

# **Reforming the Performance Management System in the Philippines Based on NPM: The Case of the Performance Based Incentive System (PBIS)<sup>1</sup>**

(Working Draft Only)

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This study examines the results, challenges and issues that accompanied the adoption of the Performance-Based Incentive System (PBIS) by the Philippine government, particularly in the Department of Interior and Local Government (DILG), one of its largest national agencies. The PBIS is a key component of the policy reforms adopted by the Philippine government to improve the bureaucracy. The PBIS is largely based on New Public Management (NPM) principles and adopts mechanisms originally used by the private sector such as performance measurement, competition, and financial bonuses to encourage public sector individual employees and administrative units to improve their performance.

The PBIS was adopted in 2012 and was accompanied by system wide changes including the adoption of results based framework and changes in the performance evaluation systems. This article combines the findings of a qualitative study based on interviews and thematic analysis from 2015 to 2016 and a survey study conducted from 2016 and 2017 as the PBIS was being rolled out and updated. Of special interest are the perceived effects of the new NPM based system on employee performance and morale.

The findings of this study expand our understanding of the results, challenges and issues that accompany the adoption of NPM based policy reforms in developing nations. While NPM has been declared to be dead in the developed West, its influence and adoption are still strong in many developing countries whose training and education was largely based on Western public administration. The Philippines provide a good case because its political and administrative structure was largely patterned after that of the US but its underlying development and institutional context is that of a developing Southeast Asian country with its own idiosyncracies. The authors believes it provides a good empirical contribution that will help both scholars and practitioners understand the nature, results, and challenges of public sector reforms in different parts of the world.

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## **Introduction**

Executive Order (E.O.) No. 80, issued on July 20, 2012, established the Performance – Based Incentives System (PBIS) to harmonize and rationalize the incentives and bonuses granted in Philippine government agencies and to improve the performance of public sector agencies and employees. It has two components: the Performance Based Bonus (PBB) and the Productivity Enhancement Incentive (PEI). The PBIS is the latest tool for performance management adopted by the Philippine government. It serves as a rewards or incentives system complementing the Strategic Performance Management System (SPMS).

The PBIS orients, measures, and rewards exemplary performance. Specifically, the PBB component of the PBIS provides financial incentives for exemplary unit and individual performance in the form of bonuses. The PBB provides a financial incentive, originally ranging from USD 100 to USD 700, to Philippine government employees based on their unit and individual performance evaluation. This amount was changed into a percentage of monthly salary and determined based only on unit performance in 2016. The PEI on the other hand replaced the traditional across-the-board bonus given to government employees based on national government savings. The PEI is not based on performance evaluation.

In 2015, the Strategic Performance Management System (SPMS), a complementary system originally established in 2012, was widely implemented as a tool for human resource and performance management across government agencies. The SPMS replaced the Performance Evaluation System (PES) and ensures that the performance goals and objectives of units and individuals are aligned to the larger agency's performance goals and targets. The SPMS serves as the basis for determining the PBB.

Before the PBIS, previous systems did not substantially link bonuses to performance evaluation. With only a few exceptions, bonuses in general were granted across the board. Before the PBIS and SPMS were implemented together, the link between the attainment of individual and organizational goals and performance rewards was not given much emphasis. Together, the PBIS and the SPMS highlights the alignment of agency, unit, and individual goals and provides incentives or rewards for those who were able to meet their individual and organizational performance targets and expected outputs.

Although the Philippine government has invested much into the PBIS, there are few systematic assessments of its implementation. This policy note attempts to fill this gap by providing policy recommendations based on a systematic examination of the PBIS and its effects on employees of selected agencies. These include: Department of Interior and Local Government (DILG), Commission on Higher Education (CHED), and Department of Education (DepEd). Special focus is given to the DILG Local Government Sector.

This short article is based on a research consisting of two stages. The first stage was an exploratory research that gathered preliminary data on the experiences of three aforementioned government agencies with PBIS. The researchers utilized a combination of

different approaches in order to examine the implementation and impacts of the PBIS to the employees of the agencies under study. These approaches included key person interviews, focused group discussions, and surveys supported by an extensive literature review. The respondents were primarily officials and staff of the five government agencies.

The first phase was a qualitative research based on document analysis and in-depth interviews. The focus of the first study was to assess the experiences of the employees and officers of DILG and two other agencies with the PBIS and its perceived impacts and challenges. The second phase was a survey study done to validate and expand the findings of the first study. A survey instrument was designed with items generally centered on the perceived impacts of the PBIS to the respondents' productivity and morale. Items meant to gauge satisfaction with the PBIS were also added.

