Hong Kong’s Civil Service Reform: Lessons Learned From the American Experience

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ABSTRACT
In an attempt to increase the accountability of Hong Kong’s government and increase the sense of responsibility and motivation of government employees, the Civil Service Bureau of Hong Kong’s Government Secretariat has proposed various civil service reforms. This article provides an overview of the current civil service system’s weaknesses, focusing on the deleterious effects of the current system in creating an entitlement culture among Hong Kong’s civil servants. Among the shortcomings are the permanent establishment status of civil service employees, the time-in-rank pay increment system, and the defined-benefit pension system. It then demonstrates how the reform proposal remedies each of these shortcomings through agreement terms for new civil service employees, the redefinition of the concept of “permanent” career, and a defined-contribution pension system. Drawing upon lessons learned from previous attempts to reward government employees for their performance, this article suggests that Hong Kong’s reformers tailor performance pay to agency attributes, ensure employee participation in design and implementation, defuse resisters’ concerns, pay special attention to performance measurement, provide adequate funding and training, and provide one-time bonuses in favor of permanent additions to base pay. It is concluded with strategies to help establish a culture supportive to performance and success.

INTRODUCTION
Governments around the world have undergone significant change during this decade. If one theme could be selected to represent the myriad of reform efforts currently underway in governments at all levels in almost every country, it would be accountability. Taxpayers and their representatives are demanding that governments account for what happens with revenues collected, and what results are achieved from government interventions into social, health care, environmental and defense matters. At the macro level (programmatic, departmental or government-wide), the demand for accountability has led to performance budgeting and financial management reforms. The most frequently cited of these reforms include New Zealand’s Fiscal Responsibility Acts of 1994 and 1998, and the United States’ Government Performance and Results Act (GPRA) of 1993. At the micro, or individual level, the demand for accountability has led to the increased use of personnel systems that link employees’ performance to their pay.

The public’s demand for accountability is one of the primary justifications for Hong Kong’s civil service reform proposal. Public dissatisfaction with governmental performance, specifically efficiency, has been a catalyst for the reform effort (Civil Service Bureau, 1999). Indeed, one of the central objectives of these
reforms is to create a culture of accountability within the civil service, increasing "the sense of responsibility and motivation of civil servants at all levels" (Civil Service Bureau, 1999, p. 7).

**CRITICISMS OF HONG KONG'S CURRENT CIVIL SERVICE SYSTEM**

A frequent complaint about civil service employment in governments around the world is the entitlement culture that accompanies many government jobs. The entitlement culture is the perception among public sector employees that once hired they are entitled to permanent employment, incremental increases in job responsibilities and salary, and a generous benefits and retirement package. This entitlement culture is strengthened by almost every component of the current Hong Kong Civil Service system. Some of the components of the current civil service system that foster the entitlement culture, include:

- Permanent establishment status;
- Time-in-rank pay increments; and
- A defined-benefit pension system

**Permanent Establishment Status**

In Hong Kong's current civil service system, the terms for new and continuing appointees to the civil service lend themselves to an entitlement culture. New employees are given probationary status for two to three years. At the end of a satisfactory probationary period, employees are given "permanent establishment" and designated career civil servants until retirement at age 60. Once employees attain permanent status, they lose their job only if they commit serious misconduct. Additionally, while there are exceptions, promotions to supervisory ranks within the current civil service are often a function of time served, rather than open competition based on performance.

**Time-in-Rank Pay Increments**

Currently, within rank pay increases are a function of two variables: time-in-rank and civil service pay adjustments based on the Pay Trend Survey. The Pay Trend Survey collects data from 75 Hong Kong companies, taking into account changes to cost of living, market rates of pay, and economic situation and company performance. Both of these within rank pay determinants are divorced from group or individual performance, supporting the entitlement culture within the civil service.

**Defined-Benefit Pension System**

The current civil service pension system perpetuates the entitlement culture. This defined-benefit system provides pensions that are calculated according to years of service. Some of the pension can be drawn at retirement in the form of a lump sum. The remaining pension provides an annuity, paid monthly, until the civil servant
passes away. Retained purchasing power is assured through annual increases that are tied to the consumer price index (CPI).

