Performance Based Pay

Discussion Paper
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1. BACKGROUND

Changes to remuneration arrangements for teachers are likely regardless of whether the Coalition or the Australian Labor Party win the next Federal election with potential implications for the SA Independent school sector.

Both the Australian Education Union (AEU) and the Independent Education Union (IEU) support some changes to the remuneration arrangements.

The objectives for seeking to change the remuneration arrangements tend to vary. Some proponents, for example, consider that the introduction of a performance component to remuneration will lead to an improvement in the quality of teaching, presumably through an increase in the motivation of teachers to improve their performance. It is also argued that providing an opportunity for teachers to receive increased remuneration based on merit will make the teaching profession more attractive to potential teachers and lead to an increased retention of current teachers. Others believe that linking performance to remuneration is important in enhancing the professionalism of teaching.

Whether these objectives can be met will depend on the nature of any arrangements and particularly on the response of teachers, including whether teachers will be motivated to improve their performance by the possibility of additional remuneration. In some areas of the workforce, dissatisfaction over performance based remuneration schemes is perceived to lead to an overall negative impact on productivity.

It is also argued that individual performance based pay can undermine collegiality, although whether that would be the case would be influenced by the structure of the remuneration arrangements e.g. whether there are quotas, whether assessments are competitive. The cost of administering performance based pay schemes (time, distractions, training of teachers and assessors, development costs etc) can be very significant.

We probably know more about what teachers do not want, than about what they would come up with if they had the responsibility for building a professionally credible performance-based pay system.

There is a wide range of methods for assessing performance and rewarding teachers. The recent research undertaken by ACER for the Federal Government tends to propose as the most viable model revised structures based on an assessment against recognised standards of teachers’ acquisition (and possibly application) of skills and knowledge.

It is unlikely that a new pay system will be widely introduced where teachers receive bonuses directly linked to student performances.

Recent media commentary seems to be premised on teachers having the potential to receive additional remuneration based on performance without the consideration of fundamental changes to the current increment based progression arrangements to include performance elements. However, if performance based pay is to be introduced it is likely that consideration will need to be given as to whether it is appropriate to retain the current increment based progression arrangements. The Coalition has indicated that current increment based progression arrangements should also be revised.
Some participants in the debate seek to create the impression that all performance based pay systems for teachers overseas are unsuccessful and discredited. However, there are positive lessons to be learnt from the overseas experience, though it should be noted that there is limited clear evidence that performance pay schemes lead to significant improvements in school performance.

The purpose of this discussion paper is to summarise the “state of play” and outline the key platforms of the major stakeholders in regard to performance based pay.

2. CURRENT ARRANGEMENTS

Progression to the top of the incremental ladder is rapid in Australia – it takes only nine years on average for most Australian teachers to reach the top of the scale compared with 24 years on average for teachers in other OECD countries. The 2006 edition of the OECD’s report, *Education at a Glance*, indicates that whereas the average ratio of the salary at the top of the incremental scale to the starting salary is 1.70, it is only 1.47 in Australia.

In general, assessments for advancement in Australia focus on the extent to which teachers are fulfilling their contractual duties, rather than the extent to which they are progressing towards higher standards of professional knowledge and performance.

In the recent *Education at a Glance* 13 out of 32 OECD countries reported that they adjusted the base salary of teachers according to evidence of outstanding performance in teaching or successful completion of professional development.

The Advanced Skills Teacher (AST), currently used in SA schools, is a form of performance based pay. It arose out of Award Restructuring in the early 1990s. Its concept was consistent with building stronger links between teachers’ salaries and evidence of improved performance. In most States, the AST level was abolished through further restructuring following concerns about its implementation.

It has remained in place in the three school sectors in South Australia, with DECS recently introducing a second level of AST.

3. PERFORMANCE BASED PAY PROPOSALS

While a number of stakeholders and interest groups have proposed changes to remuneration arrangements and levels for teachers key differences can be seen in the positions on performance based pay.

