

Designing System for Employee Performance Allowance Calculation using Pay for Performance

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Abstract: This study aims to propose the calculation of employee performance allowance system design using Pay for Performance (PFP) at Agency X. PFP helps in producing reliable data in evaluating employee performance such as the existence of supporting evidence for the performance performed by employees and must be included to meet criteria promotion based on the credit number unit specified in the applicable rules. Agency X is a work unit that is responsible to the Minister through the Secretary General and headed by the Chief. Agency X itself has the task of carrying out guidance and management of information systems, data management, and analysis and presentation of data and information. The non-optimal employee performance allowance payment will result in an inefficient payment system for employee salaries. If the agency's performance is not effective but the costs paid are high, it can be said that the agency is not efficient in managing its costs. There are some employees who have not received a promotion even though they have exceeded a certain period of work because the employee has not fulfilled the determined performance but receives a full performance allowance. PFP is part of the Management Accounting Control System (MACS). MACS helps decision makers in determining whether strategies, objectives, levels of organization, business, and operations can be fulfilled. PFP can be applied as a control system to overcome the problem of the gap of interests faced by Agency X. This study uses qualitative methods with a case study approach. Data collection and analysis using research instruments, interviews, documentation, and content analysis. The benefit of this research is to evaluate and provide solutions to the causes of problems and provide a basis for making decisions to change the current employee performance allowance calculation system to be more efficient.

1 INTRODUCTION

Reforms carried out in the field of planning and budgeting began in 2005 with reference to Law Number 17 of 2003 concerning State Finance and Law Number 25 of 2004 concerning the National Development Planning System. The reformation was to emphasize that work plans and budgets must be prepared using a performance-based budgeting approach by considering the suitability of funding (Cost) with the expected results to provide information about the effectiveness and efficiency of activities. This study discusses the Institution X, namely a stakeholder in one of the sectors contributing the largest PBD in the Indonesian economy. The performance of the sector is generated from the support of the provision of data

and information as a basis for making decisions and policies to adjust business activities in the sector.

Employees at Institution X are Functional Officials who are Civil Servants (PNS) that are given full duty, responsibility, authority and rights by the authorized officials to carry out activities based on certain expertise and / or skills and are independent. The performance of functional officials is measured using credit point units. Credit points are units of value for each item of activity and / or accumulated values of items of activity that must be achieved by functional office holders for established career guidance (PP 16, 1994). Institution X Employee Performance Allowance that has been compiled is not in accordance with the expected results that are predetermined employee performance. This was also supported by the results of interviews which stated that there were several

employees who had not received a promotion even though they had exceeded a certain period of work because these employees had not fulfilled the set performance and in that period they received full Performance Allowance. There are also complaints that the current performance allowance calculation system is considered unfair because these employees feel that they have different performance from one another, but the performance they mean is not seen in the performance allowance calculation system.

With the broad scope of responsibilities and the variety of mandated assignments, Institution X has the urgency to implement a control system that can reduce interest gaps and improve employee performance in accordance with agency expectations that is a Pay for Performance system. With the calculation of employee performance allowance costs that will be adjusted to the performance produced so that unit costs to produce performance will be reduced when compared with without using the Pay for Performance control system.

2 THEORETICAL FRAMEWORK

In the control process that has meaning and credibility, the organization must have the knowledge and ability to be able to improve the uncontrolled situation. If this is not done, then control does not have a goal (Atkinson, 2012). The scope of MACS must be comprehensive and cover all activities throughout the organization's value chain. For example, many MACS measure and assess performance only in one part of the value chain of the actual production process or process. In this case, supplier performance, design activities, and post-production activities related to products and services are neglected. Without a comprehensive set of information, managers can only make limited decisions (Atkinson, 2012).

The term "Pay for Performance" (hereinafter abbreviated as PFP) refers to a payment strategy in which performance evaluations performed by each employee in the organization have a significant influence on the amount of salary increases or bonuses given to each employee itself. However, institutions should not rely solely on monetary motivational abilities to improve the performance of individuals or organizations because with more and more employees motivated by these monetary factors (Merit Systems Protection Board, 2006).

