff Country Report, IMF; 2009).

The African continent also provides a wealth of data on the successes and failures of countries that have undergone public sector reform. The classification of these countries range from advanced reformers, these include Botswana, Namibia and South Africa to the beginners and non- starters which include Democratic Republic of the Congo, Liberia and Sudan. Though correlation does not imply causation, the strong positive link between those countries with successful public sector reforms and rates of economic growth, development, productivity and competitiveness cannot be denied (Innovations and Best Practices in Public Sector Reforms ECA; 2010).

### **Public Sector Reform: The PSOJ's Proposal**

The Private Sector Organisation of Jamaica (PSOJ) proposes a comprehensive suite of measures for reform of the public services that integrates long term development with the development of economic sectors and their respective ministries. The policy proposals are consistent with Vision 2030 and recommend the use of budgeted and performance driven targets that are benchmarked with international growth and development standards.

The use of these targets and performance indicators in the reform process are meant to improve efficiency and effectiveness of public expenditure. They allow the implementer to be able to predict and measure the relative economy, efficiency, effectiveness and impact of the designed public sector reform programme. These policy proposals are different from those that have previously existed in that their successful application is buttressed by performance based remuneration. The following are the PSOJ's proposals.

#### **1. Integrating and Aligning Sectoral Development into the National Strategic Development Plan**

The strategic development plan should align public sector resources to that available in the various economic sectors with the goal of transforming national resources into growth and development, thereby creating real wealth. Realignment of resources is necessary for the following reasons:

- i. An integrated developmental plan reduces redundancy in the allocation of resources and it also reduces cost, and as such, facilitates higher productivity in both public and private expenditure.

- ii. Aligning sectorial developments also creates economy for the simple reason that resources can be fully utilized and the inter-linkages among the sectors will create good intersectoral synergy which increases productivity.
- iii. Alignment promotes the use of business processes that by themselves also support the inter-linkages and synergy that also encourages productivity and international competitiveness.
- iv. It employs technological solutions to improve work flow within and between ministries and sectors, hence increasing efficiency by cutting the time taken to do business<sup>3</sup>.

## **2. Promote Competitiveness and Positive Spillover by Linking Economic Sectors**

Creating linkages between economic sectors promote the identification of the value chains among all ministries, which then facilitates economic growth. It also helps to identify the needs of the stakeholders and thus facilitate higher levels of operational efficiencies within and among ministries. Strong sectoral links facilitate productivity growth through the establishment of systems, protocols and processes that drive the way ministries and their core businesses are conducted. Linking the economic sectors is necessary for the following reasons:

- i. It provides a technical and strategic computer platform between agencies that allows multiple access points, which then enables efficient work flow and hence reduces transaction time. Linkages are facilitated through the application of multiple access computer servers.
- ii. It facilitates the strategic collaboration among multiple public entities which builds capacity, harmonises services, reduces redundancy, creates efficiency and hence reduces cost.
- iii. Reduces redundancy and costs in both human resources and physical resources.
- iv. Reduces the fragmented services that could be lumped into common centres. That is centralization of common services.
- v. It facilitates the creation of a one stop shop for specific business activities that involves multiple government ministries. This reduces cost, saves time and speeds up business transaction time, hence reducing the throng of bureaucracy for businesses, especially at the SME level.

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<sup>3</sup> Jamaica should be moving towards eGovernment

### **3. Integrating the Performance of Economic Sectors in to the Design of Development Targets**

Creating productivity targets and performance benchmarks is a useful part of the scientific management since it allows management to hold an individual or a set of individuals accountable for specific output driven tasks. It also allows for the clear assessment and evaluation of both individuals and business processes which are critical components of the management aspect. Performance targets and benchmarks are important for the following reasons:

- i. It allows for the effective management of the government and its ministries and also allows the government to scientifically model changes in the economy. The changes are then better planned for and the entire economy becomes more operationally efficient.
- ii. Benchmarking local ministries and entities with global counterparts allows the government to set growth and development targets that are credible while staying in line with the world.
- iii. It allows for more scientific forecasting on what is the most effective planning and development that can take place.

The absence of protocols and processes renders the scientific collection of data impossible, where very little productivity can be measured and hence holding individuals accountable becomes nearly impossible and public servants and ministries remain inefficient. The PSOJ is therefore calling for the collaborative efforts of the Planning Institute of Jamaica, the Statistical Institute and the Productivity Center to develop a system to monitor and report the development in the levels of productivity in all ministries.