3.1. Australian Government Position

The Australian Government Minister for Education, the Hon Julie Bishop MP, has announced that Australian Government funding for education from 2009 will be conditional on schools introducing performance based pay for teachers to encourage and reward quality teaching. It is not clear whether the AST system would meet the Minister’s requirements. However, the Minister has expressed concern about proposals that are only based on adding additional remuneration levels.
The Minister claims that the current school system does not offer clear incentives for quality teaching and improvement, stating that, “Current teacher pay arrangements are impacting on the attractiveness of teaching as a career, and retention of quality teachers within the profession. We need to explore ways of creating incentives for our best teachers and move beyond the notion of salary based on time in the job.”

The Australian Government has indicated it intends to engage an expert “to analyse best practice models of performance-based pay, both in the education field and in other professions, examine mechanisms for assessing and rewarding teachers and likely costs, and develop models of performance-based pay to trial in Australian schools.”

It appears that no specific additional Australian Government funding will be provided for performance based pay. The Australian Government has stated that given the significant funding it currently provides to Australian schools it should, on behalf of tax payers, be able to require high and consistent standards. It also claims strong support from parents and the public for an improvement in school standards, which it sees as being achieved in part through performance based pay.

The Minister has also said that proposed changes, including performance based pay, articulate what all education authorities should be delivering to students, parents and the Australian community now.

### 3.2. ALP Position

The Shadow Minister for Education, Stephen Smith, has stated that if elected the Australian Labor Party will apply additional resources to reward quality teaching on the basis that, “We have to start rewarding teachers for the specialist accreditation and skills that they have. We have to start rewarding teachers for what they teach and where they teach.”

However, the ALP has distinguished its plan from that proposed by the Coalition. Mr Smith said, “I don’t use the phrase merit pay or performance pay, because those phrases are linked to the failed and discredited programs in the United States. I use the phrase, let’s start rewarding quality teaching.”

Stephen Smith has emphasised that any arrangements need to be developed in a comprehensive way in cooperation and in conjunction with the States and the Catholic and Independent sectors.

### 3.3. IEU Position

The following quotes are drawn from the federal Independent Education Union (IEU) policy, Recognising Accomplished Teachers. They provide an indication of the IEU position on performance pay.

The IEU has long supported the recognition of accomplished teachers in schools.

The IEU believes that what is required in Australia is the development of an integrated career structure for teachers that is reflective of the work currently underway in Australia around accomplished teacher standards, including the work of teacher registration authorities and subject associations. The integrated career structure should take into account the many phases in a teacher’s career including early career, experienced, highly accomplished and leadership.
The IEU believes that appraisal of accomplished teachers must be on the basis of agreed criteria, and that the appraisal must be conducted fairly and impartially by trained personnel.

The IEU notes that international research reveals that quotas undermine the collaborative approach which characterises teachers’ work. Teachers find themselves competing with colleagues which can lead to an unproductive work environment and adversarial relationships among staff.

The IEU notes that research evidence points to the success of any such initiative being dependent on the support of all who will participate or are affected - teachers, their unions, employing authorities, administrators and the community. All these groups should therefore be included in the planning process.

The IEU rejects the notion of ‘rewarding’ teachers on the basis of student outcomes. The IEU notes that such an approach has been tried and has failed in other countries. Further that such an approach undermines the collegial and supportive team environment critical for quality teaching and learning.

The IEU also rejects the trivial notion of ‘rewarding’ teachers based on popularity or ranking measures, as they are divisive, lacking in any objectivity and subject to patronage.

The IEU has long supported the concept of professional career pathways underpinned by the right to professional learning and the development of an objective framework that supports, encourages and focuses on teachers’ professional development. The framework should recognise not only the complex nature of the work undertaken by teachers but also the collegial, cooperative and supportive environment that is critical to the ‘full’ educational interests of students.

The development of objective frameworks or standards must reflect recognition for commitment through professional learning, active engagement in the life of the school, as well as the teacher’s commitment to and provision of opportunities in the learning environment of students. This reflects the community’s expectations that a full and positive school experience provided by accomplished teachers for students is manifestly more substantial and broader ranging than the nonsensical notion of assessing teachers through student outcomes on the national testing benchmark agenda.

