

Building a Performance Allowance System Merit-Based Pay In The Public Sector

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ABSTRACT

Keywords:

merit pay; performance;
achievement

This paper aims to describe how to build a merit pay-based performance allowance system for public organizations using the compensation method. The research method used is qualitative research method with Literature Review. The source of research data used is journal articles from research on merit-based public organizations to measure organizational performance. Researchers focused on taking data from financial policymakers who are daily involved and have a slice of work in the implementation of performance allowance budget distribution. The results of several previous studies showed a positive and significant relationship between the performance-based benefits policy system and employee performance. This study examines conceptually based on research literature on merit pay, which shows that instruments in achievement payments for performance appraisals can motivate employees and increase job satisfaction and increase commitment in organizations. This study provides suggestions that future studies emphasize the need for effective incentive and performance appraisal systems in public administration so as to have an impact on the motivation of public employees which has been carried out.



Introduction

The development of the *Merit Pay* system in developed countries such as Italy has become the basis of government policy for improving public administration with the implementation of a performance-based payment system known as PRP (*Performance Related Pay*). The evolution of public administration in the payment system has been influenced by various processes of change and reform that bring organizational changes and public management including human resource management because it affects the principle of equality in labor relations and psychological contracts between employers and employees. By exploring the transition to a remuneration system through the application of incentives and focusing on the positive impact on the ethos of public administration. In particular, experts have tried to determine that PRP is an effective tool for the implementation of new management strategies in the public sector that affect the

motivation of civil servants and contribute to making remuneration more fair and flexible. Implicitly, the remuneration system implies that employees are paid to represent the institution, to pursue its goals and to be loyal to it, this can be recognized through different pay levels that are not related to productivity but are related to roles. whereas explicitly, implies that employees are paid based on the services provided related to the roles and objectives of employees and the organization (Ruffini, Modarelli, Sferrazzo, & Turri, 2020).

Thus, the implementation of *Pay for Performance* (PFP)-based performance allowances can be used to evaluate employee performance such as supporting evidence of performance that has been carried out by employees based on credit score units that have been determined in applicable regulations and provide solutions to the causes of problems and provide a basis for decision making to change the current performance allowance calculation system to be more efficient (Kusumo & Wahyuni, 2020).

Based on the commitment of the Chief of Staff of the Indonesian Army in the Performance Achievements of the Indonesian Army U.O. which includes strategic goals, program objectives and activity targets have been measured by performance indicators that have been determined in accordance with the 2020-2024 Army Strategic Plan, the Main Performance Indicators of the Army are directed to achieve three strategic goals, namely the realization of a strong TNI posture in overcoming threats, the realization of good governance of the country's defense system and the realization of space, Powerful Fighting Tools and Conditions to support the country's defense. The results of the 2022 TNI AD performance measurement are analyzed and evaluated to improve the performance of the Indonesian Army's U.O. on an ongoing basis in realizing good governance of the country's defense system. The comparison between the target and realization in 2022 on the performance indicators, namely the Indonesian Army U.O Performance Accountability Value/Index can be shown in the table below:

Table 1 Indonesian Army Performance Accountability Value/Index

2020		2021		2022	
Realization	Achievements	Realization	Achievements	Realization	Achievements
64,22 %	79,28 %	65,14 %	79,43%	65,71 %	98,07 %

Source : LAKIP U.O TNI AD Year 2022

From the results of the LKIP in 2022 above, there are problems with the value of performance accountability in the Army Institution, including the lack of appropriate realization achievements. Where it relates to the relationship in the calculation of employee performance benefits that are not in accordance with the expected results. Performance allowances that have been prepared are not in accordance with the performance of employees that have been predetermined. Therefore, it is necessary to evaluate and propose the design of the Pay For Performance system in the calculation of performance allowances at the Army Institution. Thus, related to the performance allowance calculation system, especially in TNI institutions, it is necessary to recommend a system design using the Pay for Performance method in calculating performance allowances to be more efficient and reliable (Kusumo & Wahyuni, 2020).