### **4. Use the Sectoral Contribution to Growth and Development as a Basis for Budgeting**

A critical component of the drive to modernization and reform of the public services is the process by which the policy maker ties public service benchmark indicators of productivity to national growth and development indices. In the presence of good production data, both the inputs and outputs can be valued and cost determined and national resources focused on those areas that yield the highest returns. In addition, corruption and waste can be eliminated and government expenditure is optimized. The following are the reasons for performance budgeting:

- i. It promotes the application of optimal input and output ratios which are necessary for both effective budgeting and for the achievement of productivity measures.

- ii. It is results oriented and allows for the achievement of financial goals which are tied to growth and development benchmarks.
- iii. It promotes greater accountability within government, facilitates performance based remuneration and negates corruption and waste.
- iv. Every dollar of public expenditure is programmed to facilitate or promote some pre-determined level of development and growth.
- v. Performance based budgeting is also consistent with its use by both the Statistical Institute of Jamaica and the Jamaica Productivity Center which will collect the required data and develop the necessary budgeting ratios.

## **5. Creating a More Efficient and Effective Civil Service**

The public sector reform should start by clearly redefining the roles and functions of the government. This process will help align and integrate the public services with the country's long term developmental plan. In addition, this will facilitate the proper assessment of the efficiency of the public sector and it is consistent with the call for a thorough business process re-engineering of government services. Understandably, the government has a significant role to play in the achievement of sustainable economic growth and development. However, given fiscal constraints we must clearly define what roles the government should and should not undertake.

- a. Additionally, The PSOJ is proposing that with the application of business process re-engineering, all government ministries should be assessed for their contribution to vision 2030. Those that are redundant or obsolete should then be eliminated or merged to create greater operational efficiency.
  - i. At the beginning of each fiscal year, ministers must announce their short and medium term objectives. These objectives must be observable and/or quantifiable, and the performance of the minister and his ministry will be based on such objectives.
  - ii. The Permanent Secretary, acting as the CEO, will be responsible for the size and quality of the workforce. Emphasis should be placed on outcomes rather than job security. Additionally, steps must be taken to align compensation to the private sector in order to attract top talent to the civil service.
  - iii. Ministries and Public Sector Bodies, should be headed by suitably qualified persons, who should be given performance targets on which a part of their remuneration should be based. Permanent Secretaries and CEOs of Public Sector Bodies should also be given the requisite authority to achieve their performance

targets. Certain key positions should be subjected to the approval of parliament for appointments to be made.

- b. We agree on the shared services model of operation as proposed by the PSTU. In this model, for efficiency and cost reduction purposes, some critical services such as legal and communications services will be privately outsourced, while other general services such as HR, procurement etc. will be shared amongst all public sector agencies.

## **6. The Application of Business Process Re-engineering (BPR) to Enhance Efficiency**

Creating a new paradigm in the way in which services are delivered in the public sphere must be an essential component of the new reform agenda in Jamaica. This paradigm shift must dictate how services are delivered, monitored and evaluated, and the framing of supportive legalisation. Therefore Business Process Re-engineering (BPR) must be at the very core of the reform and modernization of the public services. The following are the real benefits of BRP:

- i. It creates efficiency by eliminating redundancies and it should harmonize work units across all ministries.
- ii. It applies the optimal business management systems which creates efficiency and raises productivity.
- iii. Work flow design is systematically incorporated into all jobs, and this creates higher efficiency.

### **a. Digital Government or e-Government**

This is utilizing technology to transform the government's relationship with its citizens and businesses. A government portal could be defined as a dedicated service that coordinates and presents information and services from various government agencies on a website.

- i. Adopting this style of governance from various developed countries<sup>4</sup>, this model creates several benefits including the ease with which transactions can be completed. Simple transactions such as paying fines, registering a company, getting customs information among other transactions, that would otherwise be costly and time consuming to complete, can be executed with a single click, and hence save a lot of productive time.
- ii. Information that would have been costly to obtain is now readily available on line<sup>5</sup>.