### 3.4 AEU Position

The Australian Education Union (AEU) has strongly criticised the approach taken by the Australian Government, with the AEU in South Australia stating that the AST arrangements should suffice to meet the Government’s demands for performance based pay. However, federally the AEU has developed a model for changing current arrangements. The following quotes are drawn from the federal Australian Education Union (AEU) paper, *Professional Pay and Quality Teaching for Australia’s Future: The AEU Proposal*, to provide an overview of the AEU proposal.
The AEU proposes a professional standards-linked career reform to recognise and enhance the high quality of teaching which students need to meet the challenges of the future. Professional teaching standards must be underpinned by professional teaching and learning conditions.

The AEU proposes a Professional Pay scheme to reward experienced teachers through recognition of their teaching knowledge and practice. Such reform would recognise and encourage professional excellence and help to attract and retain the best teachers in our classrooms.

The scheme would establish a set of professional standards for teaching beyond current processes.

Teachers would be assessed by an independent and fair process and rewarded through salary increases, not one-off cash bonuses. Teachers would be required to demonstrate how their teaching experience and professional development is contributing to the improvement of educational outcomes for students.

The AEU proposes the following framework as the basis for its proposal for Professional Pay.

A framework for Professional Pay standards:

> INITIAL EDUCATION: attract the best entrants by improving teacher education courses, beginning salary rates and HECS remission.

> BAND 1 GRADUATION: provide improved support, non-teaching time, professional development and mentoring for new teachers prior to full registration.

> BAND 2 COMPETENCE: progressively recognise the attainment of skills and knowledge of teachers gained through successful professional practice. Teachers on this band who wish to apply for appraisal to move to Band 3 may do so.

> BAND 3 ACCOMPLISHED: a new classification for expert teachers to access professional pay based on a mix of successful practice, professional development and student learning. Access to this third band will recognise teacher quality through a formal appraisal process which is independent and transparent.

> LEADERSHIP: A set of standards which reflect the qualities associated with educational leadership.

The standards to be attained should be established by independent research relevant to teaching and the roles teachers perform. The assessment of teachers would be conducted by peer-based independent panels to consider each applicant’s portfolio prior to being accredited as an accomplished teacher.

Teachers would be required to demonstrate how their teaching experience and professional development is contributing to the improvement of educational outcomes for students.
3.5. Independent Schools in NSW

The AISNSW and the Independent Education Union have developed two proposed collective agreements for teachers. It will be up to each school to determine which model it presents to staff.

One model agreement retains the current classification structure and does not include any performance component.

The other model agreement has the incremental structure replaced by three Bands with progression between Bands 2 and 3 subject to appraisal procedures.

The three Bands are:
Band 1 – New and Transition Scheme Teachers;
Band 2 – Professional Competence Accredited Teachers;
Band 3 – Experienced Teachers.

A Teacher will progress in the three defined Bands as follows:

- New Teachers will commence in Band 1;
- A Teacher will progress to Band 2 after the Teacher achieves Professional Competence accreditation under the NSW Institute of Teachers Act. This should occur within three years of a teacher commencing teaching;
- A Teacher will progress to Band 3 after the Teacher has:
  (i) achieved accreditation at Professional Competence level as required under the Institute of Teachers Act 2004 and maintained that level of accreditation for at least five full-time equivalent years of service; and
  (ii) been independently assessed as meeting the Experienced Teacher standards, which were developed by AISNSW. There are detailed arrangements about this assessment which will be conducted by an independent organisation established by AISNSW.

4. STANDARDS

Some of the options for performance based pay are linked to assessments against standards.

