

Performance related pay: is it the answer to improve performance in the public sector?



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- Background and trends
- Impact of Performance Related Pay
- A 'new' approach

Twenty years ago...

- Base pay (increments based on service)
 - Promotions

In the late eighties and early nineties...

At present ...

- Base pay (competencies, job roles, etc.)
 - Promotions
 - Performance Related Pay (PRP)

PRP definition

- Variable pay based on specific behaviours, outputs or outcomes
- These behaviours, outputs or outcomes can be individual, team or organisational based

Performance
measures



Variable pay



OECD PRP report (2005)

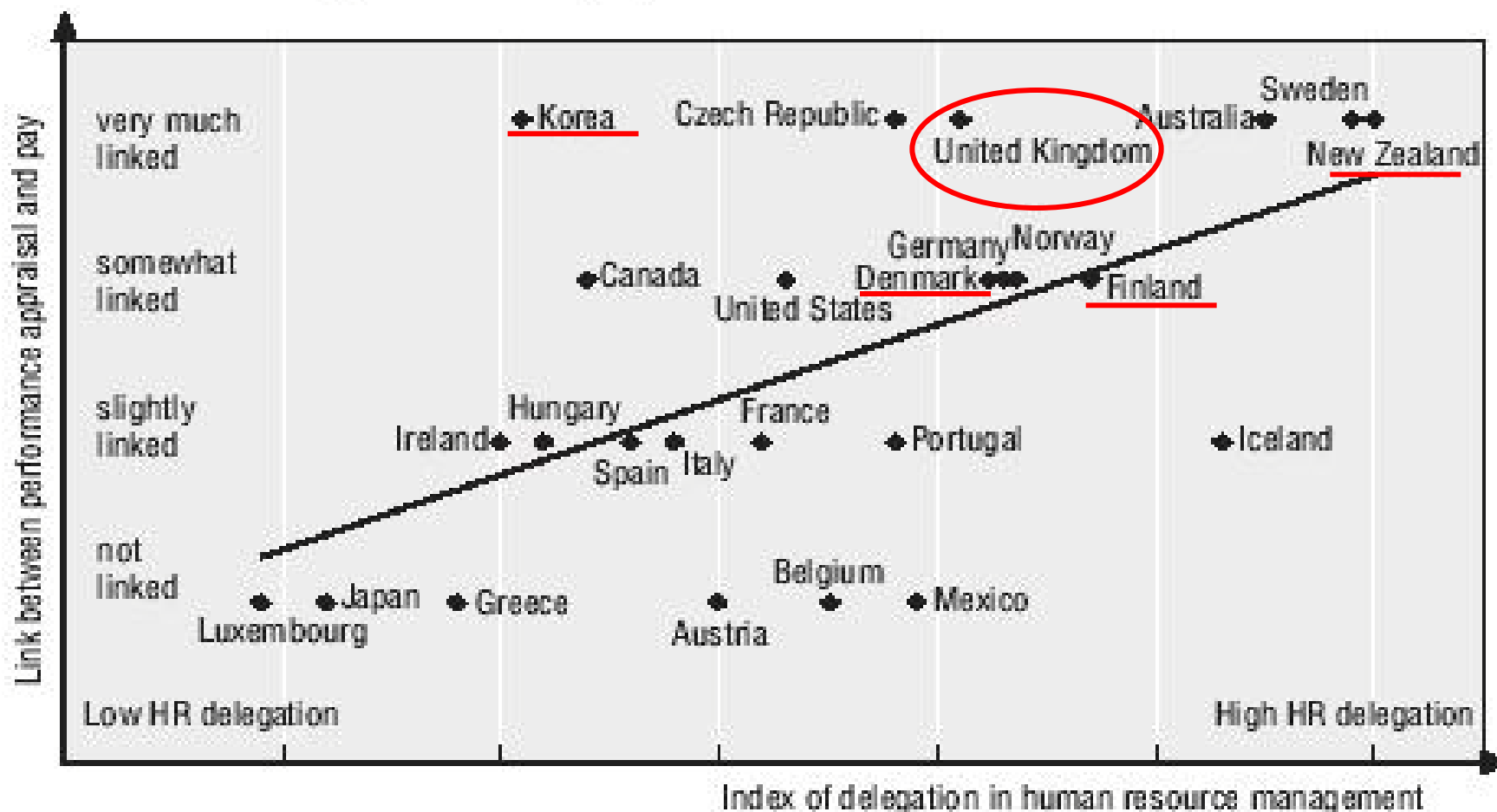
- 66% of OECD countries have implemented PRP or are in the process of doing so
- Gap between the existence of the so called PRP scheme and its concrete functioning
- There is no single model of PRP across OECD member countries