The entitlement culture is manifest in each of these three central components of the civil service system: hiring policies, pay and promotions policies, and retirement policies. Under this system, the expected norm for new hires to the civil service is to have a guaranteed job until age 60, with guaranteed increases in job responsibilities and salary, and a guaranteed retirement package that begins to pay out at age 60. With the minor exception of a short probationary period when a civil servant’s career begins, the generous provisions of Hong Kong’s civil service system are given without respect to employee performance.

**PROPOSED CHANGES TO HONG KONG’S CIVIL SERVICE SYSTEM**

Despite the criticisms of the current civil service system, its guaranteed employment, pay increases and retirement system are not extraordinary for public sector employment. Such employment terms have existed for government employees around the world. The central problem with these guaranteed benefits and the entitlement culture that accompanies them is the lack of an incentive for individual employees to excel. The civil service reform proposal provides remedies to the entitlement culture in three important ways:

- Agreement terms for new civil service appointees;
- Redefinition of permanent career; and
- A defined-contribution pension system

**Agreement Terms for New Civil Service Appointees**

One break in the civil service entitlement culture is the agreement terms for new civil service appointees. Under the proposed civil service system, basic rank civil servants will be employed on agreement rather than on permanent and pensionable terms. The fixed agreement terms will continue as long as an employee stays within the basic ranks. Only upon demonstration of a solid performance record and demonstrated potential for supervisory and managerial positions will an employee be offered new agreements. Additionally, appointments to supervisory and management positions will result from open competition between existing civil servants and outside candidates.

**Permanent Career Redefined**

One of the components of the proposed civil service system is a redefinition of the concept of “permanent” career. Permanent terms “no longer mean full security of tenure, but rather a promise of a structured career and long-term employment for those who continue to contribute their best” (Civil Service Bureau, 1999, p. 11). This redefinition of “permanent” employee will help eliminate the entitlement culture, as it reduces the property rights that are currently assumed to preside with civil service positions.
Defined-Contribution Pension System
Together with the emphasis on fixed agreement terms for new civil service employees and the redefinition of the concept of permanent career, a new pension system is proposed. The current defined benefit program will be replaced with a defined contribution, or contributory provident funds system. Again, the notion of permanence and entitlement dissipates with a defined-contribution system, as one of its primary features is portability. One indirect result of such a system should be freer movement between the public and private sectors.

In sum, the current civil service system reinforces the notions of entitlement and permanent tenure at every turn. The civil service reform proposal recommends a system in which advancement and even continued employment is a function of performance and merit rather than longevity. Accountability is the primary focus of the proposed reforms, and the expected result is increased individual, agency, and governmental performance.

LINKING PAY TO PERFORMANCE A CRUCIAL FEATURE OF REFORM
In addition to the reforms intended to change the entitlement culture, the proposal also suggests the implementation of a performance pay system. The theory underlying the motivational force of performance pay is based on Vroom’s (1964) expectancy theory of motivation. Vroom translated classical economic theory into a model of individual decision making. The logic is that individual decisions are a function of valence (an individual’s preference for a specific outcome, such as a salary bonus), expectancy (an individual employee’s belief that effort will lead to increased productivity), and instrumentality (an employee’s belief that increased productivity will result in something valued, such as a bonus).

EXPERIENCES WITH PERFORMANCE PAY PROVIDE MIXED RESULTS
No longer an anomaly, performance pay has existed for many U.S. federal government employees for over 20 years. The most prominent governmental performance pay program in the U.S. resulted from the Merit Pay System (MPS) created from Title V of the Civil Service Reform Act (CSRA) of 1978. Through the MPS, the salaries of mid-level and senior managers in the U.S. federal government were increased according to their performance. Several studies evaluated the effectiveness of MPS’s performance pay program. These studies indicate that the primary shortcomings included a failure to establish a clear relationship between individual performance and pay and a failure to satisfy basic standards of fairness (Perry, 1992). The main benefit of MPS’s performance pay program, according to these studies, was the developmental and planning focus of the performance appraisal system that accompanied the MPS (ibid.). This benefit was mitigated, however, when pay decisions were connected to these appraisals. While the initial MPS performance pay program was abolished in 1984, other performance pay
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programs and demonstration projects have appeared in its place to make performance pay an important, if not dominant, part of the U.S. federal personnel policy agenda (Ingraham, 1993).

