Performance Appraisal and Fair Compensation of Academic Staff in Higher Educational Institutions

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Introduction

The objective of the European social and labour policy is to help raise the living standards and the quality of life of its citizens. Success will depend crucially on continuing reforms of financial, labour and product markets; the integration of markets for services; and the strengthening of instruments in lifelong learning, education, and research and development. Institutions of higher education have been regarded as key institutions in a process of social and economical change and development in society. They play an important role in helping to build new institutions in a civil society, in encouraging and facilitating new cultural values, and in training and socialising members of new social elites. However, in countries which have recently undergone radical systemic changes the role of higher education institutions has been different as compared to that in the developed countries. The influence of these institutions might be both conservative and transformational to the societal changes taking place around them. The relationship between change in society and change in universities needs to be better understood in order to be more efficiently managed (Bjarnason and Brennan, 2003) Conditioned by decreasing government support, changing accreditation requirements, and growing consumer expectations that inspire greater public scrutiny of administrative moves, several changes have taken place in the work organisation in both, universities in transitional as well as developed countries.

The performance appraisal and compensation has a crucial role in reforming the functioning of educational system and productivity of academic staff, as well as the overall quality of higher education. Crote claims that performance appraisal is one of the most valuable instruments in the manager’s toolbox, as no other management process has as much influence over individuals’ careers and work lives (Allen, 2003). The faculty members’ motivation has become a very important resource to gain rapid changes in higher education in order to meet the transformation in the public demand. As quick changes increase the workload of academic staff drastically, it is important to implement specific motivation schemes and work out a united performance appraisal and fair compensation system.

The purpose of this paper is to show the role of performance appraisal in the system of motivating and compensating of academic staff in order to increase their willingness to react to changes in the educational system, as well as in increasing their productivity and quality in their teaching and research activities. Therefore, the changes and developments foreseen on labour markets and reforms in higher educational system are presented in the Section 1. In Section 2 some theoretical considerations concerning the performance appraisal in higher education are argued. In the empirical part, Section 3, we focus on the system of performance appraisal
and compensation in the University of Tartu and in particular in the Faculty of Economics and Business Administration (FEBA), which has guaranteed that the highly motivated core of the staff dedicated to academic work is maintained, and the publishing and research activities of the teaching staff has increased over years. The final section concludes and gives some policy recommendations.

1. Changes in higher educational system

Estonia’s economic, political and cultural environment has changed very rapidly during the last decade. Higher education was one of the areas which needed rapid rearrangements, as in the planned economy universities prepared mainly graduates who had a narrow understanding of their fields. In the early years of transition, the motivation of university members became a crucial resource of gaining rapid change in higher education, especially in the areas which were influenced and controlled by Soviet mindsets. Due to scarcity of resources, the state support to universities has been quite limited and therefore the universities have to find the additional financing on their own, mostly through fee paying students and research projects. Therefore, motivating people to work at the universities is quite challenging as the average wages outside the universities in high-skilled occupations are much higher.

In Estonia, all public sector wages and working conditions have earned public attention already during several years, as the employees in these sectors are not satisfied with their relatively low wages, in lot of cases the negotiations between social partners have ended with failure, financing in these sectors have raised public debates, etc. According to the Statistical Office of Estonia, the wages in education and in health care sector are below the average wage in Estonia (see Table 1), only wages in public administration are above the national average.

Table 1. Average monthly gross wages compared to the national average wage, 1992-2002

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Public admin</td>
<td>0.97</td>
<td>1.19</td>
<td>1.28</td>
<td>1.26</td>
<td>1.28</td>
<td>1.27</td>
</tr>
<tr>
<td>Education</td>
<td>0.84</td>
<td>0.80</td>
<td>0.85</td>
<td>0.87</td>
<td>0.87</td>
<td>0.87</td>
</tr>
<tr>
<td>Health</td>
<td>0.76</td>
<td>0.83</td>
<td>0.89</td>
<td>0.87</td>
<td>0.81</td>
<td>0.85</td>
</tr>
</tbody>
</table>