Data were collected using a combination of online and pen-and-paper surveys over the course of one month. The focus of the study was the effect of the PBIS on employees. All respondents in the sample reported receiving PBBs in 2015. They came from different units and bureaus and represented different PBB rankings (Best, Better and Good) and different positions (managerial, technical, and administrative). The respondents are limited to those who received PBBs and are consequently affected by the PBIS; the possible experiences of a "control" sample that was not under the PBIS are thus outside the scope of the research.

We note that the PBIS is an evolving system that has continuously changed since it was first implemented in 2012. The PBIS underwent substantial changes in early and mid-2016 with E.O. 201 and Memorandum Order 2016-1 that has important implications. The changes included the abolishment of the force ranking of individuals and the calculation of bonuses as a percentage of salary instead of fixed amounts. These changes prevent the use of the findings of the study to proximally assess the current PBIS since several mechanics had already been changed. Nevertheless, this policy note offers both strategic and operational recommendations that may still be considered despite the changes.

### **Mechanics of PBIS, PBB, and PEI**

Under the PBIS, two kinds of bonuses are granted to eligible government employees: the PBB and the PEI. The PEI is an across the board bonus given to eligible employees of all eligible government agencies based on the national government savings. It replaces the traditional across the board bonus and supplements the cash gift typically amounting to USD 100 that was granted to government employees each year. Unlike the PBB, the distribution of the PEI is uniform and is not based on performance evaluation.

The PBB is an incentive in the form of a bonus given to employees based on their contribution to the accomplishment of pre-agreed performance targets. The PBB received by each employee is determined based on individual and unit rankings which are in turn

based on the agreed upon performance targets under the SPMS. These include Individual Performance Commitment and Review or IPCR, the Office Performance Commitment and Review or OPCR, and the Division Performance Commitment and Review or DCPR. The PBB received by employees are determined based on the SPMS unit and individual evaluation, initially by forced ranking of units and individuals until it was changed in Fiscal Year 2016. Table 1 provides the original bonus for the PBB when it was established in 2012.

**Table 1. PBB Bonus per Employee per Bureau and Individual Performance<sup>2</sup>**

Individual Performance Category	Best Performer (10%)	Better Performer (25%)	Good Performer (65%)
<b>Bureau or Delivery Unit Performance Category</b>			
Best Bureau (10%)	USD 700	USD 400	USD 200
Better Bureau (25%)	USD 500	USD 270	USD 140
Good Bureau (65%)	USD 300	USD 200	USD 100

Source: EO 80

For employees to qualify for the PBIS, their agency must meet good governance conditions and targets. The eligibility of an agency is evaluated by the Inter-Agency Task Force (IATF) established by Administrative Order 25 in 2011 in order to harmonize existing national government performance monitoring, information and reporting systems. The heads of the agencies are responsible for implementing the PBIS in their respective agencies. The heads of service delivery units and bureaus are expected to cascade the performance targets of the agency down to their sub-units and to individual employees.

### **Initial Assessments of the PBIS Based on the Experiences of DILG, CHED, and DepEd**

The initial research underscore how the incentive approach adopted in the PBIS together with the SPMS differs from previous performance management systems, such as the PES. These are evident in the areas of: framework, comprehensiveness, details required, and financial rewards involved. Overall, research reveals that compliance with PBIS is high. However, there are underlying challenges and concerns about the transparency and fairness of the PBIS that could hinder its effective implementation.

The officials and staff of the DILG Local Government Sector interviewed were nearly unanimous in their assessment that complying with the PBIS has been a challenging task. They note the voluminous documentary requirements, which is especially challenging for

<sup>2</sup> The proportion of individual employee recipients of PBB per category was revised in 2013 to Best-15%, Better-30%, Good-55% and in 2014 further revised to Best- 20%, Better-35%, Good-45%

large agencies with hundreds of thousands of employees, such as the DILG. The personnel had to continuously adapt as the PBIS evolved and the agency transitioned from the PES in 2012 to the SPMS until 2015.

Despite some misgivings, most key persons interviewed understood and accepted the rationale of PBIS. Most respondents associate PBIS only with the PBB and few mentioned the PEI. This is probably because the latter is not based on performance evaluation and is just associated with the traditional across the board bonus. Because of this, most employees interviewed use the terms PBIS and PBB interchangeably.