Despite scant empirical evidence of performance pay’s benefits, the last 15 years have witnessed its increasing support and use. Performance pay has even gained attention and support from prominent U.S. political figures, such as Vice President Albert Gore. During this time, performance pay programs have been widely adopted at the state and local level in the U.S. The widely divergent approaches to performance pay the states and localities have adopted has made it difficult to cull support for any one method of performance pay (U.S. General Accounting Office, 1990). The diffusion of performance pay has extended beyond the U.S. boundaries into several Organization for Economic Cooperation and Development (OECD) countries. While the successes and failures of these performance pay programs are not as extensively documented as have been the U.S. programs, some evidence suggests similar results between OECD country programs and the U.S. experience. Among other similarities, some of these programs have reported that employees are more satisfied with the performance appraisal components of these programs than they were with the performance pay components (Ingraham, 1993; Wood, 1991). In sum, like their U.S. counterparts, there is little evidence to suggest that the OECD performance pay programs lead to improvements in agency, departmental, or government-wide performance (OECD, 1992). Evidence from these and other previous performance pay programs suggests that reformers should approach performance pay soberly, with complete recognition of the lessons learned from previous failures and current struggles to implement performance pay around the world. We briefly explore these challenges and lessons here.

Performance Pay Should be Tailored to Agency Attributes

Performance pay is not a one-size-fits-all endeavor. The Civil Service Bureau (1999, p.16) recognizes this, stating “we do not consider any single model of performance pay could be applied throughout the Civil Service.” Ideally, performance pay should be tailored to each agency within which it is implemented. The design of performance pay programs are a function of agencies’ diverse missions, strategic plans, and the types of goods and services they produce. Just as programs often require an evaluability assessment (Wholey, 1994) to determine if a program evaluation is possible and if its results would be useful, agencies should also do the necessary preparations to see that implementation of performance pay is both possible and useful. Much of what is required by way of preparation is assuring that a valid measurement system is in place prior to performance pay implementation. These matters are discussed in greater detail below.
Performance Pay Requires Preparation

Performance pay is often seen as a panacea for poorly performing public sector agencies. These poorly performing agencies are actually the least prepared to exploit performance pay’s productivity enhancing potential. Implementing performance pay in such an environment can cause more problems than it solves. The agencies ripe for implementation of a performance pay system are those with supportive cultures that can facilitate agreement about the performance pay system. Such a facilitative environment should be in place prior to the implementation of a performance pay program. If an agency is unprepared, “gateway reforms” (Perry, 1995) should predate the implementation of performance pay. Gateway reforms are those which lead the way for other major reforms and innovations.

Indeed, the changes intended to discourage the entitlement culture in Hong Kong’s civil service, while components of the proposed reforms, are themselves gateway initiatives. One of the primary functions of gateway initiatives is to foster organization culture change. Performance pay should be conceived as a “lagging” change, which is intended to lend support and reinforce previously implemented gateway changes. At the very minimum, irrespective of an agency’s current status, implementation of a pay performance program should be slow and deliberate. There needs to be lead sufficient time to teach the managers and the employees how to operate the system, and to explain the logic underlying performance pay. Failure to do so has led to ineffective implementation of previous performance pay programs (U.S. General Accounting Office, 1987).

