

Helpdesk Research Report: Performance Related Pay

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Query: Please identify recent resources and lessons learned on the introduction of performance-based pay in central government administrations in developing countries.

Enquirer: DFID Burundi.

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1. Overview

There are very few recent resources addressing performance related pay (PRP) in the central government administrations of developing countries. Because of this, several resources relating to PRP at a sectoral rather than central level have also been included, along with a short section presenting resources on developed country experience.

Several of the experts contacted emphasised that PRP has not been tried in very many developing countries, and none were able to suggest a case where PRP had been implemented successfully. Most of the work on pay reform in developing countries has instead focused on issues such as paying civil servants a living wage, ensuring civil servants are paid accurately and on time, decompressing wage scales, bringing order to complex systems of 'allowances', introducing merit-based recruitment and promotion and trying to match private sector salaries. PRP is sophisticated in comparison with these more basic reforms and is considered by many to be too technically advanced for the capacities of most developing countries. Several experts also argue that PRP is inappropriate for the political conditions of patronage in many developing countries.

Many of the resources below emphasise that there is no strong evidence to support the idea that PRP improves worker or organisational performance. However, some research shows improvements in the health sector from performance based pay at either a group or individual level.

The following problems with the implementation of PRP are repeatedly cited across the literature:

- PRP systems are expensive and are administratively burdensome.
- Managers show particularistic tendencies, especially in countries with patronage politics and a politicised bureaucracy.
- Unions often resist the introduction of PRP schemes.
- Performance related bonuses are generally too small to motivate in any significant way.

- It is difficult to objectively quantify and measure performance, especially when people work in teams.

The literature suggests the following in terms of sequencing reforms, or identifying the supporting conditions that need to be in place prior to the introduction of PRP:

- A supportive legal framework
- A strong performance assessment system
- Good management and administration capacity
- Adequate monitoring systems
- Good records management.

Other contextual factors that will support the implementation of PRP include:

- High political commitment and flexible government
- Supportive trade unions
- High administrative and managerial capacity
- Stable economic growth to finance PRP
- Strong donor / government coordination
- Good donor harmonisation (to allow for pooled funding arrangements).

Possible alternatives to PRP include merit-related promotion as a less burdensome way of linking performance with pay, or performance related financing of teams or facilities rather than individuals. However, the literature indicates that any sort of merit-related reform is difficult to implement in developing countries and the impacts of group, rather than individual, PRP have not yet been adequately researched. A few references to resources on performance based financing in the health sector have been included at the end of this research report, in case they are of interest.

2. Performance related pay in developing countries

McCourt, W., 2006, 'The Human Factor in Governance: Managing Public Employees in Africa and Asia', Palgrave / Macmillan

Book available for purchase <http://www.palgrave.com/products/title.aspx?is=1403947651>

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This book includes 7 case studies on human resource management in Africa. In relation to PRP, McCourt states the following in the conclusion:

“Morocco and Sri Lanka were politically astute enough to introduce a simple [performance] scheme whose modest objective was to get managers to recognize their responsibility for staff performance, even if the schemes failed to stick because managers were unfamiliar with them and because political support was weak. They were acting, unconsciously or otherwise, on the recognition, embodied in the HR and performance debate that we outlined in Chapter 1, that the ultimate role of staff management is to contribute to organizational performance. In a sense Mauritius, Malaysia and Namibia were taking that recognition to its logical conclusion when they introduced schemes which included a performance-related pay (PRP) element, modelled on the experience of influential governments like New Zealand's and the UK's. But because they were not aware of the negative aspects of that experience, they ended up repeating or even compounding those countries' mistakes, and also running into political difficulty in the form of civil service union hostility.

So in Chapter 9 we said that Namibia's experiments with performance management took it down the trail blazed by Mauritius and Malaysia: the belated introduction of a scheme with a

pay element which was intended to introduce the culture of performance, but which quickly succumbed to particularistic tendencies in the broader society, and also to the sheer inability of managers to deal fairly with staff; followed after a cooling-off period by the tentative re-introduction of a diluted scheme which emphasized employee development rather than pay but which had still to prove its worth. All three governments at the time of our research were still trying to replenish the political capital which the earlier experiments had depleted. Their experiments had ironically made it harder to create a culture of performance.”

