

KEY CONCEPTS

Inner check
 Ethics
 Bounded ethics
 Whistleblowers
 Values
 Local justice
 Public values

Motives
 Public service motivation
 Professional values and norms
 Gift exchange
 Public service bargain
 Thermostatic control model

CASE ANALYSIS: PAY IN PUBLIC ORGANIZATIONS

This case considers the role that culture might play in the implementation of structural reforms that link pay to performance for employees of public organizations. As discussed in Chapter 5, pay-for-performance systems are based on the idea that monetary incentives will promote greater employee effort, greater productivity, and higher performance. The suitability of pay for performance likely depends in large part on structural elements of the job: how specific tasks or accomplishments are rewarded.

But the culture dimension almost certainly matters as well. Two conceptual tools for gaining traction on the culture aspects are the gift exchange and the public service bargain.

Pay as Gift Exchange

Economist George A. Akerlof developed the idea of employee compensation as a **gift exchange**: the exchange of labor for wages is based partially on norms of behavior that are determined by the employment relationship itself.⁶⁵ He argues that employees develop sentiments for their fellow employees and for the organization for which they work.

As part of these sentiments, norms of behavior develop based on a comparison of one's own situation with others in the organization. Norms of "fairness" and fair treatment arise from these comparisons, with the resulting norms being relative, not absolute.

Basing his claims on empirical evidence and formal modeling, Akerlof shows that the optimal labor contract may not set wages at the minimum level acceptable to the employee. The idea is that just as part of worker effort is a gift, so, too are a part of wages.

In public organizations, employees may be motivated by public service values. On top of this, norms of fair treatment have evolved over time as part of the traditional pay systems (often protection through the civil service system, described in Chapter 5). Together, these aspects of public service values and traditional pay system norms constitute a traditional, and entrenched, gift exchange in public organizations.

Pay-for-performance systems introduce arrangements where labor contracts define market-determined wages for individuals of different capabilities and skills. Measured performance determines wage increases. Such pay-for-performance reforms may mute or threaten the traditional gift exchange and may undermine the relevance of public service values to work in public organizations.

Pay as a Public Service Bargain

Christopher Hood's description of **public service bargains**, or "reciprocal exchange relationships between public servants and other actors in a political system"⁶⁶ is related to Akerlof's gift exchange idea.

Hood argues that public sector reforms often involve essential changes in the nature of a public service bargain. Various provisions of the merit systems at federal, state, and local levels have traditionally characterized the public service bargain for public sector employees. Pay for performance represents a fundamentally different kind of relationship between public employees and other actors.

In particular, Hood is concerned with the greater use of the **thermostatic control model** of a public service bargain. In these mechanisms, heads of government units are given outputs to achieve and latitude in choosing ways to achieve them. Output measurements are obtained, and rewards or sanctions are meted out accordingly: rewards if desired output is exceeded, sanctions or penalties if output falls short of desired output. The No Child Left Behind Act is an example of a thermostatic control mechanism.

The public service bargain implied by such reforms, can be characterized in this way:

Public managers accept career risk and personal blame in exchange for some decision autonomy and—in most versions—pay and perks at a managerial level, while politicians undertake to steer managers only by transparent and achievable preset objectives in exchange for avoidance of formal blame for operational failures.⁶⁷

In other words, the public service bargain for these reforms involves

- policymakers giving up on assigning impossible jobs to agencies and then holding them responsible when these jobs are not done well;
- policymakers also giving up the practice of controlling executive agencies by controlling what they do or what they spend rather than what they accomplish; and
- public employees agreeing to devote their creative efforts and energies toward accomplishing the highest outputs achievable with the resources appropriated to them.

Is Performance Pay Reform Worth the Price?

Viewed through the lens of either the gift exchange or the public service bargain, pay for performance in public sector organizations represents more than just a structural shift for public employees.