Performance pay should not be implemented simultaneously with new performance appraisal systems. Research suggests that when a new performance appraisal system is implemented in tandem with a performance pay system, then the uncertainty and anxiety created by the implementation of either individually is heightened by implementing the two concurrently (Pearce and Perry, 1983). Ideally, technical imperfections in a new employee appraisal system are quickly revealed and remedied. Under normal conditions these imperfections create some anxiety. However, when both performance appraisal and performance pay are implemented at the same time, the anxiety over the performance appraisal’s imperfections are greatly intensified. Any inaccurate or perceived inaccurate assessment of an individual’s performance will not only have reporting implications, but substantial monetary implications. One solution is to fully implement the performance appraisal system first. This allows time to eliminate the major flaws prior to tying appraisals to monetary rewards.

Employee Participation Crucial to Design and Implementation

Employee participation facilitates patterns of interaction between management and employees that are conducive to success of the performance pay system. When employees actively participate in the design and administration of the performance pay system, they are much more likely to view the system with higher trust and
greater approval. Employees are also likely in a better position than management to implement performance pay systems. Employee involvement in the development of the performance pay system should include a signed, mutually agreed-upon document between all employees and their supervisors that delineates work responsibilities and the performance criteria upon which an employee will be appraised and awarded performance pay. These performance expectations should provide clear linkages between individual employee responsibilities and agency objectives. If performance expectations meet this standard, they will translate an employee’s desired outcomes into measurable activities, behaviors, or results. The document, signed by both supervisors and employees, will help protect against employee morale problems that will inevitably accompany any performance pay system that employees perceive is either subjective or arbitrary. Performance expectations are discussed in greater detail below.

Defuse Resisters’ Concerns
By necessity, encouraging employee participation in an organizational reform cannot be limited to those who support the reform. One strategy to foster change is to defuse concerns of the most vocal resisters to the change effort (Frederickson and Perry, 1997). This can be done by accommodating their demands in a manner that does not violate the intent of the reform, rather than attempting to overcome or bypass the demands of resisters. The danger of attempting to suppress resistance to change is that it will likely lead to alienation of many employees (even those who did not originally resist or oppose the change).

Ignoring the resistance to change can result in a failure to see potentially valuable revisions to the reform proposal. It can also lead to ignorance and callousness regarding how the change will likely affect individual employees, and unrealistic views of the likelihood of successfully implementing the change (Nord and Jermier, 1994). A better approach is to involve employees at the front end of the change process. Active participation from employees in the design and especially the implementation of performance pay will provide for greater “ownership” of the system from the rank and file. The probability of success of any change effort is greatly enhanced with active employee involvement (Wise, 1996).

Performance Measurement Requires Special Attention
A major problem with performance pay systems in government involves the inadequacies of performance measurement systems. With the absence of a readily identifiable bottom line, those developing performance measurement systems for government face a greater challenge than their private sector counterparts. This is one of the greatest challenges to implementing a sound performance pay system in the public sector. In their enthusiasm for performance pay principles, public organizations too frequently implement performance pay plans without tested and validated measurement systems. A key ingredient to performance pay success is
devoting sufficient time and effort to designing and testing the performance measurement system.

When agencies fail to adequately prepare the performance measurement system, paying particular attention to those factors most closely related to success, the performance pay system may not succeed and could actually be counterproductive. The time and effort required to develop a sound performance measurement system should not be viewed as mere preparatory activities. There is significant return on the investment of the time, effort, and money required to develop an acceptable performance measurement system. This return on investment becomes tangible even prior to the system's implementation, as the development and existence of a measurement system is useful in its own right. For these reasons, gradual implementation of the performance pay system (taking as much as five years to implement the measurement system) is crucial. Additionally, gradual implementation provides the opportunity for all organizational actors to develop agreement and gain a sense of ownership of the performance pay system.

A performance pay system should not rely solely on traditional methods of performance appraisal. To the extent possible, performance pay should be a function of an individual's contribution to helping the organization meet its goals and objectives. The performance measurement system establishes criteria and indicators for organization performance. The performance appraisal system, on the other hand, should help translate organizational objectives into individual responsibilities and objective criteria to determine the extent to which an individual helps the organization meet its objectives. If implemented and functioning properly, the performance appraisal system used for performance-based pay should move appraisals toward objective measures of individual achievement and away from subjective supervisory judgements of individual employees.