The majority of respondents found PBIS to be better than previous systems which did not involve substantial incentives. They noted the thorough evaluation metric the PBB follows in addition to the more substantial bonuses. Furthermore, the assessments the PBB's implementation mechanics are more varied and nuanced. Supervisors and managers generally understood the PBIS and its mechanics better than typical employees.

On the positive side, a few supervisors noted how the PBIS improved cooperation in their units as they and their members became more conscious of unit performance. They also noted how high-performing employees were motivated to perform well while aiming for high PBBs. Prompted on whether the PBIS contributed to efficiency, several respondents answered in the affirmative and gave anecdotal examples. They had difficulty however in providing measurable examples of improvements in efficiency due to PBIS.

Several respondents believed that the PBB incentivizes people to evaluate more "fairly" and "objectively." They note that given the substantial monetary bonuses involved and the system of forced ranking, high-performing staff will find it unfair if non-performers received high bonuses. Supervisors are also less likely to tolerate poor-performing subordinates that drag down the performance of their unit and consequently, the supervisor's evaluation and performance bonus.

Accordingly, the PBB encourages teamwork due to the multi-tiered system of evaluation; the agency must qualify first and then the unit must attain a high rating for individuals to receive high PBBs. Due to the SPMS, employees and supervisors were able to see the link between their individual performance to that of their unit and the agency.

The PBB promotes competition since different units and individuals have to compete for the "Best" ranking in order to receive the maximum PBB; the slots are limited due to forced ranking and only the top performers can receive that amount. Those on the lower tier receive smaller bonuses. On the upside, highly motivated employees and teams have a target they can aspire to. This encourages them to work harder and perform better. On the downside, one official cautions that the incentivizing effect might only encourage those that are already highly motivated to begin with. Average and low performing individuals and those in non-competitive teams might not be as inclined to perform.

Overall, supervisory and managerial personnel interviewed for the study were not only more knowledgeable about PBIS, they also appeared to have relatively more positive views of the system despite the challenges accompanying its implementation. Technical and administrative personnel interviewed in 2015 tended to be less knowledgeable about PBIS mechanics and tended to be more skeptical overall. They were also more likely to express mistrust and doubts regarding the fairness of the system. Some had unresolved questions and doubts on the basis of the PBB received by other personnel in other units. None of the respondents have formally expressed their concerns to the agency.

Several respondents believed that the evaluation process was subjective and largely depended on the supervisors. Some supervisors were very strict in setting the evaluation criteria while others were lax. Some suspected that other units are 'gaming' or manipulating the system in order to get higher evaluation and PBBs. No concrete evidence was provided however, and the researchers were unable to validate the claims.

Several respondents noted that they only learn about their PBB ranking based on the amount they receive in their bank accounts. Some said they were not very familiar with the PBB's detailed mechanics and the information was very limited at the time (2014-2015). The combined lack of familiarity with the mechanics of the PBB and limited information about the performance criteria and evaluation of other units contributed to skepticism and even negative views of the PBIS. This is more pronounced among administrative and technical staff that has less access to information and understanding of the system.

One of the shared concerns conveyed by respondents is the perceived unfairness of force ranking personnel with different sets of responsibilities. For example, several shared instances when clerks and drivers received higher evaluations and PBBs than their directors. They noted how the latter's roles and responsibilities are larger in scope and more complex than the former's. Thus, they are more likely to get a lower evaluation when force ranked against their subordinates.

The interviews also suggest that some units and bureaus may have adopted internal practices and modifications that could have negative effects on the system. In 2014, the evaluation committee decided to reserve the highest bonuses for regional offices only since most of the agency work comes from there. It is reasonable to expect that personnel from other units will misgivings with this arrangement since it effectively excludes them from receiving the maximum PBB and limits them to the lower to middle tier. This threatens to undermine the PBIS and demotivate as some units may perceive that it does not really matter how well they perform and attain their performance targets since they can only attain lower ranking and PBB anyway.

Generally, the first study of the PBIS in 2015 showed mixed results. While there was a high level of compliance and acknowledgment of the rationale and potential of the system in the agencies studied, there were also concerns about the mechanics of its implementation

that could have serious implications to the success of the system. Concerns about fairness were the most dominant concern. The study also raised questions on whether the PBB actually motivates employees to perform better. An empirical analysis utilizing a survey was therefore implemented in the second phase of the study to probe further.

### **The Impact of the PBIS on Productivity and Morale of Employees of the DILG**

A second study was conducted in 2016 to validate and expand the findings in the first study. A survey was conducted with 282 personnel of the DILG Local Government Sector to expand findings of the first study and to quantitatively measure the impact of PBIS on employee morale and productivity.