### **b. Digital Citizen or e-Citizen**

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<sup>4</sup> eGovernment has been very successfully implemented in Canada, and is a model that the Jamaican government could look at. The more successful provinces have been British Columbia, Alberta, and Ontario

<sup>5</sup> We have seen the benefit of this with the transition of tax filing to online availability

This involves creating a platform from which agencies can collaborate to deliver integrated information services from several government agencies to citizens. With the e-Citizen portal, members of the public would no longer need to interact with multiple agencies in order to complete one transaction with the Government.

## **7. The Remuneration of Public Servants Should be Based on Rates of Economic Growth and Development**

Performance based remuneration is a generally accepted practice that achieves higher productivity which could promote the required positive spill over effects from the public entities into private entities, Performance based remuneration is necessary for the following reasons:

- i. Greater productivity in the public services which then creates a larger multiplier of both private and public expenditure and speeds up both growth and development.
- ii. Higher Rates of growth provide government with higher tax revenues, which means public servants can earn higher wages and salaries, ultimately creating an incentive for higher productivity.
- iii. It aligns public servants actions with the longer term interest of the country, that is, it provides the policy maker with a tool that allows the spotlight to be placed on key areas of interest.
- iv. It gives public servants a stake in the country's progress; when the public servant does well by being more productive, the country also does well and this creates a much more nationalistic environment that is more conducive for doing business.
- v. Performance based remuneration helps the country to attract and retain talented individuals not just in key management positions, but in all areas of public service.
- vi. Performance based remuneration is supportive of greater fiscal responsibility; the country needs to earn more through greater productivity to be able to spend more.
- vii. Performance based remuneration is both a credible tool and a binding constraint on all public servants, that is, workers will have to earn their salaries. If workers want higher wages and salaries they must be required to raise their productivity levels.

It is important to note that this performance based remuneration should be tied to Real GDP growth primarily, and not just on tax revenue collected, as just linking to revenue collections alone could result in a squeeze on businesses that could stymie economic growth.

## **8. Increasing Productivity Growth Through Human Resources Management and Training**

The PSOJ is also of the view that the low levels of productivity in the public services are due in part to human resources management issues. It may also be due to the low levels of remuneration that is offered to public servants, which contributes to both low levels of motivation and the



hiring of inexperienced and untrained workers. These factors may be contributing to a culture of malaise and hence there is the need for a Change Management Unit (CMU). In addition, proper human resources management may contribute to the following:

- i. Proper oversight and supervision of staff with respect to their service delivery, which is necessary to improve efficiency and productivity.
- ii. The application of business process management to the redefinition of all organizational structure in the public services, to ensure that they are positioned to offer the highest level of operational efficiency consistent with Jamaica's long term growth and development plan, Vision 2030.
- iii. The application of business process management to the redefinition of all jobs in the public services to ensure that they are in line with the core mandate of ministries and the country's long term growth and development plan, Vision 2030.
- iv. Align people-oriented personnel with customer-interface jobs which should improve customer service.
- v. Improve the training of public servants. Better training will make workers more efficient and productivity should increase.
- vi. The formation of more effective management structures which will facilitate higher productivity.
- vii. The appointment and selection of the most productive staff especially for significant posts. This includes the hiring of managers who are more transformational; these managers will facilitate the positive change in the economy. This means promotions based on performance over just tenure as the main consideration.
- viii. The development of a Change Management Unit (CMU) to buttress the new work paradigm. This cultural change will come with much resentment and hence need the support of trained professionals to ensure that the buy-in exists on the ground.
- ix. The removal of interference in the hiring of public servants by politicians.
- x. Integrating service delivery in all ministries with the Jamaica Productivity Center and Statin which should create the necessary benchmark indicators, collect periodic data, monitor the progress of productivity movements and then feed this to an agency of the state that can sanction the relevant ministry, office or individual.

## **Conclusion**

Improvement in the general productivity levels of public servants is inextricably linked to the growth and development of the Jamaican economy. The achievement of any measurable improvement in productivity can be achieved by the implementation of an integrated long-term strategic development plan that aligns resources to sectors in which they are more efficiently utilized. To accomplish this, the PSOJ believes that the Government of Jamaica should implement a credible and binding tool by applying performance based remunerations at all levels of the public services.

The PSOJ is calling for the development of the legislative frame work which will support the new paradigm in which all public servants may be held accountable for their own productivity level. It is therefore calling for collaborative efforts from the PIOJ, JPC and STATIN which should be given the task of aligning ministries with Jamaica's long term growth and development plan, the application of Business Process R-engineering, the development of performance indicators and the collection of data to support the programme which is designed to create higher productivity. Additionally, a Change Management Unit (CMU) should be implemented to support the new work place culture.