Managers seldom have difficulty identifying their top performers. The challenge is measuring and documenting justifications between different levels of performance. When employees fail to see clear connections between performance and pay, it will ultimately lead to the failure of the performance pay system. It is difficult to motivate employees when the requirements to receive performance rewards are unclear (Perry, 1991; Perry and Petrakis, 1988).

An individual's performance pay should be based on sound, objective performance measures. The performance expectations can provide the objective grounds upon which an individual's performance pay is determined. Performance expectations should contain broad goals and outcomes that an individual and his or her supervisor would like to achieve. Each of these goals and outcomes should meet three primary criteria:

1. Outcomes should fall within an individual's work responsibilities;

2. Outcomes should create a link between an individual's work responsibilities and the agency's goals and objectives;
(3) Outcomes should be able to be broken down into measurable activities, behaviors, or results that specify a combination of quantity, quality, and time elements.

**Adequate Funding Necessary**

From a motivational perspective, performance pay can only be effective when sufficient portions of an individual’s pay are put at “risk,” that is, can be gained or lost as a result of performance. Estimates of what constitutes an adequate amount of pay resulting from individual performance range from 3% to 10%. These estimates of minimum amounts of pay at risk exceed the portion of pay associated with the current increment system. Thus, a performance pay system will need to identify additional monies to have a motivational impact.

**One-Time Bonuses Preferable to Permanent Additions to Base Pay**

Organizations must choose between increments that are additions to base salaries and increments that are one-time bonuses. There are budgetary and motivational reasons for opting to award one-time bonuses over additions to base salaries. From a budgetary perspective, one-time bonuses prevent this year’s performance pay decisions from constraining out-year budgets. From a motivational perspective, one-time bonuses allow a greater portion of an employee’s salary to be put at risk, making performance rewards more identifiable. This creates a clearer link between pay and performance (Perry, 1992). Research indicates that one-time bonuses are superior motivationally (McFee and Brumback, 1988; Schwab and Olsen, 1988) to base salary additions.

**Training Required for Supervisors**

One requirement for an effective performance pay system is adequate training for managers. This training should assure that the connection between each individual employee’s performance expectations and the agency’s goals and objectives is understood by supervisors and fully explained to all agency employees. The training should teach supervisors how different organizational objectives can be broken down into clear goals for individuals. It should also instruct managers how to break goals down into work responsibilities that can provide measurable indicators of successful attainment of employee goals. The training should also help managers learn how to translate an individual employee’s performance expectations and actual performance into a specific amount of performance pay. This is a crucial part of any performance pay system, as it helps insure against employee perception of unfairness and arbitrariness in pay decisions.
SUPPORTIVE CULTURE ESSENTIAL TO PERFORMANCE PAY SUCCESS

Any attempt to implement a performance pay system will falter if insufficient attention is paid to the culture within Hong Kong’s government agencies. Organizational culture operates on three levels. These levels are listed below from most observable to least observable. They include:

1. Artifacts -- Most observable. Includes an organization’s structure and design, work habits, rules, etc.
2. Basic Values -- Somewhat observable. Includes what organization members consider ought to be or how people within the organization ought to behave.
3. Basic Assumptions -- Unobservable. Basic assumptions upon which people within the organization operate (Schein, 1992).

Managers Must Focus on Basic Values and Assumptions

One way to differentiate attempts to alter individual behavior is to separate those change efforts that focus on artifacts versus those change efforts that focus on basic values and assumptions. First-order change refers to changes that alter artifacts, or systemic and structural characteristics alone (Levy and Merry, 1986). These can include organizing arrangements, such as goals, strategies, formal structure, administrative policies, administrative systems, and reward systems (Porras and Robertson, 1992). Second-order change (Levy and Merry, 1986), on the other hand, attempts to alter individual behavior by focusing on its underlying causes. In second-order change, “the original frames of reference are replaced by new ones, with the results that the new organizational condition is seen by members as conceptually quite different from the old” (Porras and Robertson, 1992, p.721). In order for change to endure, second-order change is required.