**Table 2. Respondent Distribution According to the 2015 PBB Ranking**

UNIT	INDIVIDUAL			TOTAL
	Best	Better	Good	
Best	36	18	28	82
Better	28	61	62	151
Good	4	16	29	49
<b>TOTAL</b>	68	95	119	282

Table 2 presents the actual distribution of survey respondents according to unit and individual ranking. The respondents were asked to express their level of agreement or disagreement to a 17 statements using a 4-point Likert scale. Each reflects particular indicators (perception of the SPMS, agreement to the rankings received, indicators of improved productivity, indicators of improved morale, perception of the PBB, and impact of the PBB).

The traditional and simplest definition of productivity is the “ratio of the total output produced divided by the input used during the production of the output” (Carrera & Dunleavy, 2010). Productivity is often used as a measure of performance. Hence, the traditional productivity model simply involves measuring outputs vs inputs (Katusak, 2004; Carrera and Dunleavy, 2010). In order to create an encompassing measure of productivity, however, the framework must look beyond financial and labor costs. Research on organizational productivity has shown that innovations and changes in work procedures are better indicators than mere outputs.

Self-rated measures of productivity were developed and included in the survey based on concepts of productivity in the literature. Operationally, productivity is measured as the mean of the four point Likert-scale responses to items in the Productivity Indicators below:

**Item A:** In order to achieve our Major Final Outputs (MFOs), we have changed the way we work as a unit.

**Item B:** In order to achieve our MFOs, we have devised innovative ways to accomplish them.

**Item C:** Everyone in my Unit worked harder to become the BEST.

Bowles and Cooper (2009) define morale as “a psychological state which makes a person want to contribute, be part of things, make things work better, more successfully”. Informal methods in measuring morale, include the “casual chat” and the “open door.” Casual chat underlines the trust between employees and managers gained through listening by both parties. The open door links trust and listening and illustrates a relationship wherein employees are able to express themselves freely.

**Table 2. Responses to Productivity Indicators by Ranking from the Survey in the DILG Local Government Sector (Percentage)**

Ranking	Response	Item A	Item B	Item C
<b>Best</b>	Completely Agree	52.4	50.0	43.1
	Partially Agree	41.4	43.9	36.4
	Completely Disagree	2.4	1.2	8.0
	Partially Disagree	3.7	4.9	11.3
	N/A	0.0	0.0	1.3
<b>Better</b>	Completely Agree	52.3	50.3	43.1
	Partially Agree	31.1	35.8	36.4
	Completely Disagree	4.6	3.3	8.0
	Partially Disagree	7.95	8.6	11.3
	N/A	3.3	2.0	1.3
<b>Good</b>	Completely Agree	25.0	31.3	35.4
	Partially Agree	60.4	60.4	52.1
	Completely Disagree	2.1	0.0	2.1
	Partially Disagree	12.5	8.3	12.6
	N/A	2.1	2.1	0.0

Here, morale is equated to motivation, through recognition of its psychological aspects. Morale indicators reveal attitude and behavior of the employees towards their personal work and purpose, their colleagues, and their agency as a whole. Patterned after these theories, one framework developed for employee morale assessment covers seven encompassing areas: 1) employee relations, 2) communication, 3) appreciation and



recognition, 4) employee input, 5) fulfillment, 6) personal and professional growth, 7) employee spirit.

Operationally, morale is measured in this study as the mean of four point Likert-scale responses to the items in the Morale Indicators below. The results for the survey are provided in Table 3 .

**Item D:** The SPMS provided an opportunity for the unit to work more cooperatively.

**Item E:** The SPMS improved the way we communicate as a unit.

**Item F:** The SPMS made us work better as a team.

**Table 3. Responses to Morale Indicators by Ranking from the Survey in the DILG Local Government Sector (Percentage)**

Ranking	Response	Item D	Item E	Item F
<b>Best</b>	Completely Agree	46.3	41.5	47.6
	Partially Agree	43.9	48.8	42.7
	Completely Disagree	6.1	3.7	2.4
	Partially Disagree	3.7	6.1	7.3
	N/A	0.0	0.0	0.0
<b>Better</b>	Completely Agree	49.7	8.6	43.7
	Partially Agree	33.8	34.4	35.8
	Completely Disagree	7.3	8.6	9.9
	Partially Disagree	7.3	8.6	9.3
	N/A	2.0	1.3	1.3
<b>Good</b>	Completely Agree	18.8	22.9	23.0
	Partially Agree	70.8	66.7	63.0
	Completely Disagree	4.2	2.1	0.0
	Partially Disagree	8.3	10.4	14.6
	N/A	0.0	0.0	2.1