Source: Statistical Office of Estonia

During the last years, the wage increase in these sectors have been higher than the increase of the average wage, but the wage level is still not acceptable, as workers in these sectors have relatively higher education level, their job obligations demand continuous training and renewing their skills, as well as they have to accept more flexible and usually unfavourable working time arrangements and working conditions. If we compare the wage level on these sectors with the national average in Estonia and other EU member states, then we can observe remarkable differences, as both education and health care belong usually to the high-paid sectors in EU old member states. Therefore there is also fear in Estonia, that the employees from these
sectors will with high probability migrate from Estonia and there already is shortage of specialists (doctors, nurses, teachers, etc.) in these sectors and the problem will sharpening in the very near future even more.

However, the international differences in wages in educational sector are not the main concern, the more so as they reflect underlying strong differences in productivity. Increasing productivity and research and development, the continuous upgrading of products and the increased quality of labour are the way forward to improve firms’ and workers’ adaptability, overall employment performance and competitiveness. For example, the European Employment Taskforce, headed by Wim Kok, recommended to give immediate priority to the following aspects among others (High Level ..., 2004):

• increasing adaptability of workers and enterprises, i.e. promoting flexibility combined with security in the labour market, raising productivity, etc;
• investing more and effectively in human capital and lifelong learning – by sharing costs and responsibilities between public authorities, companies and individuals, by broadening the supply of training, etc;
• ensuring effective implementation of reforms through better governance.

According to the report “Employment in Europe 2004”, as a specific reply to the further restructuring and increasing the competitiveness of the European economies, the key is in the creation of jobs in the comparatively high-paying, high-productive services as business services, education, health and social services. To this aim, existing spill-over effects from product demand in industry on employment in services need to be exploited, and increases in final demand for services are necessary. In this context, reorienting public spending towards areas such as education and health and social services is crucial.

2. Performance appraisal in higher education institutions: some theoretical considerations

Performance appraisal is a pivotal management technique, which purposes are related from workforce decisions (promotion, demotion, retention, transfer, pay) to employee development (feedback and training). Performance appraisal also aids with a number of more general organisational functions as a means for validating selection and hiring procedures, promoting employee understanding and supporting an organisation’s culture. A performance appraisal system should create a link between organisational and personal goals, shape and change organisational culture towards a result-driven climate (Grote, 2000). Performance appraisal enables to determine whether employees’ performance is in accordance with established objectives, it is primarily based on the appraisal of employees work results and activity (behaviour), also potential (skills, abilities and characteristics). To determine the performance, diverse appraisal methods and their combinations are used. During the appraisal process, primarily work results are valued, which creates preconditions for their improvement in the future and enables us to differentiate the compensation. Therefore, on the one hand this approach diminishes equalisation and on the other
hand increases fair compensation. At the same time, the performance appraisal has been considered as a painful annual event where the manager evaluates the performance of employees.

Performance appraisal and management\(^1\) of performance has recently attracted much attention also in European universities and colleges. With an increase in the number of students, total costs have risen and with limited state funding (there is fierce competition for money among various social services), much more attention to the quality of performance and the total quality management (TQM) in higher educational institutions should be paid. Higher education is one major service sector that has been relatively slow in transition to quality management. Universities and colleges have generally only had a superficial awareness of TQM. (McCarthy, Keefe, 1999).

The three key functions of higher educational institutions are teaching/advising, research and service. Higher educational establishments need to re-evaluate course offerings, testing/grading procedures, admission requirements, student services and the employee skills and personal traits required by hiring firms. (Willis, Taylor, 1999) In addition, Gatfield, Barker and Graham (1999) claim that in the last decade in the debate in higher education the issue of quality has become a significant subject and will continue to be one of the predominant points. The pursuit of quality is driven by consumer demands for increased standards and performance, and by the need for organisational excellence. However, in recent years there has been rising interest in quality as perceived and determined by the consumer. Hence, it is important to determine the needs and quality demands of international and full-fee paying students, for they provide universities with money. Therefore, universities must establish procedures to monitor the competitiveness and success of graduates. This can be done through formal surveys or informal feedback. Improving the quality of graduates begins with acknowledging the position of graduates in the labour market and also the demands of respective employers.