With the improvement in organizational and employee performance achieved from the successful implementation of bureaucratic reform of the Indonesian National Army, it is necessary to amend Presidential Regulation Number 102 of 2018 concerning Employee Performance Allowance within the TNI, when compared to other Ministries and State Institutions that have experienced an increase in performance allowance, it is hoped that the provision of this Performance Allowance can produce better employee

performance motivation in the environment of the Indonesian Army so that it can innovate in better task implementation.

Research Methods

The method in this study uses literature studies as a complement to the acquisition of previous information in order to be able to understand the subjects studied (Suwandi & Si, 2008). Researchers focused on taking data from financial policymakers who are daily involved and have a slice of work in the implementation of performance allowance budget distribution. This research is descriptive which means that researchers collect data to describe the problems observed clearly. This study uses secondary data that includes reports, documents and other related regulations (Murdiyanto, 2020).

Results and Discussion

Merit System

Meritocracy derived from the term word "Merit" is a characteristic of the individual, then the definition of "meritocracy" is a characteristic of society as a whole. So it can be concluded that the definition of Meritocracy is a whole social system in which individuals can progress and earn rewards proportional to their individual efforts and abilities. According to (Young, 2017), Meritocracy is a fictional and futuristic society that operates as a meritocracy of government that has the opportunity to achieve dreams based on merit and not from wealth or social status.

According to (Garrod, Fyall, Leask, & Reid, 2012), that Meritocracy is a social system in which rewards and positions are allocated fairly based on merit, rather than on descriptive factors such as gender, ethnic group, or wealth. The merit system is a system in Human Resource Management (HRM) where awards and recognition are given to employees based on their performance and achievements. In this system, salaries and promotions are based on an objective evaluation of the quality of work and the individual's contribution to the organization. The merit system aims to encourage motivation, improve performance, and ensure "fairness and equity" in human resource management (Woodward & Bartel, 2005). Meritocracy Or also known as the Merit system is the practice of paying employees based on the type of work they have completed while employed by an organization, where the salary increase achieved by employees will be higher. The merit system is a rational system and oriented towards the recognition of a sense of justice so that every reward given to employees will be linked to the results of their work as employees. The purpose of implementing this system is to create an effective, competitive, and interdependent employee market so as to increase employee productivity and have a positive impact on the progress of the organization. As a result, the compensation offered to employees will be calculated based on the average of the results of each employee's performance appraisal. The reason why the merit system is one of the solutions to "Low Performance" with the implementation of the merit system can motivate employees to increase their productivity because there are penalties for employees who decrease their productivity.

From several previous studies, the results of the literature review were obtained as follows: **First**, Performance Based Performance Allowance Policy System (Merit System) applied to the public sector obtained research by (Sandinirwan et al., 2022) on government organizations in Indonesia, (Suryanto & Darto, 2020) in Institute of State Administration, (Tamarengki, Liando, & Kumayas, 2019) at the Regional Civil Service Agency in Talaud Islands Regency, (Ismail, Nik Mahdi, Mat, Ali, & Mohd Ali, 2018) on

Malaysian Public Research University at Peninsular West Coast, (Ruffini et al., 2020) on sector employees Private & Public at Southern Italy, (Dwi Afriya, 2020) at the Civil Service and Human Resources Agency in Sarolangun Regency, (Thoiba, Naway, & Marhawati, 2023) in Gorontalo, (Rahmani & Sulaeman, 2022) at the Director General of Financial Balance, (Sari, Gaya, Irianto, & Karisma, 2019) at Employees in the Public Sector and (Kusumo & Wahyuni, 2020) at an Institution X.

Second, the results of the application of the merit system in the provision of performance allowances in several previous studies. For the application of factors such as leadership, employee understanding, information systems, politics and organizational culture that affect the success of the implementation of the merit system so that through these factors it can improve employee performance and motivation. So that there are similarities in the research of (Sandinirwan et al., 2022), (Suryanto & Darto, 2020) and (Tamarengki et al., 2019) explained that the merit system in organizations can ensure the management of performance benefits based on fairness based on performance in order to have a positive impact on employee motivation and morale.