By motivating individual employees, incentive schemes are expected to increase performance satisfaction, improve interpersonal relations, lower absenteeism and material waste or capital, and reduce turnover rates. It must also be able to produce

long-term effects on company performance. (Bryson al, 2012. In order for PFP to work efficiently in two processes, compensation management and performance management must function properly. Not only separately but also can operate together as an integrated system. Compensation management requires an accurate assessment of the performance management system to realize its maximum potential. Whereas to achieve the full benefits of performance management a well-managed compensation system is needed. (Summers, 2005). Before we can implement PFP systems in organizations, according to the Merit Systems Protection Board (2006) there are several steps or general questions that must be understood by the organization to be able to design the system optimally. The steps include:

1. What is the purpose of implementing the PFP system?
2. Who should receive the PFP payment?
3. When is the right time to implement the PFP system?
4. What should be given as a form of appreciation for its performance?
5. How should employees be rewarded for their performance?
6. Who provides input on employee performance ratings?
7. How can institutions facilitate the integrity of the PFP system?

Government Agency Performance Accountability System (SAKIP) is carried out in the framework of preparing Performance Reports in accordance with the provisions of the law. The implementation is carried out simultaneously and in accordance with the implementation of Government Accounting Systems (SAP), control procedures, and evaluation of the implementation of development plans. The implementation of SAKIP in state ministries / institutions is carried out by Performance Accountability entities in stages with entity levels Accountability for Work Unit Performance, Organizational Units and State Ministries / Institutions (PP No. 29, 2014).

The State Civil Apparatus (hereinafter abbreviated as ASN) in Indonesia consists of several types namely Civil Servants (PNS) and Government Employees with Employment Agreements (PPPK). Civil servants themselves are ASN employees who are appointed as permanent employees by the Personnel Development Officer and have a national employee ID number (NIP). In functional positions, office holders are classified back into two parts, namely functional positions in terms of expertise and

functional positions of skills (UU No. 5, 2014, Article 18).

The work performance appraisal of civil servants is carried out to ensure the objectivity of the PNS career development and system based on the work performance system (PP No. 46, 2011 Article 2, 3 and 4). The performance appraisal of civil servants is carried out based on principles that are objective, measurable, accountable, participatory and transparent. The performance appraisal of civil servants themselves consists of two elements, that are:

- a) SKP; and
- b) work behavior.

Employee Work Objectives (hereinafter abbreviated as SKP) are a work plan and targets to be achieved by a civil servant. Every civil servant must prepare SKP based on the agency's annual work plan where the SKP contains all activities on the assignment of tasks and targets that must be achieved in a measurable period of time, which is set every year in January. The prepared SKP must be approved and determined by the appraisal official (PP No. 46, 2011 Article 5).

As if management in a company in managing its resources, the Indonesian government system also regulates the management of ASN especially for civil servants for the continuity of government activities. ASN management is a management system in a government system that functions to produce professional ASN employees, have basic values, professional ethics, free from political intervention, clean from the practices of corruption, collusion and nepotism (UU No. 5, 2014 article 1). The work performance appraisal of civil servants is carried out to ensure the objectivity of the PNS career development and system based on the work performance system (PP No. 46, 2011 Article 2, 3 and 4).

3 RESEARCH METHOD

This study uses a qualitative approach with a case study method, that the approach is carried out to get information in more depth and detail on the object of research. The case study approach according to Yin (2012) aims to explain the present situation to answer how and why of a phenomenon. Subandi (2006) states that case studies are one type of qualitative research that fully and deeply comprehends a case.

This research was conducted in Institution X which is a work unit that is responsible to the Minister through the Secretary General and led by the Chief. Institution X itself has the task of carrying out guidance and management of information systems, data management, and analysis and presentation of data and information. In this study, Institution X employees became the object of research and the unit of analysis was the actual source of information both for companies, organizations, individuals, and so on.

Data collected is primary and secondary, where the data is available from search results and the process of further collection of data that can be accessed or which is not accessible to the public. The research instruments used in this study were observation, interviews, documentation, and content analysis. Content analysis important to be done because in the document regarding rules and procedures for giving employee incentives, an analysis is still needed to obtain the information needed in order to evaluate and propose the design of a pay for performance system for the Institution X.

4 ANALYSIS

This study aims to produce a system implementation design for the calculation of performance allowance costs. The application of the system uses the Pay for Performance method which will be carried out at Institution X with several stages, those are:

- a. The purpose of implementing the Performance Based Incentive system.
- b. Parties who receive payment for Performance Based Incentives.
- c. The right timing in implementing a Performance Based Incentive system.
- d. What actions should be given as a form of appreciation for performance.
- e. The process of awarding employee performance.
- f. Parties who can provide input on employee performance ratings.
- g. Procedures carried out by the institution in facilitating the integrity of the Performance Based Incentive system.

