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MINISTER OF LABOUR, INDUSTRIAL RELATIONS &  
EMPLOYMENT

Workshop on  
Performance Linked Wage System

Organised by  
*Mauritius Employers' Federation*  
in collaboration with the  
*International Labour Organisation*

**Date:** Thursday 19 November 2009

**Time:** 0900 hrs

**Venue:** **MEF Management School**

Ebène Cybercity

Ebène

**Mr Anwar Joonas, President, Mauritius Employers' Federation**

**Dr Azad Jeetun, Director, Mauritius Employers' Federation**

**Mr Herzon Njuguna, Senior Specialist, Employers' Activities, ILO**

**Mr M. Vivekanandan, General Manager, Industrial Relations, Malaysian Employers' Federation**

**Dear Participants**

**Distinguished Guests**

**Ladies and Gentlemen**

A very good morning to everyone of you. I am very pleased to be among you today on the occasion of the opening of this Workshop organised by the **Mauritius Employers' Federation**.

I would like, at the very outset, to express my appreciation to **Mauritius Employers' Federation** for taking the initiative of organising frequent workshops on diverse themes and issues of direct relevance to the world of work. Today's workshop which focuses on **Performance Linked Wage System** will hopefully provide the opportunity to participants to better understand the pros and cons of Performance –related-pay in the context of the overall common objective of gaining and sustaining competitive advantage in period of economic uncertainty.

Ladies and gentlemen,

Competition and competitiveness of countries and enterprises have emerged as key issues as a result of not only globalisation, but also in the context of present economic challenges. And improving productivity and maximising the use of human resources, in most countries without exception, have become the reference point for the competitiveness of enterprises and long-term strategy for governments as well as managements of enterprises.

In their quests for achieving the goals with regards to competitiveness and productivity, governments as well as enterprises have, over the years, initiated timely reforms in the pay system. Performance related pay has traditionally existed since long in the private sector with respect to specific jobs and tasks, particularly in the manufacturing sector, in the sugar industry and the construction sector.

Pay-for-performance in the corporate world, driven by companies in their search for competitive advantage, has contributed significantly to the pressure on government to

reinvent people management practices. Likewise, many developed countries have introduced Performance Related Elements in their reward systems in one way or another. In Australia, flexibility in pay system is regarded as a catalyst for productivity improvement and work place reform. In Canada, Performance Related Pay Elements have been introduced for most levels of management. In Germany, government has committed itself to its introduction. In Netherlands, New Zealand and Sweden, just to name a few, provisions to include performance related pay elements in the Civil Service are already in place. U.K and Singapore are implementing Performance Related Schemes based on a system of Performance tranches and linked to individual performance. "Performance Tranches" refers to the classification of employees into say three groups – the best performers, the average performers and the least effective performers.

In Mauritius, as you may all know, Performance Related Reward is present mostly in private sector organisations, and a few state owned companies. In the public sector, however, the Pay Research Bureau has come up with some Performance Related Schemes and relevant recommendations as to their implementation through a Performance Management System. For a long time, Mauritius has had a traditional Civil Service pay structure and there was a strong apprehension about introducing performance pay too early in this sector. That's why, in the context of public sector reforms, this is being carried out on a pilot basis, in phases with mechanisms for examining, approving, controlling, and monitoring its implementation integrated within a proper performance management and appraisal system.

Ladies and gentlemen,

What do we understand by performance related pay? Generally, performance related pay is used to reward employees on an individual and team basis. It is used in parts of both the public and private sectors where it is often perceived to be a way of giving an incentive to those at the top of their pay band or as a means of rewarding employees through the pay system. Pay increases are thus generally linked to individual or team performance measured against targets or objective criteria.

Ladies and gentlemen,

What is the rationale behind introducing a Performance Linked Pay System? Generally, many advantages are claimed for performance-related pay, though its primary purpose in any organisation is to **recruit, retain and motivate** the workforce. It is believed that high quality workers are attracted to an organisation where they believe their ability will be rewarded, while the current workforce is given the message that good performers are valued and that poor performers are not. The prospect of earning more money is assumed to motivate workers to work harder and more effectively.

There are additional aims, one of which is to make employees more aware of or more committed to certain organisational goals. When employees learn that certain skills or

specific behaviour are rewarded in a performance-related pay system, they also learn what it is that their employer considers important.