Public management scholar Donald Moynihan has cautioned that these kinds of reforms may stamp out benefits from public service motivation in two ways:

- (1) through a selection effect, by attracting and retaining those with primarily extrinsic motivations; and
- (2) through an incentive effect, by crowding out intrinsic motivations.⁶⁸

Two examples of the clashes between contract incentives and frontline work motivations can be found in the job training and welfare-to-work literatures:

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- In their retrospective of performance management and incentives, Carolyn Heinrich and Gerald Marshke describe research findings from the Job Training Partnership Act (JTPA) sites:

... the hiring of caseworkers in Corpus Christi, Texas, who exhibited strong preferences for serving the disadvantaged, in line with a stated goal of JTPA to help those most in need, likely lowered service costs (i.e., wage costs) in Corpus Christi. Alternatively, an emphasis on client labor market outcomes in a Chicago area agency that was exceptional in its attention to and concern for meeting the federal performance standards appeared to temper these public-service motivations

With performance expectations strongly reinforced by administrators and in performance-based contracts, caseworkers' client intake and service assignment decisions were more likely to be made with attention to their effects on meeting performance targets and less so with concern for who would benefit most from the services (the other basic goal of the JTPA legislation).⁶⁹

- The implementation of contract incentives in a for-profit welfare-to-work office was analyzed by Janice Johnson Dias and Steven Maynard-Moody:

To achieve low-cost rapid job placement, management sought to curtail staff attention to clients' needs, but those efforts were never fully successful. Staff continually revolted, and this led to a chaotic and hostile environment, not efficiency. This clash between cost-cutting managers and service-oriented street-level worker was predictable, almost inevitable. Frontline staff were hired for their devotion to client-centered service—they were social workers by either training and/or orientation—yet at WorkOpts they were being asked to forgo their training and ethics for an economic model that they maintain did not benefit them or their clients.⁷⁰

It remains to be seen whether public service values as a motivating factor influence the successful implementation of performance pay systems (including the response of employees to the specific incentives that are introduced, such as tying promotions and pay raises to student test scores). It also remains to be seen whether the organizational cultures of different public organizations can accommodate and adapt to the changing public service bargains and gift exchanges represented by pay for performance.

Discussion Questions

Chapter 5 included an excerpt from a 2014 Florida law that instituted teacher pay for performance in the state's public schools. Similar reforms have been implemented or discussed in other jurisdictions.

1. What are the possible values and motives of individuals who choose to become K-12 public school teachers?
2. What kinds of professional training do K-12 public school teachers receive?
3. What role do teachers' unions play in the determination of how and what teachers are paid?

4. Consider the concepts of gift exchange and the public service bargain in traditional teacher compensation systems with their emphasis on credentials and seniority.
 - a. How would you characterize the way these concepts might be reflected in traditional systems of teacher pay?
 - b. How would you characterize how these concepts might be reflected in or incorporated into pay-for-performance systems?
5. When pay-for-performance systems are implemented for K-12 teachers:
 - a. do you anticipate selection effects or incentive effects like those described by Donald Moynihan? Locate empirical evidence from research that can inform your analysis.
 - b. do you anticipate responses analogous to those described in the case in job training and welfare-to-work offices? Or, based on your analyses of the previous questions, do you anticipate different responses? Locate empirical evidence from research that can inform your analysis.

NOTES

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3. "Supporting Our Youngest Children: Early Head Start Programs in 2010," CLASP, March 2012, <http://www.clasp.org/resources-and-publications/publication-1/FHS-Trend-Analysis-Final.pdf>.
4. Ibid.
5. "Home based Program Option." Early Head Start National Research Center, last updated March 31, 2015. <http://eclkc.ohs.acf.hhs.gov/hslc/hta-system/ehsnrc/poi/home-based/home.html>.
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15. Robert B. Denhardt, *The Pursuit of Significance: Strategies for Managerial Success in Public Organizations* (Belmont, CA: Wadsworth, 1993), 20.
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