Teaching standards are increasingly used to describe the full scope of what teachers are expected to know and be able to do. A set of standards typically includes a wide range of elements such as “creating productive learning environment”, “knowledge of content”, “promoting student learning” and “contribution to school and professional community.” Assessment of a teacher’s performance against each of these standards calls for different types as well as multiple forms of evidence.
The Ministerial Council of State and Federal Education Ministers (MCEETYA) has proposed a National Framework for Standards including four career dimensions (Graduation, Competence, Accomplishment and Leadership) and describes the work of teachers through four categories (Professional Knowledge, Professional Practice, Professional Values and Professional Relationships.)

Many subject associations have developed standards. Teacher registration authorities in Australia have also been developing standards. The South Australian Teachers Registration Board has developed standards for beginning teachers.

5. RESEARCH INTO PERFORMANCE BASED PAY

A range of studies have been conducted in the area of performance based pay, which provide an outline of models of performance based pay and indicate some of the issues which surround them.

5.1. ACER Research


It provides an overview of the current pay arrangements for teachers in Australian schools, particularly in relation to performance-based pay; attitudes to performance-based pay for teachers; and the results of the introduction of performance-based pay arrangements for teachers both in Australia and internationally.

The comments below are drawn from the paper.

"For the purposes of the report, performance-based pay schemes were classified into three main types: merit pay; knowledge and skills-based; and certification-based approaches.

The term ‘merit pay’ refers mainly to the many schemes developed in the 1970s and 1980s in the USA. Merit pay schemes in the past were usually developed within particular schools or employing authorities, and operated by school administrators. Typically, such schemes evaluated teachers against one another for a fixed pool of funds, usually delivered in the form of bonus payments. They were not standards or criterion based. The methods of gathering evidence were usually of doubtful validity and unreliable, such as classroom observation checklists or one-off tests of student achievement, often leading to staff dissatisfaction. Similar schemes are still being implemented today.

Knowledge and skills-based pay schemes come from a different tradition. They have emerged in response to the ineffectiveness of traditional salary structures that focus rewards on additional course credits and university degrees rather than direct measures of knowledge and performance. Proponents of knowledge and skills-based pay schemes aim to provide a basis for reforming career structures."
The typical salary structure for teachers in the USA for example, unlike Australia, includes a substantial component based on accumulating further academic credits or qualifications. Although these payments are well entrenched, research indicates that the investment has little impact on student learning outcomes.

In knowledge and skills-based pay schemes, pay increases are based on demonstrated improvements in the knowledge, skills and expertise needed to provide quality opportunities for student learning. Unlike merit pay schemes, knowledge and skills-based pay schemes are based on criterion or standards-based approaches to the assessment of teacher performance.

Knowledge and skills-based pay schemes aim to ensure that the salary scale is a much stronger instrument for improving student outcomes than the traditional incremental scale. These schemes aim to provide stronger incentives for professional development and reinforce the development of a workplace culture that values employee growth and development.

The development of new methods for developing teaching standards and assessing teacher performance has greatly facilitated the development of knowledge- and skills-based approaches to teachers’ pay. These new approaches may still include interviews, classroom observation and student evaluations, but they may also include portfolio entries containing videotape evidence and evidence of improved student knowledge and skills over time.

These approaches invite teachers to provide the evidence that their teaching has met the standards, unlike old inspection methods. Knowledge and skills-based pay schemes usually distinguish several levels of teacher performance, from registered to highly accomplished teacher, reflecting increasing proficiency and widening responsibilities.

Professional certification is an endorsement by a professional body that a member of that profession has attained a specified standard of knowledge and skill. It is usually voluntary. The National Board for Professional Teaching Standards in the USA is perhaps the best-known example. The NSW Institute of Teachers is an embryonic Australian example; Professional certification can provide a basis for knowledge and skills-based pay schemes in jurisdictions that accept its validity. With professional certification, the professional body is responsible for developing standards and methods for assessing performance rather than a single employing authority. The teachers’ role is to supply the evidence, within guidelines, that they promote quality learning in students.

In most professions, national bodies usually set standards and conduct assessments for professional certification.