4.1 The Purpose of Implementing the Performance based Incentive System

It is also important to remember that the impact of changing systems into PFP will affect organizational

culture because it is important for organizations to maintain harmony between organizational values and performance payment strategies. The purpose of implementing incentives based on performance in Agency X is to equalize the interests of employees and employers. The expectation of the employer is the achievement of the performance produced by the employee, while the expectation of the employee is the provision of incentives in the form of monthly allowances. So that with the implementation of the system for calculating the performance allowance, the provision of incentives is based on the performance produced by employees.

4.2 Parties Who Receive Payment for Performance based Incentives

To select appropriate coverage, the organization needs to decide what message the PFP system wants to be delivered to employees, including what must be measured and how. Calculation of costs for Institutional X performance benefits is based on several components, the first is employee work discipline with a weight of 60%. This gives the message that discipline is one of the important indicators for employers of employees. The second component is the achievement of credit numbers set by the employer with a weight of 40%. Credit numbers are units of value for each item of activity and / or accumulated values of items of activity that must be achieved by Functional Officials in the context of career development. This shows that performance achievements are also important things to be achieved by employees in order to get their rights to incentives every month.

4.3 The Right Timing in Implementing a Performance based Incentive System

Simultaneous application may look better if the organization is able to convey dramatic messages of organizational change and foster a sense of solidarity. Implementing a PFP system simultaneously can also avoid confusion and difficulties that arise related to the administrative system in an organization. The system of calculating the performance allowances can be applied to all existing Functional Officers but in this case the application should be carried out in stages using a pilot project by functional statistics officials where the group of employees is the employee in charge of providing data and information relevant to Institution X decision making.

4.4 What Actions Should Be Given as a Form of Appreciation for Performance

Evaluation of the criteria for performance standards of Agency X employees on the calculation of performance allowance costs can be described in the flowchart in Figure 1.

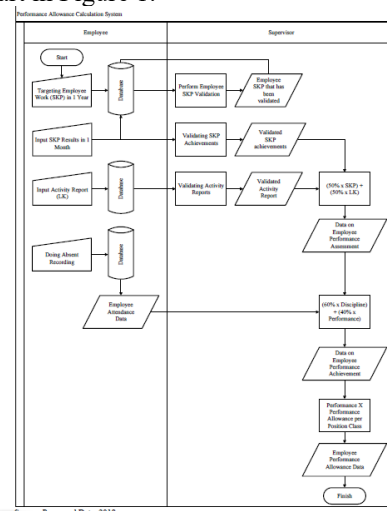


Figure 1: Current Institution X Performance Allowance Calculation System

In the flowchart, it explains how the overall cost calculation process and the value components that affect the receipt of incentives are in the form of Employee Performance Allowance. The flowchart is a general description of the process that is currently in effect and is still practiced to date, and will further be reviewed both the details and weaknesses of the system which can have a negative impact on the organization. There are weaknesses that arise in the current system, that is, the monthly SKP achievement target is determined in units of percentages which causes information that is not reliable because it is not supported by sufficient evidence. This is of course a factor that can increase the negative risk for the interests of the organization because the organization cannot objectively assess the truth of the employee SKP that is actually done, so that the assessment of employee performance becomes biased.

4.5 The Process of Awarding Employee Performance

Figure 2 Proposed Performance Allowance Calculation System Institution X which is the proposed flowchart for the calculation of the Institution X's current performance allowance costs described earlier in Figure 1.

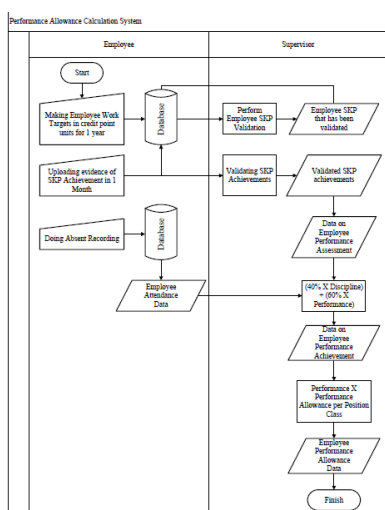


Figure 2: Proposed Performance Allowance Calculation System Institution X

In Figure 2 describes some solutions to the weaknesses that arise in the current calculation system. The solution includes removing the grading system using a percentage of activity reports that are considered not transparent. In addition, the proposal to use credit numbers is used as an evaluation tool that can be justified because it is accompanied by supporting evidence in the form of uploading actual activity documents. In addition, the weight of the SKP value is the dominant factor in determining the value of employee performance benefits which is equal to 60%.