One of the mistakes made in almost every reform effort is exclusive focus on changing organizational attributes at the artifact level, or only initiating first-order change. Most reform efforts are first-order changes, as they alter organizational structures, work arrangements, incentives, and rules. While the changes that accompany reform occur at the artifact level, the assumption is that these changes to the organization’s artifacts will lead automatically to second-order changes. The problem with the assumption is that people do not respond consistently to what these organizing arrangements tell them to do” (Porras and Robertson, 1992, p. 730). Any reform effort that remains at the first-order level and ignores less observable levels of organizational culture will likely falter (Frederickson and Perry, 1997).

Managers Must Guard Against Gaming the System

As discussed in detail above, the proposed changes to Hong Kong’s civil service system represent a fundamental departure from the existing system. The new system, however, will operate only at the artifact level. The values of the managers and the assumptions upon which they manage will likely be tied to the civil service system.
in place now. These managers will be charged to make salary decisions based on individual performance, where previously they were made based on tenure. Unless leaders can pierce the cultural values and assumptions of Hong Kong’s government agencies and effect a second-order change, managers might sabotage the successful implementation of the performance pay system.

How an organization rewards its employees sends a powerful and enduring message about what the organization values, and thus affects the basic assumptions under which employees work. When change is attempted, it has to contend with the cultural values and assumptions that inevitably accompany decades of doing business in a completely different way. The danger is that the values and assumptions of the current system will corrupt the decisions of who gets a performance bonus and how much they will get. This will manifest itself in attempts to “game” the system, or make pay decisions based on criteria other than performance.

We have found that the value of equality and the importance of a perception of fairness can permeate an organization to such an extent that managers will see to it that performance appraisals and individual employee pay increases will not reflect actual performance, but will reflect what the employees would have received under the old system (even after the structural and incentive changes have supposedly taken place). This can happen when managers game the system, retroactively fitting performance appraisals so that they merit pre-determined amounts of performance increases (usually the amount that an employee would have received under the old system). Gaming the pay system can take many other forms, too. The important point, however, is that such gaming or regression back to the previous system will engender cynicism. This cynicism will not only extend toward the performance pay system, but all future civil service reform efforts.

**Comparisons to Previous System Should be Limited**

One way to break with the previous culture that is damaging to performance pay is to avoid making comparisons between what an individual receives under the new and old system. Of course, such a comparison is devastating to the morale of those who receive substantially less under a performance system. What is less obvious, however, is the damage done when payout comparisons are made between the new and old systems even when someone has fared well under the new system. It is tempting to make these comparisons, because it is assumed that it will help to “sell” people on the program by convincing them that it benefits them individually. However, it is ultimately damaging because it requires that people maintain the mind-set of the old system. Such comparisons will not increase the overall enthusiasm for performance pay, as there are many employees who would have fared better under the old system. The complaints from these employees will no doubt be louder than the gratitude expressed by those treated more favorably under performance pay. Making individual comparisons of how individuals would be
treated under the different systems is therefore short-sighted and counterproductive. Long-term support for performance pay will be achieved when employees are sold on the notion that performance rather than tenure is a more sensible and ultimately a fairer method for determining pay.

As a general rule, not only should comparisons between how individuals fare under both systems be avoided, but all references to the old system should be avoided. For this reason, it is important that the new system not be superimposed on the old system, as the weaknesses of the old system will confine the performance capabilities of the new system. Discussions about the new system should not be couched in terms of the old, as these references are a constant reminder of the old system.

CONCLUSION

From a performance standpoint, the proposed changes to Hong Kong's civil service system should improve the existing system. It is the responsibility of those charged with implementing these reforms to assure that the new system will also be superior to the old one from a motivational standpoint. If implemented with careful attention to the caveats discussed here, with particular attention to the cultural values and assumptions of participating agencies, the probability of success on both performance and motivational grounds will increase substantially.

REFERENCES


