

# Public Management Report

An occasional (and maybe insightful) examination of the issues, dilemmas, challenges, and opportunities in leadership, governance, management, and performance in public agencies.

On the limitations of:

## Pay for Performance

Everyone loves pay for performance. Just ask anybody. No one argues that people ought not to be paid for their performance. Everyone believes that his or her organization will perform better if people are paid for their performance. For several reasons, this confidence is perfectly reasonable.

After all, on what basis—other than performance—would you pay people? Longevity has a long tradition in government. Yet, it creates the wrong incentives. Why should anyone do any work if you are paid for simply sticking around? Regardless of whether the pay boost is a one-time bonus or a permanent increase in base pay, it ought to go to the top performers. It's a simple, obvious, common-sense theory.

Unfortunately, to implement this pay-for-performance theory, someone has to work out the pay-for-performance details. And getting these details right is very difficult. *Who* gets to decide *who* gets a pay boost of *how much* for *what* kind of performance? This one sentence raises four very complicated questions.

*First*, who does the deciding? This, you might respond, is easy: The boss decides. The boss knows how each individual has performed. But which boss? Traditional public agencies are hierarchies; each person has one boss. In reality, however, people have multiple bosses. They work on teams, on special pro-

jects, about which the official “boss” may have little knowledge. Often a large number of other people (including peers and subordinates) have some detailed knowledge—and quite different perspectives—about how any individual has performed over a diversity of tasks. Which of them gets a say in the decision? How, indeed, does the decision get made?



*Second*, who gets a pay boost? That is: How many people are eligible for either the bonus or the raise? In government, we tend to limit the number to something like 20 or 25 percent of employees. But what if the supervisor has recruited a high-performing team? Should only 20 percent be eligible? Does this suggest that, if you want to win a pay boost, you should choose to work on a low-performing team?

If only 20 percent of the people win the pay boost, 80 percent will be automatically labeled losers. On their confidential performance evaluations, many of them will have been rated, as meeting or even exceeding expectations. Publicly, however, they will be rated as losers.

And most of us don't think of ourselves as losers. Just ask us. In a survey of New Jersey school principals, 72 percent rated themselves among the top 10 percent of the state's principals. Impressive. (Better move to New Jersey; your children will have an excellent chance of getting a top-10-percent education.)

So what happens when the pay-for-performance system automatically labels 80 percent of these people as losers? Surprise! They are depressed. This is motivational?

*Third*, how much is the pay boost? \$1000? \$5000? One state legislature—in its effort to improve the performance of all state employees—created a \$400 bonus for the top 20 percent of the people in each unit. Divided into their 12, monthly, pay checks for the next year, the winners got an extra \$33.33 per month—before taxes. What impact do you think this performance bonus had on performance?

*Fourth*, what counts as good performance? Different people do different tasks. So how does the boss (or the pay-for-performance committee) compare those who picked the apples with those who picked the oranges? Maybe oranges (because they contain more Vitamin C) are more important. Thus, the top-performing orange pickers ought to get the pay boost. One result, of course, is that the best apple pickers will seek to transfer to the orange-picking unit. Still, if apple picking is important, it may be necessary to reward a few good apple pickers (even if the really best pickers have all transferred to oranges).

And, how do you deal with team performance? After all, most of government's work isn't done by individuals but by teams. Teams are essential when the task requires many different talents: orange pickers, ladder holders, box packers, box carriers. Sure, the actual pickers are more important than the ladder holders. But if the orange-picking team's performance improved significantly, is this solely because of the star pickers or is it because the team's box packers learned how to be both quicker and more careful? And what do you do if *every* one of the orange-picking teams meets its stretch-target of improving performance by 20 percent?

*Government needs to pay enough to attract talented people. Then, to motivate them to improve their individual and collective performance, it needs to use not money but the significance of the mission that they are attempting to achieve.*

The core fallacy of pay for performance is that money is not a great motivator. People do need enough to feed their families, to meet other basic needs, and to afford those few luxuries that they truly desire. Most people, however, do not choose to work in government to maximize their income.

If people need the modest sum awarded in most public-sector pay-for-performance schemes, they can probably do it more quickly—and with more certainty—by taking a second, weekend job at the local mall.

Pay for performance is a wonderful theory—a particularly attractive theory for anyone who believes that he or she is a top performer. Unfortunately, as with most government activities, the details matter. They matter a lot. In fact, to create a pay-for-performance system that actually motivates—that does not demotivate everyone—you have to get a lot of the details very, very right. And with the limitations that we citizens impose on our government—limitations on both expenditures and on perceptions—government has a very hard time getting the pay-for-performance details even close to right.

Government needs to pay people enough to attract real talent. Then, to motivate them, it needs to use not money but the significance of the mission they are attempting to achieve. **B**

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