In general, there may be a focus on particular stages of the education process (McNay, 1997):
- on input e.g. quality/qualification of staff, curriculum design, nature of students recruited, resources for books, computing, equipment and materials;
- on processes e.g. approaches to teaching, integration of teaching and assessment, student involvement, feedback;
- on output e.g. qualifications of students, employment rates, staff publications.

Each stage of this process needs specific quality indicators, which will enable to evaluate the quality of education and at the same time also the productivity of academic staff. In the following we concentrate on the performance appraisal and

\(^{1}\) Performance management is a remarkably broader concept than performance appraisal and its objectives is to improve organisational, functional, sub-divisional and individual performance by linking the above mentioned fields into a whole.
present some main points to what the performance appraisal system has to correspond.

With the determination of work results, several problems occur that are due to the change towards more dynamic and universal tasks, and as a result of which it is not always possible to determine the work results and compare them. The emphasis on individual work results also reduces the sense of teamwork and undermines the interest of a group as a whole. (Coughlan, 1999; Yager, 2000) A performance appraisal criterion has to be on one hand relevant, reliable and justly measurable; on the other hand tightly connected to the objects of the organisation and its subdivisions. The appraisal systems must be based on skills and competence, behavioural traits and outputs from the job. Such criteria are relatively difficult to find and in consequence the best results are achieved through a balanced combination of distinct criteria. Grote suggests that the performance appraisal should include five sections: organisational core competencies, job competencies, key job responsibilities, projects and goals and major achievements (Rotundo, 2003).

It is also crucial to give feedback to both managers and employees about their activities, as feedback is much more constructive than behind-the-back complaints, in which cases there is no opportunity either for self-defence or corrective behaviour. It is also often the case that the individual’s needs are not represented in the performance measurement system and it’s assumed that the needs are in perfect alignment with the organisational goals. The highest point of self-motivation arises when there is a complementary conjunction of the individual’s needs and the organisation’s requirements. (Levinson, 2003)

A performance appraisal system is mainly based on analysing the past data, however it is important to use also to the future oriented data and methods, such as quality of company mission statements, balanced scorecard, capacity of knowledge re-use etc. (Amidon, 2003). Usually in the performance appraisal systems too much scale is given to circumstances that are dependent on different situations, regardless of whether we are evaluating our own activities or activities of others, especially when the results are not satisfactory.

3. Performance appraisal system at the FEBA

Work compensation of the academic staff at the University of Tartu in general is carried out according to the remuneration directives in which the regulations of paying bonuses are also stated. In the process of evaluating job efficiency, the following are taken into consideration: quality and efficiency of the process of teaching, quality of scientific research, results of innovation, efficiency of management activities, implementation of refresher courses, application of research and development contracts with partners of the university. According to the above-mentioned regulations and the wage budget fund the faculties shape their policy of job compensation. The comparison of average salaries of the faculties indicates relatively high differences in wage levels (see Table 2), which is caused by the different capacity of privately paid teaching, the number of students per lecturer and
the amount of credit points per lecturer. Table 2 shows, that the number of students per lecturer and teaching load is remarkably higher in the FEBA than in other faculties. In the relatively similar position are also faculties of social sciences and law, in the latter also the average wage is comparable to the level of FEBA.

