



**STATE OF HAWAII
DEPARTMENT OF HUMAN RESOURCES
DEVELOPMENT
POLICIES AND PROCEDURES**

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TITLE: PERFORMANCE INCENTIVES	APPROVED: Kathleen N. A. Watanabe, Director
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I. POLICY

A systematic performance incentives plan for employees shall include the direct relational linking of pre-established target objectives, actual performance, and award.

II. RATIONALE

The State of Hawai'i seeks to provide optimal public service to the citizens of this State. As an employer, it is the State's intent to encourage its workforce to continuously improve work performance and productivity.

III. SCOPE

This procedure applies to all employees in the executive branch except the University of Hawai'i, the Hawai'i Health Systems Corporation, and elected and appointed officials.

IV. RESPONSIBILITIES

A. DEPARTMENT OF HUMAN RESOURCES DEVELOPMENT ("HRD")

HRD shall be responsible to:

1. Administer the State's performance incentive program;
2. Issue policies, standards, and procedural guidelines governing the program;
3. Review and approve departmental performance incentives plans to ensure statewide consistency;
4. Seek guidance from the department of the attorney general for legal issues, if appropriate;
5. As requested, furnish technical advice to agencies in the development of their departmental plans;
6. Audit State agencies for compliance with established guidelines; and

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7. Evaluate the effectiveness of the program on a continuing basis and report the results, with pertinent recommendations, to the governor, as necessary.

B. DEPARTMENT HEADS

Department heads and their designees shall be responsible to:

1. Determine if a performance incentives program will be implemented within the department.
2. Determine if the establishment of a performance incentives plan for the department or work unit will result in a significant benefit to the State;
3. Check with the department of budget and finance to ensure that the source of funds can be used for the proposed purpose;
4. Notify the affected employees' union(s) of the intent to develop a performance incentives plan, concurrently or prior to obtaining employee input on the proposed components of the plan;
5. Submit a performance incentives plan, including revisions to existing plans, to HRD for review and approval prior to proceeding;
6. If applicable, seek guidance from the department of accounting and general services for payroll processing purposes;
7. As applicable, consult or negotiate with the affected union(s) pursuant to chapter 89, HRS, prior to implementation of the plan and when making changes;
8. As applicable, consult with the affected employees who are excluded from collective bargaining;
9. Ensure that all steps in the *Checklist to Establish a Performance Incentives Plan* (Attachment 1) have been followed prior to, as well as during, plan implementation;

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10. Submit the cost benefit analysis for the plan as described in Part 5B, *Evaluation of Plan Results*, to HRD at the end of each evaluation period; and
11. Monitor the effectiveness of its performance incentives plans, ensure that they are implemented in a fair and equitable manner, and authorize any changes in or termination of its plans, as appropriate.

C. DIVISION HEADS AND SUPERVISORS

Division heads and supervisors shall be responsible to:

1. Obtain employee input in the development of the performance incentives plan;
2. Establish and communicate target objectives, plan provisions, and award parameters with the affected employee prior to the start of the evaluation period;
3. Objectively review the employee's performance against the established target objectives to identify employees whose efforts merit recognition and award;
4. Initiate recommendations for appropriate recognition and reward for employee performance; and
5. Maintain accurate records of all awards given as outlined in Part 5C, *Documentation*.

V. PROCEDURE

A. FORMAL PERFORMANCE INCENTIVES PLAN

Each department or work unit which provides or intends to provide a performance incentive must have a formal performance incentives plan that has been approved by HRD. See *Sample Performance Incentives Plan* (Attachment 2). At a minimum, all performance incentives plans shall include the following components:

1. Overall Goal and Relation to Department/Work Unit Mission

A statement that provides the overall framework (what, who, why) of the performance incentives plan and its relationship to the mission of the department or work unit, i.e., how the

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awards to eligible employees advance the interests of the department or work unit and/or are beneficial to the public.

2. Target Objectives and Measurability

a. At a minimum, target objectives shall be developed with input from the eligible employee and shall:

- (i) Be specific, attainable, well timed, measurable, and easy to understand;
- (ii) Be established high enough to be meaningful, substantial, and a significant benefit to the State (consider the target objectives/performance of other positions in similar classes in the department when setting objectives);
- (iii) Result in a demonstrated benefit to the department or work unit's purpose and objectives and/or be a benefit to the public;
- (iv) Be established to take into account seasonal trends that may make the target levels impossible to achieve during certain periods and more easily achieved in others; and
- (v) Be communicated with the affected employee prior to the evaluation period.

b. At a minimum, target objectives shall specify the desired activity:

- (i) In measurable units or amounts (quantity);
- (ii) At an expected performance level (quality of work);
- (iii) In an allotted time frame;
- (iv) With the method of evaluation and evaluation instrument; and
- (v) With a statement of whether overtime may or may not be incurred in order to meet the target objectives.