## Linking Morale and Productivity

Aside from harmonizing existing performance evaluation systems, the SPMS was introduced as a way to strengthen organizational rapport and improve organizational effectiveness. Basic elements of the SPMS highlight individual goal alignment to the broader agency mandate and organizational priorities and stresses the “team approach”. Because the SPMS involve performance contracting, employees are able to see their goals clearly and are thus more guided towards the attainment and documentation of outputs. As a result, the principal themes of morale and productivity are more easily observed.

However, preliminary evaluation in the 2015 study of the PBIS lead us to posit a minimal and temporary impact of the PBIS to the morale and productivity of government employees in the three agencies. We posited that at best, the impacts of the bonus subsumed in the PBB component of the PBIS may be temporary. At worst, we posit that respondents that received low bonuses may regard the PBB as demotivating when they perceive the evaluation process as unfair.

Popularized by Victor Vroom (1964), the expectancy theory suggests decisions of employees to be rationally based on their perceptions towards the returns of their work. There are three integral factors that explain the performance of employees — valence, expectancy and instrumentality.

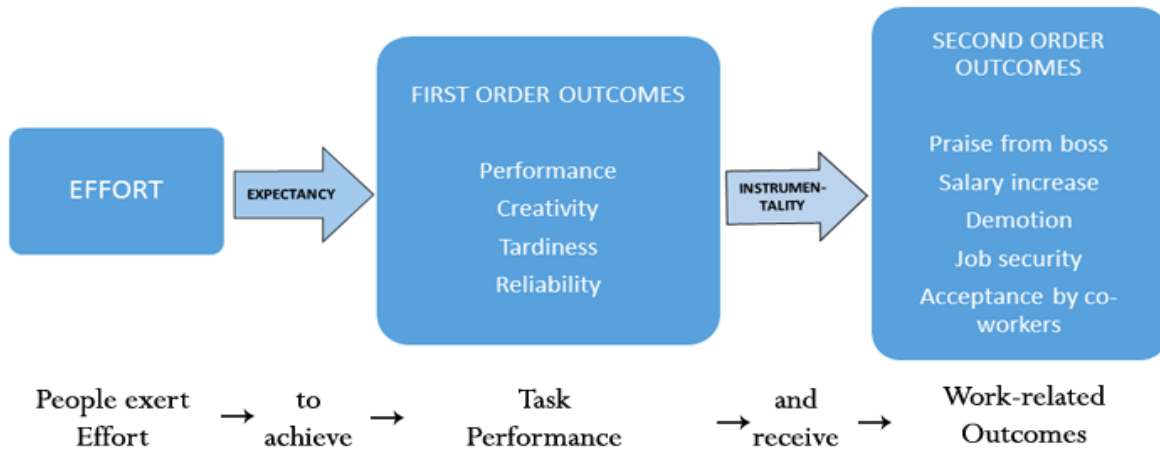
Valence refers to emotional orientations, which people hold with respect to outcomes (rewards). Expectancy on the other hand refers to employees’ expectations and levels of confidence about what they are capable of doing. Lastly, Instrumentality is the perception of employees on whether they will actually receive what they desire, even if a manager has promised it.

These 3 factors interact together to create a motivational force for an employee to work towards pleasure and avoid pain. The formula for this force is:

$$\text{Valence of outcome} \times \text{Expectancy} \times \text{Instrumentality} = \text{Motivation Force}$$

The diagram in Figure 4 simply illustrates that employees exert effort to achieve task performance and receive work- related outcomes. **First Order Outcome** is the behavior that results directly from the effort an employee expends on the job. While **Second Order Outcome** is anything good or bad that results from a first-order outcome.

**Figure 4. Vroom (1964) Expectancy Theory**



The emotional orientation the employee holds toward the perceived outcomes (valence) coupled with the belief that effort will lead to first order outcomes (expectancy) then creates the link between the first and second order outcomes (instrumentality). Put together, these influences the motivation force of the employee or one's drive to perform and deliver.