Table 2. Efficiency indicators and average salary of the faculties at the University of Tartu

<table>
<thead>
<tr>
<th>Faculty</th>
<th>Number of students (2002)</th>
<th>Number of lecturers (2002)</th>
<th>Number of students per lecturer</th>
<th>Number of credit points per academic staff (2001/2002)</th>
<th>Average monthly salary (2002, EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Theology</td>
<td>246</td>
<td>13</td>
<td>18.9</td>
<td>299</td>
<td>684</td>
</tr>
<tr>
<td>Law</td>
<td>862</td>
<td>31</td>
<td>27.8</td>
<td>644</td>
<td>975</td>
</tr>
<tr>
<td>Medicine</td>
<td>1535</td>
<td>162</td>
<td>9.5</td>
<td>244</td>
<td>735</td>
</tr>
<tr>
<td>Philosophy</td>
<td>2823</td>
<td>173</td>
<td>16.4</td>
<td>384</td>
<td>624</td>
</tr>
<tr>
<td>Biology and Geography</td>
<td>1444</td>
<td>59</td>
<td>24.4</td>
<td>299</td>
<td>785</td>
</tr>
<tr>
<td>Physics and Chemistry</td>
<td>1001</td>
<td>57</td>
<td>17.6</td>
<td>254</td>
<td>752</td>
</tr>
<tr>
<td>Education</td>
<td>964</td>
<td>24</td>
<td>41</td>
<td>291</td>
<td>618</td>
</tr>
<tr>
<td>Exercise and Sport Sciences</td>
<td>597</td>
<td>30</td>
<td>19.9</td>
<td>315</td>
<td>624</td>
</tr>
<tr>
<td>FEBA</td>
<td>1488</td>
<td>36</td>
<td>41.6</td>
<td>873</td>
<td>1102</td>
</tr>
<tr>
<td>Mathematics</td>
<td>752</td>
<td>50</td>
<td>15</td>
<td>406</td>
<td>786</td>
</tr>
<tr>
<td>Social Sciences</td>
<td>1986</td>
<td>49</td>
<td>40.9</td>
<td>681</td>
<td>746</td>
</tr>
</tbody>
</table>

Source: Annual report of University of Tartu 2002 (2003)

In difficult financial situations management by objective systems and balanced scorecard systems could be used and a system of payment-by-results could be worked out. The payment-by-results system can be successfully used for directing and motivating academic staff at the universities in their activities and seeing that their activities are in accordance with the aims and facilities of the university and its subdivisions. As quick changes increase the workload drastically, it is important to implement specific motivations schemes and work out united system of performance appraisal and payment system by results. In compensating the academic staff of the FEBA, the payment-by-performance system that is exploited is based on the implementation of objectives established by institutes and its subdivisions. Every year the performance appraisal, involving the whole faculty is carried out. The faculty has established a comprehensive system of recording the teaching load and publications of all the academic staff. The payroll fund, which consists of income of teaching activities, is divided by institutes according to the work results of their employees according to the following scheme: 60% of the payroll fund is divided according to the teaching activities, 30% according to the publications and 10% according to the managerial tasks. This payment-by-performance system enables the determination of basic salary and bonuses to each employee separately, depending on his/her performance and such kind of wage policy is directed towards

2 More detailed description of the payment system can be found from the homepage of the FEBA - http://www.mtk.ut.ee/teaduskonnast/dukumendid.
stimulating an increase in the work contribution of employees. As the wage resources are quite limited, the wages are differentiated to a maximum extent. This has resulted, that considerable differentiation of salaries has emerged: the salary of a lecturer at the FEBA may be higher than of a professor, depending on the workload and productivity. Payment of bonuses presupposes performance of higher capacity and quality from that demanded and/or and essential activity in organisation, for example the accomplishment of managerial tasks, working during the weekends or evening hours, etc.

Wages and bonuses are appointed to academic staff once a year on the basis on the performance of the previous period and within the boundaries of the institutes’ and its subdivisions’ budget fund, and also in accordance with the remuneration regulations. Head of the institute may on the basis of development conversation correct the performance appraisal according to the qualitative appraisal of not considered aspects of performance.