Studies in various quarters have indentified other objectives of performance-related pay. These are, amongst others:

- making managers responsible for taking decisions, and giving them greater flexibility;
- giving better value for money;
- encouraging greater accountability;
- strengthening the relationship between individual job goals and organisational goals;
- enhancing job satisfaction.

However, it is also important to know the other side of the story. For example, research conducted by the **London School of Economics** suggests that financial incentives derived from Performance Related Pay Systems may indeed reduce an employee's natural inclination to complete tasks and derive pleasure from doing so. In fact, performance related pay provision could result in a net reduction of motivation across a team or organisation and therefore can impact negatively on overall performance.

There may be disputes about how performance is measured and whether an employee has done enough to be rewarded. Some might argue that rewarding employees individually does very little to encourage teamwork, and that performance related system may encourage unhealthy rivalry between managers.

The fact that performance is hard to objectively evaluate at times makes performance related pay difficult to fairly assess and can cause dissatisfaction and feelings of inequality in the workplace as a result. This means that performance-linked-pay tends to work best, and is easily accepted, in industries where job performance is easy to evaluate objectively.

Ladies and gentlemen, having said this, it can therefore also be concluded that the ethos of paying for performance can be accepted in some organisations for specific job categories, whereas in others, it can simply be resented.

I would therefore suggest employers to be cautious with regards to the introduction of performance-linked-wage system, particularly if such a system does not exist in the enterprise concerned. The introduction of such a system should first imperatively be the subject of discussions and consultation with the workers as well as their representatives and trade union organisations. Employers who envisage to introduce Performance-Linked Pay System, must do so in full respect to the true spirit and principles of **Collective-Bargaining**.

While implementing a Performance-linked wage system, enterprises should also ensure that there are no departures from the principle of **Equal Pay for Work of Equal Value**. Transparency is also a key feature, because employees need to understand why they are paid as they are. Workers with performance-related pay expect to have convincing reasons as to why some employees get more than others, and will want clear guidelines as to how they too can earn more money.

Ladies and gentlemen, employees are the driving force behind the success of every enterprise. In order to survive in today's challenging business environment, it is important and crucial to reflect on how to prepare human resource responses to these challenges. Our future depends on technologies, changes, innovation, training and productivity improvement so that we may sharpen our competitive edge. Our future depends on skills, competence, and knowledge management since there is a need to upgrade the quality of our products and services to further increase our market share. And above all, we need to develop a productivity culture and also the need to change our work attitude and mindset.

We are conscious that increase in productivity and competitiveness can only be brought about and sustained through major reforms to the labour market and wage policy. In the past, inflexible labour market regulations have separated wage developments from productivity changes, and affected risk-taking and innovations in the productive sectors.

In line with government's commitment to labour market reforms, and market flexibility, we have introduced with effect from 2<sup>nd</sup> February this year, the new labour legislation, namely the **Employment Relations Act** and the **Employment Rights Act** with a view to removing the existing rigidities as well as to better addressing the interests of both workers and investors as well.

The new labour legislation, particularly the **Employment Relations Act** provides for the necessary tools for the promotion and practice of **Collective-Bargaining** on general terms and conditions of Employment, including payment systems.

According to the **Code of Practice, Section 53 to 56**, of the Employment Relations Act, Payment Systems vary according to the nature and organisation of the work, local

conditions and other related factors. Payment system shall be based, wherever applicable, on some form of work measurement under which payment systems must be jointly negotiated where trade unions have negotiating rights.

The **Code of Practice** of the **Employment Relations Act** further states that differences in remuneration shall be related to the requirements of the job, which shall, whenever possible, be assessed in a rational and systematic way in consultation with the trade unions concerned. It is also emphasised that Payment Systems shall be periodically reviewed to make sure that they suit current circumstances and to take account of any substantial changes in the organisation of work or the requirements of the job.

Before concluding, I wish to congratulate again the MEF for holding this workshop on such an important subject as **“Performance Linked Wage System”**. To the workshop participants, I can say that you are all lucky to have two experts of very high calibre as resource persons; namely **Mr M. Vivekanandan** from **Malaysian Employers Federation** and **Mr Hezron Njugana** from the **International Labour Organisation**. I would, therefore, urge you to make the most of this opportunity with a view to further strengthen your knowledge on this subject.

With these words, I have now the pleasure to declare this workshop opened and I wish the participants all the success.

I thank you for your attention.