**Figure 5. Expectancy Theory vis-à-vis Impact Assessment of PBIS**



The application of the Expectancy Theory to the impact assessment of PBIS is expected to be linear. We posit that the productivity and morale of the employees influenced by the PBIS or the system they are working within determines the ratings and rankings they obtain in accordance with SPMS. This, in turn, is reflected on the amount of bonus the employees receive. However, we do not disregard the argument of Kohn (1993) that incentives tend to be ineffective in altering attitudes and, more so, creating an enduring commitment to any action.

## **Perceived Impacts of the PBIS: Survey Assessment of Employees in the Philippine DILG Local Government Sector**

The initial interviews conducted in the first study revealed that most respondents in the DILG Local Government Sector had positive things to say about the idea of the PBIS but they had mixed opinions regarding its mechanisms and specific impacts. Information collected were mostly interviews and some anecdotal evidences. Thus, to validate the statements of those interviewed, a survey was administered and retrieved from 282 employees of the DILG Local Government Sector. Survey items and questions were aimed at evaluating the impacts of PBIS, specifically the performance contracting (i.e., SPMS) and bonus (i.e., PBB) components, towards the performance and morale of the employees.

The results show that many affirmed that the PBB motivated them to work harder and perform better and that it fostered cooperation. The combined mean score of 3.18 for productivity indicators and 3.12 for morale indicators on a scale of 4 clearly show that most of the respondents view the PBIS as positive in these aspects.

The positive Valence of 3.18 suggests the general agreement of DILG employees with the use of SPMS as an effective management tool. Overall, DILG employees agreed to the items reflecting positive opinion of the PBIS and positive impacts. A moderate correlation was recorded between the ratings and both productivity and morale. A slightly lower correlation was found between the monetary bonus to both productivity and morale. Both are statistically significant.

One explanation for “improved” productivity of government employees is that the very nature of the documentation required for the SPMS, strict and rigorous, may actually be the push factors that compel the employees to merely comply with the system.

However, some employees also perceived that others were not deserving of the ratings they received. Hence the PBIS may have also resulted to mistrust and unhealthy competition and conflicts. The comments reveal issues and lack of trust on how performances of others are evaluated and the fairness of the system. Others mentioned the loopholes and the problems surrounding the PBIS to be a demotivating factor. This is understandable given the lingering issues on the fairness of the evaluation and ranking.

Responses clustered according to the job position confirmed the observations in the first study that Supervisors/Managers tended to have a more positive view of the PBIS. This may be due to their better understanding of the PBIS mechanisms and procedures including the SPMS, their better access to information, and their relatively higher agency in terms of setting performance goals and targets and leading their respective units. The Administrative, and more so, the Technical Personnel, who lack the aforementioned information, tended to be more skeptical in their assessment of the PBIS.

While most DILG Local Government Sector employees surveyed positively acknowledged the intent and the ideals of the PBIS, many still see its implementation to be beset by problems that creates concerns with transparency and fairness. Some perceived the rating process to be subjective and unfair. They note that vital performance indicators, aside from the set targets under the MFOs, are unaccounted for. These include behavioral components like overtime and additional work. They believe these are important.

A few respondents found the bonus insufficient for the service they have rendered. Some believe that others who received high ranking and PBBs deserve lower ranking and PBB given their lackluster performance. This issue is further aggravated by suspicions of “gaming.” Although most respondents agreed with items that present the PBIS as a positive influence to their productivity and morale, most of the respondents shared that they are already motivated to begin with. Some asserted that as public servants, they are expected to perform well, with or without the PBIS.

However, most employees surveyed positively acknowledged the influence of performance contracting under the SPMS in aligning their individual goals to the larger unit and organizational goals. Majority regarded the SPMS as a good management strategy. Items assessing the effects of SPMS to morale received high marks. Most agreed that the SPMS encouraged them to improve their communication and performance as a team.

These support one of our arguments - performance contracting under the SPMS help employees situate individual performance *vis-à-vis* the attainment of broader organizational goals and therefore improve productivity and morale. We argue therefore that the SPMS is an effective tool in boosting the productivity and morale of employees, not just because of the pressure placed by the deadlines and targets set, but also because of the influence of performance contracting in the valence and expectations of the employees.

The survey results illustrate the positive acceptance of the respondents towards the PBB and how it influenced their performance and morale. Most acknowledged that the ratings and recognitions inspired them to work harder. The expectancy theory of Vroom (1964), posits that expectation of the employees, in this case, the recognition and monetary rewards, fueled by their emotions or valence, help improve their performance and morale. Thus, their collective positive disposition allows them to pursue their goals, within and beyond SPMS.