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3. Eligibility Criteria

The plan shall specifically set forth eligibility criteria and identify whether the following employees will be eligible to participate:

- a. Permanent and temporary civil service employees;
- b. Non-civil service 89-day and temporary appointment outside the list (TAOL) employees;
- c. Initial probationary and new probationary employees;
- d. Full-time and part-time employees;
- e. Exempt employees;
- f. Employees who have been recently hired, i.e., specify amount of service time, if any, required to participate;
- g. Employees who have worked less than the entire evaluation period;
- h. Employees who are on leave status (workers' compensation, leave without pay, sick leave, vacation leave, paid leave, etc.);
- i. Employees who are terminated prior to issuing the award;
- j. Employees in a particular division, branch, section, or unit;
- k. Managers and non-managers;
- l. Employees in a particular class or series; and
- m. Employees who do not have at least a "meets expectations" performance appraisal.

4. Participation Requirements

The performance incentives plan shall specify whether all eligible employees are required to participate in the plan or

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whether they may decline to participate. If non-participation is a plan option, an employee's decision not to participate shall be documented. The procedure for waiving participation shall be set forth in the performance incentives plan.

5. Performance Award

At a minimum, the plan shall specify:

- a. The type of award, e.g., cash or non-cash;
- b. Whether it is a team or individual award;
- c. The award structure or amount of the award, including the amount of the award for part-time employees or employees working less than the full evaluation period; and
- d. Frequency of the award.

6. Source of Funding and Estimated Cost for Implementation

List the source of funds that will be used to pay for the awards and the estimated cost for implementation. Check with the department of budget and finance to ensure that the source of funds can be used to fund the awards.

7. Appeals Procedure

The performance incentives plan shall provide for an appeal process, such as the internal complaints procedure, that shall include the following information:

- a. Who may file an appeal – An employee who believes the award should have been provided to him/her or believes he/she was entitled to a larger award;
- b. Scope of what can be appealed – This is limited to the evidence that is provided by the employee that existed or occurred during the evaluation period and which was not considered when the award determination was made;
- c. How to file, timelines and deadlines – All requests for an appeal shall be made in writing;

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- d. Final authority on decisions – The department head's decision regarding all requests for appeal shall be final. The department head shall respond, in writing, to all requests for an appeal.

8. MANDATORY PROVISIONS

All performance incentives plans shall include the following provisions:

- a. *"Awards are not permanent employee benefits, do not confer or intend to confer permanent property rights or interests on the employees, and are dependent upon available funds."*
- b. *"Cash awards are not intended to increase the base salary or any other benefits of the employee."*
- c. *"It is the intent that this plan be retained. However, the department reserves the right to amend or terminate the plan, in whole or in part, for any reason and at any time, without the consent of any employee or other persons."*

B. EVALUATION OF PLAN RESULTS

The performance incentives plan shall be reviewed at the end of each evaluation period. Evaluation results shall be included in the report to HRD, as outlined in Part 5C, *Documentation*, below.

1. Cost-Benefit Analysis

To determine the effectiveness of the plan, a cost-benefit analysis shall be completed to measure the benefit to the employer and/or the public. Actual performance shall be compared to target objectives and baseline data (the performance during a similar period prior to the implementation of the plan). Outside factors or influences that may have affected the outcome of the results shall also be considered.

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2. Employee Feedback

Informal and formal feedback from employee shall be solicited to assist the department in determining whether or not the objectives were clearly communicated, how well participants understood the rules and goals, how much the performance incentives impacted performance, and the sufficiency of the awards.

C. DOCUMENTATION

A report of each performance incentives program shall be completed by each department and submitted to HRD at the end of each evaluation period. At a minimum, the report shall include:

1. Each participant's name, position title, work unit, and evaluation period;
2. Base level performance during a similar period (the level of performance prior to implementation of the plan);
3. The employees' target objectives;
4. The employees' actual performance level(s);
5. The award amount(s) and date(s) provided; and
6. An evaluation of the plan that includes a cost-benefit analysis, feedback from employees, and proposed plan changes.

VI. BACKGROUND

Note: This policy supercedes Administrative Directive No. 01-02, dated August 16, 2001, re: Policy and Guidelines Regarding Performance Incentives Program

VII. AUTHORITIES AND REFERENCES

§ 78-29, Hawai'i Revised Statutes, *Incentive and service awards*

VIII. ATTACHMENTS

Attachment 1: Checklist to Establish a Performance Incentives Plan

Attachment 2: Sample Performance Incentives Plan