- However, common trends are:
 - ✓ PRP policies have spread from management level to cover many different categories of staff
 - ✓ Increase in the use of group performance schemes
 - ✓ Standardised PRP schemes have evolved into more decentralised systems
 - ✓ Increased diversity of the criteria against which performance is assessed (outputs, competencies)

- ✓ Performance appraisals are less standardised, formalised and detailed than ten years ago
- ✓ The use of performance targets within PRP are more widespread
- ✓ The size of performance payments is a modest percentage of the base salary:
 - <10% ABS for employees
 - 20% ABS for managers

OECD PRP report (2005)

Relationship between delegation and link between performance appraisal and pay in OECD member countries



Note: Figure excludes the Netherlands, Poland, the Slovak Republic, Switzerland and Turkey in the absence of sufficient data.

Use of cash-based bonus or incentive plans, by sector, 2006

	Percentage using a cash-based bonus or incentive plan
All employers	66
By sector	
Manufacturing and production	80
Private sector services	88
Voluntary sector	22
Public services	32

Main reason for using PRP

To improve civil servant's **motivation** and **accountability** as a way to improve overall government performance

PRP is an attractive idea but its implementation is complex and its impact ambivalent

... and this is so in both private and public sectors

- Research suggest that:
 - ✓ PRP is unlikely to motivate a substantial majority of staff, irrespective of its design
 - ✓ Job content and career development prospects are the strongest incentives for public employees
 - ✓ The success or failure of PRP is substantially influenced by contextual factors

- Main PRP assumptions ...
 - ✓ Individual and team outputs contribute to organisational performance
 - ✓ Individuals are mainly motivated by money
 - ✓ Managers can and will make fair assessments of their subordinates
 - ✓ Organisations can accurately measure individual, team or organisation outputs

Impact: A paradox...

The paradox is that despite these negative impact results, government and public interest in PRP is still increasing ...

Reasons why...

- The overall principle behind PRP is strongly supported by politicians, civil servants and citizens.

“good performance should be rewarded”

- Transferability of private sector practices to public sector settings

*“It is typical for a government to follow private sector examples and buy pokes without looking inside to see if there’s really a good pig in there”
(Ingraham, 1993)*

■ PRP as a catalyst for other org. changes

- ✓ In those organisations in which there are:
 - High levels of managerial discretion in HRM
 - High levels of trust
 - Common and shared values and objectives between executives and employees
 - Consensus about the measures of both individual and organisational success
 - Enough financial resources available

the processes that accompany PRP have made organisational changes possible and positive