However, a few downplayed the influence of performance contracting, explaining that they have clear goals set even before the implementation of the SPMS. Other also raised the limited assignments identified under the SPMS, with other tasks and behavioral performance of employees that were not taken into account, particularly behavioral and other aspects, including overtime, punctuality, etc.

Clearly, there are still necessary and urgent improvements needed in the PBB and the PBIS. Problems related to fairness, transparency, and mistrust constrain the potential

benefits of the PBIS. This study is limited to the 2015 PBIS and the radical changes implemented in 2016 may have already addressed some of these issues and problems.

### Recent Developments

Since the two studies in 204 and 2015, there have been several amendments to the guidelines and procedures concerning the PBB clause of the PBIS. In particular are the 1) E.O. 201 of 2016 — modifying the salary schedule for civilian government personnel and authorizing the grant of additional benefits for both civilian and military and uniformed personnel; and the 2) M.C. 2016-1 —Guidelines on the Grant of the Performance-Based Bonus for Fiscal Year 2016.

E.O. 201 partially answers the demand of civil servants for increase in their salary. M.C. 2016-1 on the other hand eliminates the forced ranking of individuals for PBB determination and retain only forced ranking of units. The latter also changed the amount of the PBB from fixed amounts to a percentage of the monthly salary of the individual employees (i.e., 65% for individuals in the Best ranked units, 57.5% in the Better ranked units, and 50% for Good units).

**Table 3. Rates of the FY 2016 PBB Based on MC 2016-1**

<b>Performance Category</b>	<b>PBB as Percentage of Monthly Basic Salary</b>
<b>Best Bureau / Office /Delivery Unit</b>	65.0%
<b>Better Bureau / Office /Delivery Unit</b>	57.5%
<b>Good Bureau / Office /Delivery Unit</b>	50.0%

The two circulars bring significant changes to the policy environment within which PBIS is implemented. These partially address the demand for better salaries and the concerns over the perceived ‘unfair’ force ranking of individuals with different functions and responsibilities. It also partially addresses the recommendations of some employees to provide uniform rewards to members of a unit since they work as a team, even if these are proportional to individual salaries.

The new system, however, does not directly address issues identified in the two studies of the PBIS: issues of fairness and trust in the system of evaluation. The new system brings about new challenges. For example, it raises the potential for free-riding since the PBB is now determined per unit. In the previous system, the presence of an individual ranking dimension in the determination of the PBB (in addition to the unit dimension)

provides a mechanism that could potentially counteract free riding. In other words, members that contribute little to unit performance will get less PBBs relative to non performers. Free riding therefore brings little benefit. No such mechanism exists for the revised PBB

Another question is whether the revised PBB bonuses beginning 2016 are substantial enough and whether the tiers makes sense in terms of incentivizing performance. In the previous system, most respondents in our survey found the amounts provided by the PBB substantial.

In the new PBB system, individuals in the Best ranked units get 65% of their monthly salary as bonus, those in the Better ranked units get 57.5%, and those in the Good units get 50% of their monthly salary. There is only a 7.5% increase for each level and it is uncertain whether the small differential for each step up in performance is substantial enough to encourage employees to exert effort to meet their performance targets. The bonus amounts are especially small for employees with lower salary grades.

For example, as per E.O. 201 First Tranche, an employee in the Best ranked unit at Salary Grade 1, Step 5 with a basic monthly salary of USD 197 will receive a PBB of USD 128, those in units ranked Better will receive USD 113.24, and those in units ranked Good will receive USD 98.46. The difference in PBB between Best and Better is only USD14.76 and between Better and Good is only USD 14.78. In the previous system, the same employee from the Best unit will have received USD 700 if his or her ranking is Best, USD 500 if Better, and PhP300 if his or her ranking is Good. The difference in the amount of performance bonus is clearly very substantial.

Vroom (1964) suggests that employees exert effort commensurate to their expected outcomes. If the difference in each level is only a 7.5% increase in bonus, how much differences effort can we then expect from the employees? Will they still strive to attain the Best ranking or will they just treat the PBIS the same way they treat across the board bonuses? Addressing these questions are important in rationalizing the PBIS. It is only logical to expect the PBIS to provide incentives that will actually make a difference in performance.

## **Policy Recommendations**

To improve the PBIS and to address the concerns raised in the two PBIS study, we make the following policy recommendations:

1) *The AO 25 Inter-Agency Technical Working Group (IATWG) must find ways to determine the optimal amount for the performance bonuses and to make the differences substantial enough so as to encourage units to strive for the Best possible rating.* For the research team, the current bonus increments of 7.5% per performance level increase appears too small to make a difference in encouraging better performance.

