

BF

Now awaiting comment from Tsy.
I gave P.U. on copy copies of the Hay MSL report
and covering summary. Be made sure we get them back.
attached

PRIME MINISTER

16 September 1986

ANOM

MINUTE AT FLAP

CIVIL SERVICE BONUS EXPERIMENT - HAY MSL REPORT

If I ran a company with such a scheme and received a report like this I should abandon the scheme forthwith. The purpose of an experiment is to see whether something works and the balance of evidence in the Hay MSL report is overwhelmingly that this experiment doesn't. Over half the questionnaire respondents believe that the scheme actually reduces morale and, most significantly, 38 per cent of bonus recipients believe this. The taxpayer may therefore be paying £4m a year to reduce employee morale!

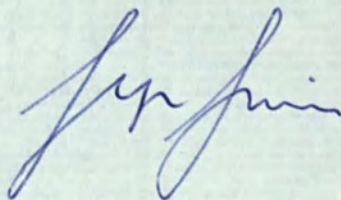
The fact that 78 per cent favour some positive relationship between pay and performance is unsurprising. Indeed it is hard to see why that view is not held unanimously: it should be the first canon of any employing organisation. In the case of the Civil Service people of high ability who carry this through to high achievement are presumably recognised through the promotional hierarchy. If there are promotional blockages, the underlying frustration will not be alleviated by giving certain individuals a three or low four figure sum in certain years.

Recommendation

First, the fundamental issue of whether cash incentive schemes are good in principle needs some thought. In the industrial world successful companies exist with and without schemes. I know of one American steel distribution company where the only salary employees got was the commission on their individual steel sales and the level of commission had no limit. On the other hand a very tough hiring/firing US chief executive once stated that the only incentive he gave an employee who did a good job was the chance to do it again tomorrow! Both businesses were extremely successful.

Second, the evident failure of this experiment raises the question of whether any cash bonus scheme can work in the upper echelons of a system whose basic output is not measured in profit terms. I would not go so far as to deny that something can be achieved and indeed I do not accept the argument that if this experimental scheme is terminated then it will be more difficult to introduce one that works later.

However, if some form of scheme is to be continued, it will have to be much more carefully thought out than this one with committed line managers setting out objectives annually in co-operation with committed employees. If this were done there would exist proper yardsticks against which to measure individual achievements.

A handwritten signature in blue ink, appearing to read 'George Guise', written in a cursive style.

GEORGE GUISE

CIVIL SERVICE: Long Term Management P119.



n bpm yet cc BGA

B

insisting comments
don't know why

PRIME MINISTER

PERFORMANCE BONUS EXPERIMENT IN THE CIVIL SERVICE

I have seen Richard Luce's minute of 12th September 1986.

2. I agree with Richard that it would be quite wrong to abandon the existing performance bonus scheme without putting anything in its place. Quite apart from any direct incentive effect, performance related pay can be an important force in improving the quality of management in the civil service because it demands greater clarity in setting objectives and in regular monitoring of performance. When done properly it imposes a need for good face to face line management.

3. I was interested in the suggestion in the penultimate paragraph of Richard's minute that discretionary pay arrangements should be extended from grades 2 and 3 down to grade 7. I believe this would probably be the most effective method of relating pay to performance. I recommend you invite Nigel Lawson and Richard Luce to work up a scheme as a matter of urgency so that the suggested target date of April 1987 can be achieved.

4. I am sending a copy of this minute to Nigel Lawson, Richard Luce and Robert Armstrong.

ROBIN IBBS
15th September 1986