In addition, given the current Memorandum of Understanding between the government and public servants, and the Fiscal Rule now being developed, this is the opportune time to implement the proposed Public Sector Wage Rule (PSWR). This PSWR is not just fiscally prudent but it is both a credible and binding tool that effectively promotes productivity, efficiency, competitiveness, accountability and therefore economic growth and development.

Figure 1: Depicts the relationship between good government structure proxied by the Ease of Doing Business Index and countries with good public reform programmes

Economy	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency	Public Sector Reform Type
New Zealand	3	1	12	45	2	3	1	23	21	18	12	Good
United Kingdom	10	28	27	74	68	1	10	14	16	56	7	Good
Australia	11	4	10	34	40	3	68	44	46	14	18	Good
Ireland	15	12	115	100	57	13	6	6	20	62	8	Good
Canada	19	2	116	145	55	28	4	8	45	58	9	Good
Netherlands	28	14	97	70	47	73	115	28	13	29	5	Good
Austria	30	138	94	28	36	28	98	79	19	6	14	Good
South Africa	41	64	26	150	99	28	10	24	106	80	82	Good
Ghana	67	128	159	85	49	28	34	68	109	43	116	Average
Bahamas, The	84	83	75	45	182	86	115	45	72	125	32	Good
Jamaica	94	23	52	132	114	109	80	168	118	131	31	Poor
Kenya	129	134	47	166	163	13	98	166	156	151	123	Poor
Nigeria	147	122	151	185	185	13	68	170	158	136	107	Poor

Figure 2: Depicts Jamaica's position in terms of public sector strength proxied by DBI and the rest of the Latin America and the Caribbean.

Economy	Ease of Doing Business Rank	Filtered Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Puerto Rico (U.S.)	40	1	1	31	10	18	1	2	14	16	13	1
Peru	42	2	8	23	19	1	4	2	6	6	15	17
Colombia	43	3	14	8	22	4	9	1	12	20	25	2
Mexico	53	4	5	10	28	25	6	11	17	7	5	3
Panama	55	5	3	15	3	7	7	13	30	1	21	18
St. Lucia	64	6	7	3	8	17	22	5	1	22	27	9
Trinidad and Tobago	66	7	9	19	1	31	4	4	11	13	30	19
Antigua and Barbuda	71	8	16	6	5	16	22	5	24	19	3	11
Dominica	77	9	6	7	16	15	12	5	7	17	28	15
Guatemala	79	10	23	14	9	2	1	25	8	24	11	16
St. Vincent and the Grenadines	82	11	10	1	7	26	22	5	5	4	8	29
Bahamas, The	84	12	15	18	12	32	12	20	1	12	20	7
Uruguay	88	13	4	30	6	28	9	17	23	18	15	8
Barbados	91	14	13	13	21	22	12	26	16	2	17	4
Jamaica	94	15	2	12	27	13	19	13	29	25	23	6
St. Kitts and Nevis	101	16	12	4	4	29	22	5	22	10	18	29
Costa Rica	102	17	18	20	13	3	12	26	20	5	22	20
Belize	106	18	28	5	15	23	22	21	3	21	29	5
Grenada	107	19	11	2	18	27	22	5	9	8	26	29
Paraguay	109	20	19	17	14	6	12	11	18	31	14	25
Guyana	115	21	17	9	31	12	31	13	14	11	6	23
Brazil	116	22	20	25	2	11	19	13	26	27	19	21
Dominican Republic	117	23	22	24	25	14	12	17	13	3	7	26
El Salvador	118	24	24	28	30	5	7	26	28	9	4	13
Nicaragua	124	25	20	29	23	19	19	22	27	14	1	12
Argentina	126	26	27	32	20	20	9	17	25	29	2	14
Honduras	127	27	26	21	24	9	1	26	21	15	31	22
Ecuador	135	28	29	16	29	8	12	22	10	26	12	24
Suriname	161	29	31	11	11	30	31	32	4	23	32	27
Bolivia	162	30	30	26	26	24	22	22	31	28	23	10
Haiti	177	31	32	27	17	20	30	26	19	30	10	29
Venezuela, RB	181	32	25	22	32	10	22	31	32	32	9	28

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