4.6 Parties Who Can Provide Input on Employee Performance Ratings

Such input can come through various levels including first-level supervisors, second-level managers, employee colleagues and customers, also directly from employees. This can be achieved by using a 360-degree feedback instrument that includes input from higher levels of staff, colleagues, subordinates, and / or scorecards that include the results of assessments and feedback that can help ensure the organization that input from various parties becomes so meaningful and cannot be ignored.

At Institution X, the instrument that fits in covering the overall performance of employees is using a score card. Scorecard can be a tool that is transparent, objective, and reliable in displaying overall employee performance. Before knowing how to form a scorecard in accordance with the implementation of employee performance at

Institution X, first it will be explained about the number of cumulative credit points in Table 1.

Table 1: Number of Cumulative Credit Points for Promoting Functional Official with Bachelor (S1) / Diploma IV Education.

No.	ELEMENT	%	FUNCTIONAL OFFICIAL AND FUNCTIONAL CREDIT POINTS										
			PERTAMA		MUDA		MADYA		UTAMA				
			III/a	III/b	III/c	III/d	IV/a	IV/b	IV/c	IV/d	IV/e		
1	MAIN ELEMENTS		100	100	100	100	100	100	100	100	100	100	100
	A Education & Training												
	1 Education												
	2 Training	80%	-	40	80	160	240	360	480	600	750		
	B Functional Activities												
	C Professional development												
2	SUPPORT ELEMENTS	20%	-	10	20	40	60	90	120	150	200		
	Support Elements												
	TOTAL		100	150	200	300	400	550	700	850	1050		

Source: Processed Data, 2018

The table shows that in order to get promotions regularly, each employee must collect credit points for the cumulative credit point for higher level positions minus the cumulative credit point of the current position level which is generally taken for four years with a minimum value of 80% for the element main and maximum 20% for supporting elements. So, for each year each employee must collect 25% of the total credit amount that must be collected for four years and must be paid in installments every month where the monthly performance allowance will be given according to the performance achievements of each employee.

4.7 Procedures Carried Out by the Institution in Facilitating the Integrity of the Performance based Incentive System

Organizations can take a number of steps to evaluate the integrity of their compensation system, even when significant oversight policies have been built into the structure. Therefore, building protection from within the system from the start is very important for the long-term acceptance and feasibility of the PFP system.

Based on the explanation of several important aspects in the performance appraisal, the first thing that can be done objectively by the appraiser or in this case Institution X is the direct supervisor as the appraiser, the first is to use the basic rules that apply to credit numbers. Second, the assessment is carried out transparently and accountably because it is carried out in the system and well documented so that each party can evaluate each other. It also serves to eliminate the statement of employees who feel the performance appraisal is done unfairly. Third, the results of the results must be monitored and validated by the direct supervisor. Fourth, at the end of the credit collection period for promotions, an independent team evaluates the adequacy of the

requirements for the promotion of the employee concerned.

5 RESULTS

After conducting research to find out how the application of the performance allowance cost calculation system at Institution X uses the Pay for Performance method, it can be concluded that Institution X still needs system renewal in determining the standard of performance allowance calculation for each employee. The standard that can be used for functional officials is to use a system credit point. The credit point system is considered capable of describing various activities that must be fulfilled by employees in fulfilling and improving their performance. With the increase in performance, the institution's goals can be fulfilled so that the awarding of employee performance can be better realized. Therefore, the PFP is considered competent enough in measuring the performance of Institution X employees for the future.

6 CONCLUSIONS

The development of a performance-based incentive system can be a solution to the problems faced by Institution X. In the analysis of performance-based incentives in Analysis, the development of a calculation system is expected to overcome a variety of problems, especially complaints related to the calculation of performance appraisals and performance allowances that are not reliable, inaccuracies in the calculation of the activities to fulfill employee promotion and the gap of interest between employees and employers. Information that was previously not accountable and not in accordance with applicable rules became easily accepted and accountable after the system development was implemented later.

The performance-based incentive system designed in Analysis equires consistency with the institution's compliance with the applicable rules, one of which is a calculation based on the credit point unit in evaluating performance in order to determine the amount of performance allowances to be received by employees. This system requires consistency by system users, that are employees and supervisors at Institution X. An incentive system based on performance also helps Institution X to produce reliable data in evaluating employee

performance such as the existence of supporting evidence for the performance that has been performed by employees and must be included for fulfillment the criteria for promotion are based on the credit point unit specified in the applicable rules.

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