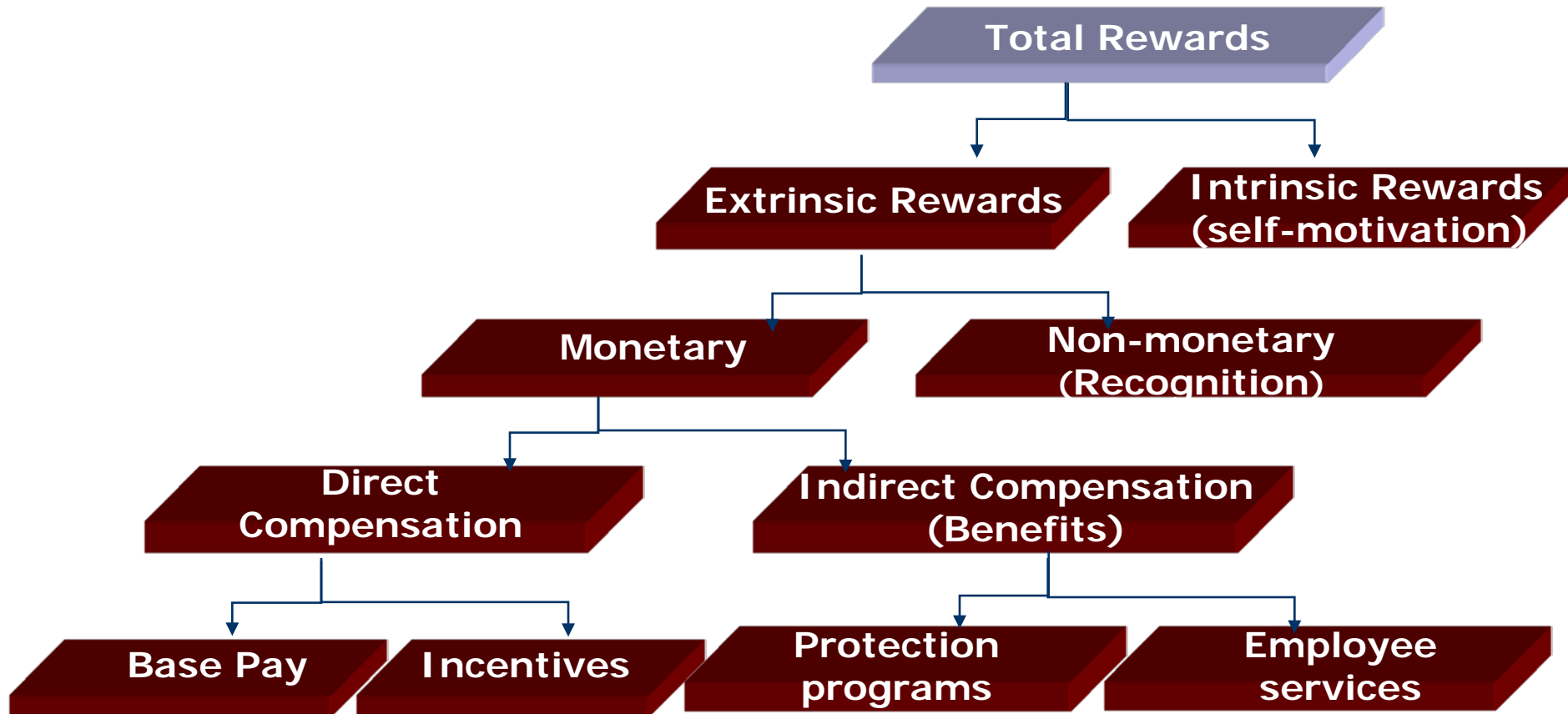
- Example of key transformations due to PRP...
 - ✓ Effective appraisal and goal setting
 - ✓ Clarification of tasks
 - ✓ Acquisition of new skills
 - ✓ Improved employee-manager dialogue
 - ✓ More teamwork,
 - ✓ Increased flexibility in work performance

CULTURAL CHANGE

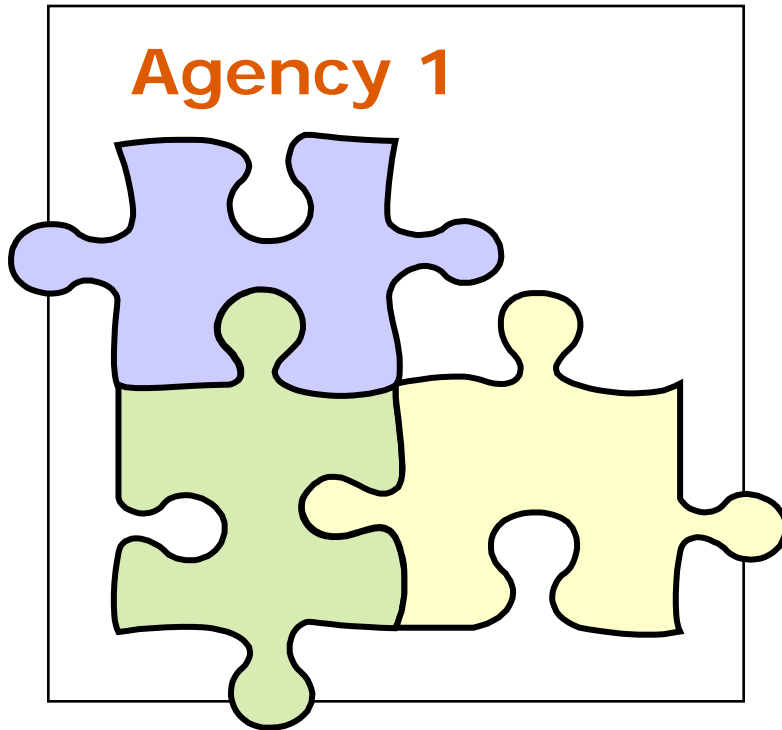
*“It appears that it is NOT through the financial incentives it provides that PRP can contribute to improving performance, but rather through its secondary effects, that is the changes to work and management organisation needed to implement it.”
(OECD, 2005)*