As a result of the above described system, the highly motivated core of the staff dedicated to academic work is maintained, and the publishing and research activity of the teaching staff has increased in the FEBA. This has also enabled to link young and perspective lecturers with the faculty and prevent them from seeking better-remunerated jobs in practical economic professions in private sector. However, although the implemented measures have resulted in positive changes in the work of the faculty, there have been some negative aspects as well. As the number of students has substantially grown with the implementation of the new programmes, the staff is working under greater strain than in normal circumstances. This is supported by the abovementioned evidence about student-lecturer ratio and the number of credit points given by one lecturer, but also the research activities and publishing in the high level peer-reviewed journals are still at the modest level. It cannot last like this for very long and the system needs some improvement in order to make it more lecturer-friendly and thus reduce the overload of academic staff.

The system of performance appraisal has enabled the academic staff of the FEBA to improve their work results. FEBA received the highest evaluation results in comparison to other Estonian higher education institutions in the field of economics and business administration. At the same time, already new objectives and goals have been set for further improvement of the payment-by-performance system.

Conclusions and policy recommendations

Modern organisations develop compensation systems that are based on performance appraisal and management. The abovementioned problems of performance appraisal can be solved by refuting the erroneous stereotypes about job performance and compensation in the public sector and especially in the field of higher education.

1 A detailed overview of the activities and achievements of the FEBA can be found from the publication „Faculty of Economics and Business Administration. A self-evaluating look“ (2004).
The new approaches should include the best practices and modern compensation theories. Therefore, it is important to develop long-term programmes in order to bring out the unreasonable differences in payments for different economic activities and the differences in payment for job positions.

This paper focused on the system of performance appraisal and compensation in the FEBA, University of Tartu, where the average salaries are relatively higher as the average work capacity of the academic staff exceeds significantly the work capacities of the academic staff of other faculties of the university. In the exploitation of the performance appraisal system the following aspects should be considered:

• The results of the performance appraisal are crucial criteria of compensation and grant the work efficiency of the academic staff. For this reason the quantity and quality of work has to be appraised mainly in three fields: teaching, research and publishing activities, and management tasks. The foremost truthful indicators of the quality of the teaching are the results of Open University student surveys which should be used regularly.

• The differentiation of salaries among the academic staff in the FEBA is significant. This is caused by big differences in work contribution and considerable point discrepancies both in research and teaching. Therefore, the differences in compensation are objectively explicable, and should be continually exploited in the future.

• Different compensations criteria of the academic staff and the determined proportions of teaching and science in subunits and among lecturers should be followed. Additionally, it is important to avoid the excessive orientation to the indicators of quantitative work results, as this has brought about the disproportionate growth of the workload. This extensive progress, however, has negative sides as the burnout and rivalry between the faculty members might lead to poor interpersonal relationships.

• The appraisal system at the FEBA was introduced about ten years ago and during that time different changes in the weight of the indicators have implemented. This complicates the comparison of results over years and a deeper analysis of the effectiveness of different changes done over the years in the payment-by-results system. During this time the academic staff has had time to learn how to magnify their indicators and what activities are more beneficial to perform. The abovementioned problems indicate that changes in the performance appraisal system should be dome in the near future. Organisations need different appraisal principles on different stages of their development and they need to move slowly on the performance management system as this is the new way forward.

In conclusion, the system of performance appraisal and compensation at the FEBA has considerably increased the work efficiency of the academic staff as well as bettered the quality of teaching and research. This shows clearly the importance and necessity of the system of performance appraisal and therefore it is useful to implement such kind of performance appraisal system in the entire university.
References

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Kokkuvõte

TÖÖSOORITUSE HINDAMISE JA ÕIGLASE TÖÖTASUSTAMISE SUURENEV ROLL KÕRGHARIDUSASUTUSTES

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Kõrgharidusasutusi on peetud võimeinstitutsioonideks, mis mõjutavad oluliselt ühiskonna arenguid, uute kultuuriliste väärtuste teket, pakuvad võimalust elukestvaks õppeks jmt. Valitsuse vähene toetus, muutuvad hariduse kvaliteedi- ja

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