



ESSAY.

Performance- Based Reward System Are Unsuitable For The Public Sector.

To attract and motivate people, systems maintain reward procedures based on merits and incentives. Performance measurement can be defined as the effectiveness and productivity of the organization, which determines the ratio of the organization's outputs, i.e. productivity to inputs.

Public sector institutions like private ones face different challenges to advance public service quality, lower their costs, and become more accountable, responsive to customer needs and quality of service. It can be stressed that performance measurement is the key issue of the public sector reform, where the overall performance is dependent on human factor. Moreover, due to the multifaceted structure of performance, it is difficult to find the appropriate indicators for performance measurement, as its goals often change with the government policy.

Many scholars pointed out various problems associated with performance measurement of the individual in the public sector, especially when it links to pay, i.e. rewards play crucial role in organizations, and the most powerful of them is pay. Research in the regulatory and financial sectors found that performance-related pay is generally perceived as divisive (Marsden and Richardson 1994). In practice, performance measurement in the public sector has been a problematic area with PRP.

As to Burgess and Ratto (2003) "...to avoid the problems associated with basing pay on more or less objective measures such as misallocation of effort by the agent, gaming, misrepresentation and distortion, and short-termism principles have to weaken the power of incentives on the more accurately measured tasks". This, however, produces problems to

evaluate the relative weights to place on various measures when determining rewards. Many studies have stated that the impact of PRP on performance is scarce, and can indeed be negative. In OECD report (1993) it is stated that the performance assessment is very difficult in the public sector, because performance objectives often change with government policy. Moreover, performance measurement in the public sector requires a large element of managerial judgment.

Estimating quantitative measures against the qualitative ones is indeed a complex task, as it entails a subjective evaluation ultimately affecting the reward process. Therefore, issues such as unfairness, inequality, and mistrust will arise.

The problem of equity and fairness has been argued by different theories. For example, Hegel (1821) in his work “Elements of Philosophy of Right” states that “there is necessarily in an *indeterminate number* of candidates for public office, because their objective qualification does not consist in genius (as it does in art, for example), and their relative merits cannot be determined with absolute certainty .”

Secondly, PRP in cash limited environment like the public sector may hinder the desired organizational success. Considering the limited budget of the public sector, institutional regulations have been set up to constrain public performance related pay. As to James Perry “the difficulties of implementing performance-related pay in the public sector often generate optimistic “if only” attributions, such as, “if only more money were available for payouts”. Conversely, private sector does not face such restrictions, since growing revenues can directly affect the private salary budget.

Another problem with PRP in public sector concerns motivation. It is always referred to as the main cause for the increased level of effort. Marsden (2004) in his article “The Role of the Performance-Related Pay in Renegotiating the “Effort Bargain”: The Case of British Public Service” argued that “... the main impact of the introduction of PRP across large sections of the British public services in 1990s was to assist the renegotiation of performance norms, i.e. while a new incentive scheme is presented, management is almost certain to encounter a wide

spread of employee preferences and the problem of winners and losers”. For example: the British public service in 1990s, employers had to achieve desirable outcomes from new incentive schemes when applying them for a large incumbent work force, unlike CEOs, sales, and sports personnel, who has short job tenures, and the high rate of labor turnover, where self-selection often brings about a match between employee preferences and the type of incentive offered by the organization. The challenge here lies in the dilemma whether to promote administrative simplicity through application of the same scheme to all employees or to apply a more flexible internal policy by establishing a range of choices and options for employees.

Besides, when PRP attempts to incentivize a small number of employees, conversely, the majority of staff does not find PRP as stimulus. While basic salary relative to the broader “market” is essential, most government employees, particularly those in nonmanagerial positions, find extra payment for work performance secondary. Job content and career development prospects are found to be the strongest incentives for public employees. As to Hegel “ ..the civil [servant's] relationship to his office is not one of contract..”, “...the civil servant is not employed, like an agent, to perform a single contingent task, but makes this relationship [to his work] the main interest of his spiritual and particular existence,.... But the task which the civil servant has to perform is, in its immediate character, a value in and for itself”. Thus PRP is unlikely to motivate a significant majority of staff, irrespective of the design.

Moreover, it is worth mentioning that monitoring appears to be problematic in PRP, especially in large organizations. It is argued that one basic features of public sector is multitasking, i.e. “the agents have to serve many masters and work for many principals” (Burgess and Ratto, 2003). Thus, the decision making coupled with the lack of a single goal makes monitoring hard to motivate employees and even harder to monitor their performance. In bureaucratic structures, the decisions clearly depend on factors which are not easily observable by the superiors, especially it the “coping organizations” (Wilson). In such organizations the only way of control is audit of individuals, which is very costly for public organizations. Consequently, monitoring can be realized within a team-based reward system within a public

sector i.e. the outcomes are produced by the individual but are measured only at the team level. In this case however the problem of “shirking” is observed.

Despite the fact that many studies concluded that group incentives can have a positive effect, “...superior skills get transmitted to the other members of the team and also the high-ability workers are able to impose a higher team norm level of effort” (Burgess and Ratto, 2003), it becomes obvious that in such kind of incentive scheme output is barely visible at an individual level, and would thus be impractical or even have a de-motivating effect.

Many scholars have recognized the differences between the nature of the public sector and the private one, referring to the presence of multitasking and various principles as well as the lack of profit maximization as main differences and hence main intricacies, which surround the performance measurement scheme and performance related pay systems in the public sector. Still, there are many aspects and issues which have been remained unanswered in the PRP in public sector. Traditionally, public sector employees benefited from an unlimited work contract, which psychologically motivates them to make great effort and provide best quality services to the public in return for long-term job security. With the New Public Management Reform, it is suggested that the public sector economy is becoming more market-driven, and it may therefore imperil the entire spirit of the public sector by borrowing certain practices from the private sector in order to improve and enhance the quality of performance. It is argued that shifting from seniority-based reward system to more flexible performance-based one might have negative influence on employees’ sense of job security, and hence, tend to reduce commitment and motivation previously found among public sector workers.

Arguments around agency theory are based on the grounds that performance measurement and performance-based pay systems result in the employees’ dissatisfaction followed by shrinkage of managers. Hence, with the new Public Management Reform, a change in the psychological work-dependency leaves a negative impact. Marsden et al (2001) assert that the primary factor for employee commitment was sustaining performance related pay systems in the public sector despite the negative effect on behaviour. For this reason, it is essential to focus on the level of commitment in the public sectors, including contracts that create

psychological dependency, since these aspects of public sector management are fundamental to supporting both motivation and commitment.

Thus, based on the above mentioned analysis, one might conclude that there is no direct evidence of effective implementation of PRP in the public sector. To ensure an effective reward system and motivate the desired behaviors, it is essential to scrutinize and consider the rewards and strategies which are used to identify the rewards linked to or based on performance. Rewarding performance should not be solely based on annual pay-linked procedures; rather it should represent a living management activity embedded into the overall institutional culture.

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