An 'new' approach...

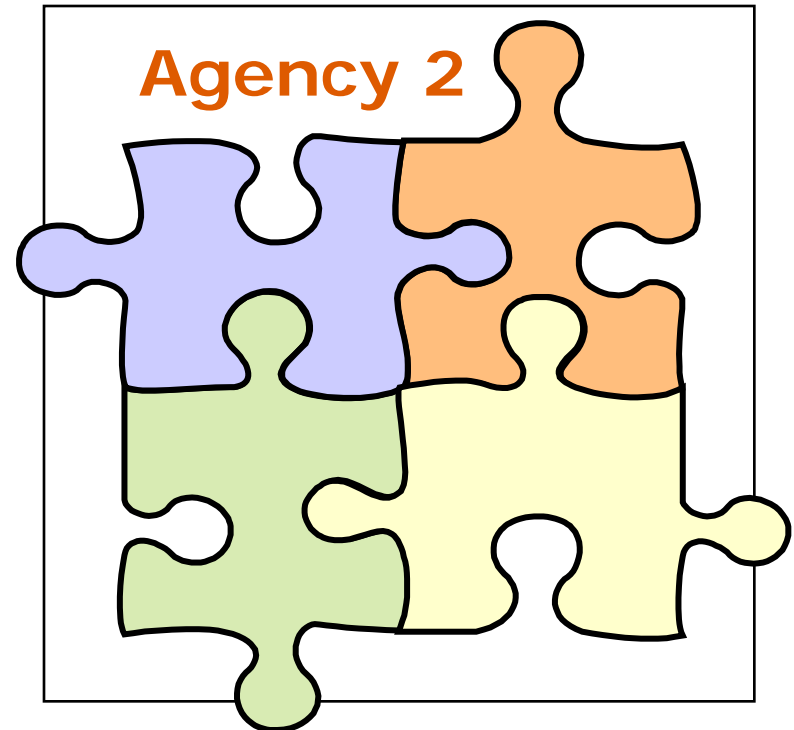
Performance Related Rewards



Performance Related Rewards



- Intrinsic
- Extrinsic (base pay, recognition)



- Intrinsic
- Extrinsic (skill base pay, bonus based on outcome measures a,b,c)

Performance related pay:
is **just an** answer to improve
performance in the public
sector

... it is NOT the *holy grail*

Final remarks...