Success factors in implementing the merit system in (Suryanto & Darto, 2020) research include job needs planning, open and competitive recruitment implementation, measurable and objective performance management implementation, consistent application of reward and punishment policies, transparent and objective promotion and mutation processes, provision of protection and services to employees and an integrated personnel system. Therefore, the merit system in the application of compensation is based on objective and transparent performance appraisals by considering factors such as qualifications, competencies and employee contributions. Aims to provide incentives to employees to strive to achieve better results

In (Dwi Afriya, 2020) recommends adopting a performance-based system to provide TPP (Additional Employee Income) based on the merit *system* principle. In order for this TPP granting system to work well, it is necessary to conduct job analysis and job evaluation to create job classes and provide prices for each position class, electronic-based performance and attendance appraisals so as to measure employee performance and ensure fair and transparent benefits, as well as clarify employee work targets.

Factors that can affect the effectiveness of performance allowances in the research of (Thoiba et al., 2023) include policies for managing performance allowances and supervising the use of performance allowances so that they can improve employee performance very effectively.

Use Compensation Theory (Rahmani & Sulaeman, 2022) research is to analyze the performance-based benefits policy system which is considered a form of compensation given directly to employees based on their performance that exceeds organizational standards and produces a positive and significant relationship between the performance-based benefits policy system and employee performance so as to improve employee performance.

Method *Pay for Performance* (PFP) which is used in (Kusumo & Wahyuni, 2020) research aims to design an employee performance allowance calculation system in evaluating employee performance based on credit point units that have been stipulated in applicable regulations and employees It is expected to receive performance allowances that match their achievements.

Third, the overall result of the implementation *Merit system* as follows: First; Various factors will affect the organization's policy to make changes to the performance allowance calculation system. Second, all influencing factors in the Performance

Allowance (Tukin) system are related to each other so that changes in an organization can only be made if there is involvement of all elements. Third, the failure of the organization to realize a change in the provision of performance allowances is caused that Tukin still generalizes the performance of employees at the same strata even though the workload of each individual and the achievements of each are different. Based on this thought, it is known that *Merit System* Conceptually it can be used in every action / effort that aims to realize changes in employee and organizational performance.

The following table 2 summarizes previous studies applied to public and private organizations, as well as the application of the merit system that has a significant effect on employee and organizational performance.

No	Researcher / Year	Research Relevance
1.	(Ismail et al., 2018)	Merit systems can provide performance benefits to employees to achieve better work results and increase commitment to the organization
2.	(Ruffini et al., 2020)	This merit system is based on performance evaluation and assessment based on work results so that the provision of performance allowances is applied fairly and clearly
3.	(Dwi Afriya, 2020)	By applying the merit system, there will be differences in the value of benefits given to civil servants who have good performance, because performance and workload are the main assessments in determining salaries. This will help ensure that employee supplemental income is based on performance and productivity, not just attendance or seniority.
4.	(Sari et al., 2019)	That the context of performance benefits needs the implementation of the merit system to be based on the principle of employee rewards and performance by considering individual performance and achievement, to ensure fairness and optimize the effectiveness of the merit system
5.	(Kusumo & Wahyuni, 2020)	Merit systems help in objectively assessing employee performance, increasing accountability and reducing interest gaps between employees. Meanwhile, in research that will be carried out using the merit system, employee performance allowances can be given based on credit points that have been determined so that they can help in assessing employee performance objectively and transparently.

Source : Processed by the author

Conclusion

This study examines conceptually based on research literature on merit pay, which shows that instruments in achievement payments for performance appraisals can motivate employees and increase job satisfaction and increase commitment in organizations. This study provides suggestions that future studies emphasize the need for effective incentive and performance appraisal systems in public administration so as to have an impact on the motivation of public employees which has been carried out.

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