There is general agreement among experts in teacher evaluation that a valid and reliable scheme for assessing teacher performance for high stakes decisions must draw on several types of evidence. That is because such schemes need to encompass the full scope of what a teacher is expected to know and be able to do.
Performance Based Pay

From overseas experience, it seems most likely that a scheme would be successful if it was based on the acquisition of knowledge and skills. This approach is similar to the AST arrangements though more extensive. Pay increases are based on demonstrated improvements in the knowledge, skills and expertise needed to provide quality opportunities for student learning. The schemes are based on criterion or standards-based approaches to the assessment of teacher performance.

A number of different approaches tend to be used in making these assessments – interviews, classroom observation, student evaluations, portfolio entries and evidence of improved student knowledge and skills.”

The report indicated:

“that performance-based pay systems are more likely to have a positive impact when their development and operation is seen as a mutual responsibility between employing authorities and professional associations. There are complementary roles to be played here in the development of standards, assessments, professional development, certification and employer recognition. In other words, performance-based pay schemes for teachers are more likely to be successful when:

a) their guiding purpose is to give substantial and valued recognition to teachers who provide evidence of professional development to high teaching standards (which includes evidence of student learning outcomes);

b) valid (research-based) standards have been developed by expert teachers in their specialist field of teaching to provide long-term goals for professional development;

c) appropriate research has been completed to develop reliable and valid procedures for gathering evidence to indicate whether teachers have met those standards;

d) the assessment of performance procedures are conducted by an agency external to the school to ensure reliability, comparability and fairness;

e) teachers have adequate opportunities to learn the knowledge and skills required to put the standards into practice;

f) a teacher’s ability to demonstrate that they have met the relevant standards leads to valued professional recognition, enhanced career opportunities and significant salary increases;

g) teachers who reach high standards of performance gain access to interesting, challenging and well-supported positions in schools where they can provide leadership to improve teaching and learning; and

h) Governments and other employing authorities become convinced that the assessment system is valid and reliable and make long-term commitments to support the system.”
The report concluded:

“In summary, many pay for performance schemes have been tried over at least 150 years, and most have failed because they have not gained the support of the stakeholders who are most closely involved in the processes, most notably teachers and school administrators. This review indicates, however, that it is now possible to establish performance pay schemes that overcome many of the deficiencies of previous merit-pay schemes.”

5.2. DEST Research


The report provides a general overview of performance-based pay for teachers and examines a range of different schemes. The research also makes evident a number of conditions that appear necessary for effective performance systems.

As well as knowledge and skill-based compensation and merit pay it identified as an option school-based compensation. School-based compensation is another variant of merit pay, with more of an emphasis on the team’s results. In these schemes, incentives are created that encourage educators to work together to achieve collective goals. An example is a school performance award that links bonuses to school goals and benchmarks.

It provided the following summary of the main features of typical performance-based reward systems.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Knowledge and Skill-Based</th>
<th>Merit-Pay</th>
<th>School-based</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recipient</td>
<td>Individual teachers</td>
<td>Individual teachers</td>
<td>Schools, who may have the discretion to distribute to staff</td>
</tr>
<tr>
<td>Scope</td>
<td>All teachers who can demonstrate the skills and knowledge are rewarded</td>
<td>Mixed. Some programmes provide universal rewards, others are limited by quotas</td>
<td>Mixed. Some programmes provide universal rewards, others are limited by quotas</td>
</tr>
<tr>
<td>Compensation type</td>
<td>Mainly financial. Intrinsic rewards - such as satisfaction from increasing student performance - may be regarded as a product of this system</td>
<td>Financial</td>
<td>Mainly financial. Intrinsic rewards - such as satisfaction from increasing student performance - may be regarded as a product of this system</td>
</tr>
<tr>
<td>Areas evaluated</td>
<td>Specified skills and knowledge thought to be linked to increased performance. This may be via additional qualifications.</td>
<td>A range of areas are assessed, such as portfolio of teacher accomplishments, classroom observation, student performance.</td>
<td>Student performance is often used to evaluate schools - e.g. improvement in student exam scores from one year to the next, or absolute student achievement</td>
</tr>
<tr>
<td>By whom?</td>
<td>By external review</td>
<td>A range of evaluators may include peer review, principal, external review</td>
<td>By external review</td>
</tr>
<tr>
<td>Duration of compensation</td>
<td>Short-term. Generally requiring evidence that teachers maintain skills and knowledge</td>
<td>Varied. Most often annual</td>
<td>Annual bonus</td>
</tr>
<tr>
<td>Links to existing pay</td>
<td>Replace the salary scale, in full or part</td>
<td>Supplementary, but can sometimes replace the salary scale.</td>
<td>Supplementary</td>
</tr>
<tr>
<td>Level of compensation</td>
<td>Ascending levels of rewards tied to increasing levels of skills and knowledge acquired</td>
<td>Mixed. Depends on the relationship to existing salary scales.</td>
<td>One level of reward</td>
</tr>
</tbody>
</table>