We propose that the AO 25 IATWG consider raising the PBB increments per rank to at least 25%. This means that employees in units ranked Best will get a PBB that is 100% of their monthly salary, those in units ranked Better will receive 75%, and those in units ranked Good will receive 50% of their base monthly salary. This will make the differences performance incentives more felt.

2) *We propose the creation of a mechanism that will require all heads of bureaus and service delivery units to convene and discuss their respective performance targets and to share their performance evaluation results.*

This will improve transparency and ideally facilitate healthy discussions where unit heads examine and benchmark on each other. One product of this process is an agreement about a common review system. The heads of different unit should also considering making their MFOs, success indicators, and DPCRFs/OPCRFs available to other units and possibly to the public through their website. This can address concerns about units “gaming” the system and mistrust about the performance evaluation results. It will also allow better communication and coordination among units within agencies.

3) *We also recommend that individual performance targets and evaluation of personnel be discussed and made available to other personnel within and outside their units.* Like the previous recommendation, this process should facilitate healthy discussions where employees can view and discuss each other’s performance targets and if necessary, make appropriate adjustments. This will allow them to benchmark and can also improve trust and address concerns about subjective evaluation results. As well, it will allow better communication and coordination within the office or service delivery unit.

4) *Similarly, we also recommend involving external stakeholders in the process of evaluating government agencies like the DILG.* After all, a satisfied customer is the ultimate success indicator. In particular, efforts should be given towards getting feedback of organizations and individuals that avail of the services of agencies like the DILG. This will help improve the quality of performance assessment and ensure that improvements will actually end up improving the quality of public services. A concise 1-page evaluation could be regularly handed to organizations and individuals for immediate feedback.



5) *We also propose to augment / complement the PBB with non-monetary rewards to encourage personnel to sustain and improve their ratings.* Group tours and teambuilding activities for individuals and units to build the team and further improve working relationships within and between units. Professional training, seminars, and graduate courses to invigorate and further develop the capability of personnel. Innovation awards to encourage employees to innovate and improve.

6) *The incentive system can be further improved by adopting an accumulation system.* The suggested rules for accumulation of incentive percentages are as follows: (1) improvement on performance will be granted an increase of incentive percentage; (2) decrease of incentive is due for ill performances; and (3) maintained performances retain their accumulated percentages. This dynamic system not only promotes proportional incentives but also heightens motivation in order for individuals and units to perform better.

7) *Finally, we recommend the transformation of the PBIS from a system where units (and individuals) compete against each other into a self-competing system where the bonuses are dependent on improvement on past performance.* This will address the concerns of inequality and fairness in the evaluation. This way established and developing individuals and units both have equal growth opportunities because their standards is based on their past performances. This self-competing system of units ensures at least sustained performances, if not improved.

The more strategic direction is to design a PBIS where incentives and bonuses are not determined based on competition between units but a system where units (and individuals) are encouraged to meet a given performance standard. The idea is that it is better for units (and individuals) to be given higher bonuses for meeting and exceeding its performance targets rather than for them to be given a higher bonus because their scores were marginally higher than other units that have a different set of responsibilities and functions. In such a system, Good, Better, and Best are determined based on the attainment of MFOs rather than forced ranking and competition among units that are supposed to support and complement each other.

## **Concluding Statement**

Results should matter in public sector organizations and public sector managers should keep the organization focused on salient results. The Philippine government's PBIS

is an opportunity to identify results that matter. As a strategic exercise it will contribute to a better organizational logic of linking incentives and performance. This after all is at the core of the PBIS and of the PBB in particular.

A strategic PBIS is one whose design and operational features are linked with a particularly powerful notion that underlies democratic government and governance. At present, this has not yet been fully accomplished although this is the goal. The PBIS and the PBB in particular have a distinct strategic value to this broader strategic endeavor. They can contribute greatly to the formation of *esprit de corps*.

The emphasis on team work with the shift towards unit-as-basis approach is an opportunity to focus on developing team spirit, shared identity, professionalism, and patriotism. This opportunity should be taken seriously because while the focus on the unit has eliminated forced ranking it may encourage free riding. No program can be more strategic than the one that binds the organization to the very reason for its existence. Hence, a government bureaucracy with a strong *esprit de corps* rooted in the values and norms of a democratic state and society fosters a relationship between the government and the citizens that can lead to progress and national development.

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