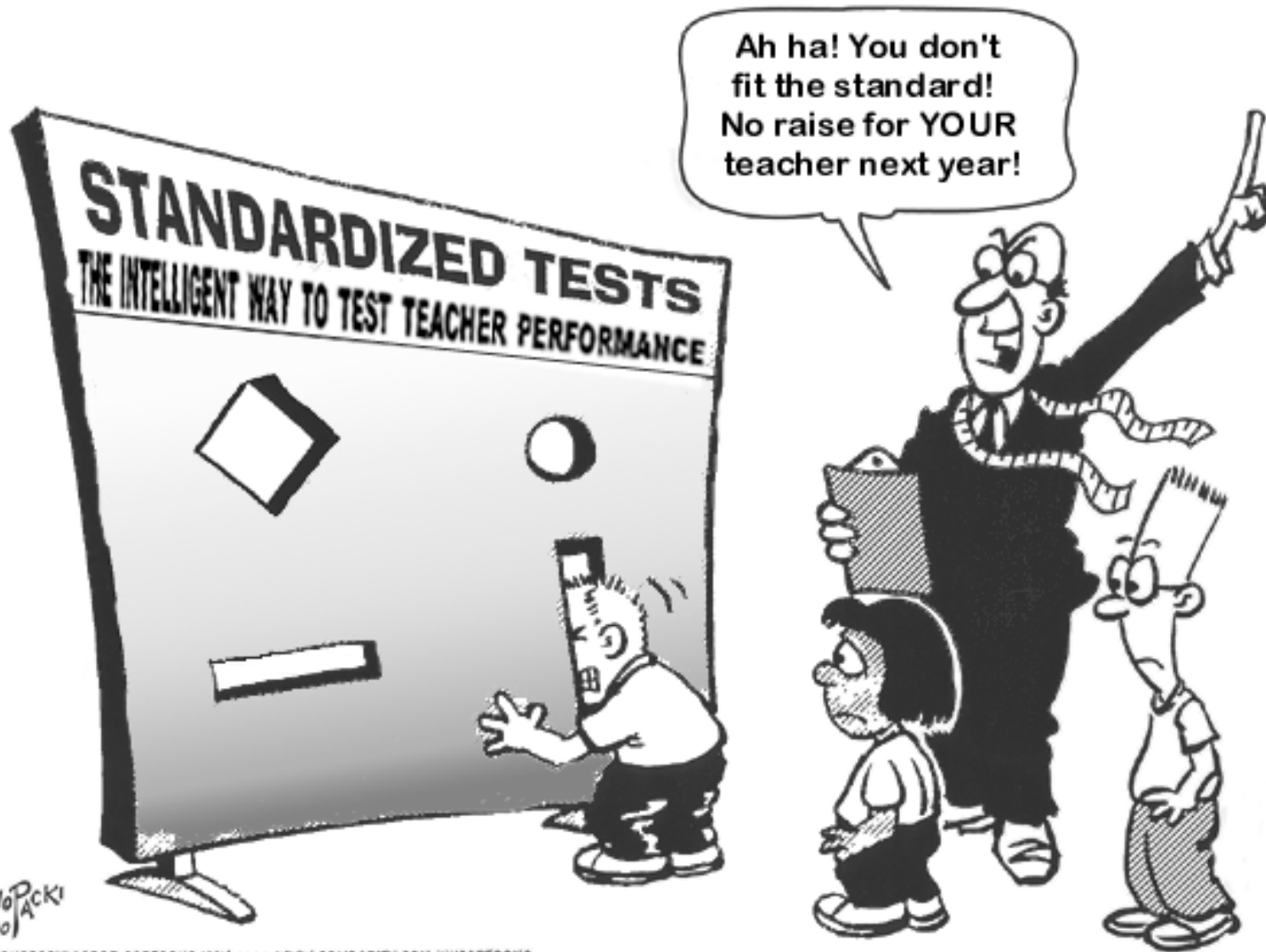
- Ask what public organisations need, not what private organisations do.
- Find examples of success and failure in the public sector. Learn from them!
- Ask if threshold conditions for success are going to be present for implementation.
 - ✓ Mostly... enough funding
- Explore the fits of PRP with other initiatives that are also taking place
 - ✓ PRP is not a technical add-on.

- Look carefully at other reward elements that can promote good performance
 - ✓ Recognition plans
 - ✓ Intrinsic rewards

- Use previous research or execute new research in which to base managerial decisions regarding the design of PRP
 - ✓ OECD (2005)
 - ✓ Milkovich & Wigor (1991)

Future research needed!

- New PERFORMANCE RELATED REWARDS (PRR) designs
- Understanding of how contextual factors affect the impact of PRR
- Practical tools for implementation of PRR practices
- Strategies that would lessen the number of dysfunctional behaviours produced by PRP



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Q & A

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