Source: Harvey-Beavis, Owen, Performance-Based Rewards for Teachers: A Literature Review, OECD, February 2003
The report indicated that the US Teaching Commission acknowledges that there is no single way to measure classroom excellence. The Commission suggests, however, that a balanced merit pay plan links pay increases to some or all of the following elements:

> Student achievement gains;
> Satisfactory evaluations by principals or peers;
> Additional pay for extra responsibilities;
> Incentives for earning National Board Certification;
> Special rewards for specialists.

The report also indicated that recent research on the impact of performance pay plans for teachers is limited. There have, however, been some positive findings.

The report concluded:

From this research and the case studies, it is clear that performance-based reward systems can work. Conditions that appear necessary for effective performance systems include that they:

> are developed in conjunction with, rather than for, teachers;
> use multiple, credible and objective measures of teacher skills and student progress; (Measures for performance may include classroom observation by independent experts, interviews with the teacher, separate questionnaires from students, peers and principals, annual knowledge exams, change in students’ test scores from one year to the next.)
> establish a clear system of significant rewards that are recognised as additional pay and rewarded in a timely fashion;
> provide school leaders and administrators with guidance and resources to cover additional expenses and administrative responsibilities created by the system. Sufficient time and funding is required to plan, introduce and run any performance pay system;
> are aligned with overall school goals;
> are considered in conjunction with comprehensive reforms of teacher compensation as well as other organisational changes to improve teaching;
> emphasise the importance of continuous, focused learning;
> recognise the need to adjust the details based on early experiences - implementation of a performance pay system is a multi-year project;
> explore innovative methods of knowledge and skill assessment to reduce the workload of teacher and assessors;
> are supported by ongoing and comprehensive performance management and support in the local school setting.
5.3. Additional Research

There has been considerable research on the impact of performance based pay in the general workforce in the United States of America.

Individual performance pay is generally associated with higher levels of job satisfaction and increased profitability. Some researchers suggest that employees prefer employment environments seen as rewarding their productivity. However, some research has indicated the adverse consequences on morale of individual performance pay schemes which create disparities in income between employees doing the same job. It has been claimed that the adverse impact on morale can overwhelm the positive effects on productivity.

There has been some indication that women are more likely to get no overall increase in satisfaction from performance based payments than men.

6. ISSUES FOR MEMBER SCHOOLS

The introduction of a performance based pay will raise a number of issues for Independent schools, in particular if its introduction is tied to government funding.

One fundamental matter will be the extent to which any performance based scheme is determined by the school and the extent to which it relies on activities undertaken by external organisations e.g. assessment of teachers and development of standards by subject associations and teacher registration authorities.

Other issues for schools associated with performance based pay include:

- the impact on teacher performance;
- the attitude of teachers;
- The cost of administering performance based pay schemes e.g. time, distractions, training of teachers and assessors, development costs etc;
- the cost of enhanced pay;
- professional development implications, including whether teachers seeking professional development to meet standards and professional development in conducting assessments etc; and
- whether the AST arrangements will meet the Government’s requirements.

7. CONCLUDING COMMENTS

Given the importance of this issue and implications for Independent schools it is essential that the Independent sector discusses the possibility of performance pay.
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