Vujicic, M., 2009, ‘How You Pay Health Workers Matters: A Primer on Health Worker Remuneration Methods’, World Bank, Washington, D.C.

http://www.rbfhealth.org/rbfhealth/system/files/RBF_Tech_howyoupayhealthworkers_R1.pdf

This short paper is an excellent introduction to alternative, performance related payment schemes in the health sector. The paper explains the complexities of various payment schemes and discusses research findings on how they affect health workforce performance, particularly absenteeism, productivity and quality of care. The author notes the need to distinguish performance related pay with contracting out arrangements, which can often contain flexible hiring arrangements and elements of performance based financing. Other points highlighted in the paper include:

- PRP introduces a risk of unnecessary provision which can lead to cost escalation. It can encourage health workers to demonstrate increased productivity by carrying out procedures which are not based on patient need.
- Individual performance related pay is not common in developing countries.
- Sometimes, group financial bonuses are given at a facility level, which can be passed on to individuals (often under contracting out arrangements). Little research has been done on how facility level financial incentives impact on individual health worker performance.
- Research on PRP has tended to focus on service delivery impact, rather than workforce productivity.
- Increasing wages alone does not improve performance. Salary increases are more effective when linked to performance.
- Individual PRP systems are burdensome to monitor and costly.
- Group based PRP systems are easier to administer but dilute the incentives for high-performers and allow poor-performers to benefit. A combination of individual and groups schemes may work well.
- There has been little research on the impact of group PRP on individual performance.

The paper also suggests that the following components are needed to implement an effective PRP system:

- A supportive legal framework
- Government flexibility
- Adequate management skills at all levels
- Adequate monitoring capacity
- Appropriate, carefully targeted incentives.

Basinga, P. et al., 2010, 'Paying Primary Health Care Centers for Performance in Rwanda', World Bank Policy Research Working Paper no. 5190, Washington D.C.

<http://www->

wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2010/01/26/000158349_20100126092240/Rendered/PDF/WPS5190.pdf

This World Bank study evaluates the implementation of the 'Pay for Performance' (P4P) initiative in the Rwandan health sector. P4P is designed to improve worker productivity through the provision of bonuses to providers for improvements in utilization and quality of care indicators. The authors find that P4P can affect health care firstly by incentivizing providers to put more effort into specific activities, and secondly by increasing the amount of resources available to finance the delivery of services. In particular, the study finds that P4P had a large and significant positive impact on institutional deliveries and preventive care visits by young children, and improved quality of prenatal care. No effect was found on the number of prenatal care visits or on immunization rates. P4P had the greatest effect on those services that had the highest payment rates and needed the lowest provider effort. The authors conclude that P4P financial performance incentives can improve both the use of and the quality of health services.

UNDP, 2004, 'Public Administration Reform: Practice Note', UNDP, New York

http://www.undp.org/governance/docs/PARPN_English.pdf

This Practice Note has a short section on reforming pay and compensation systems (see p.10 onwards). Salary top-ups are described as distortionary and unsustainable, although the paper does recognise that in the most resource constrained environments they are hard to avoid. UNDP formally discourages top-ups, but where this is unsuccessful, they suggest transparency in selecting beneficiaries, integration into the formal salary framework and that the additional compensation should be linked to the task or post, not the individual.

The paper also discusses performance management from page 11, emphasising that performance management systems tend to be costly to deliver. In particular, "caution should be exercised when linking appraisals to pay and promotion. The benefits of performance pay remain to be demonstrated, and management requirements and costs of installing such systems can be considerable. Experience also shows that performance pay is likely to be resisted and should be a low priority to start off with. Managers prefer not to differentiate among their subordinates, and performance-based bonuses tend to be too small to be an incentive" (p.12).

IEG / World Bank, 2008, 'Public Sector Reform: What Works and Why?' An IEG Evaluation of World Bank Support, World Bank, Washington D.C

http://siteresources.worldbank.org/EXTPUBSECREFF/Resources/psr_eval.pdf

This comprehensive World Bank evaluation of civil service reform programmes does not explicitly discuss PRP, but it does note the increased attention being paid to merit-based measures for civil service reform over the last 5 years. Page 52 onwards is the most relevant section. In particular, the report notes that pay reform carries a political risk, particularly in egalitarian cultures, where lower ranks are politicised or where unions are strong. There are also high financial costs and a need for high administrative and managerial capacity. The evaluation identifies the following reasons for the failure of merit-based reforms in the countries that were studied:

- Lack of political commitment
- Changes in political leadership
- Patronage systems and politicisation of the bureaucracy
- Strength of trade unions opposing reforms.

Rugumyamheto, J. A., 2004, 'Innovative Approaches to Reforming Public Services in Tanzania', *Public Administration and Development*, no. 24, pp.437 – 446.

Not available online. Available for purchase from:

<http://www3.interscience.wiley.com/journal/109855127/abstract?CRETRY=1&SRETRY=0>

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Page 442 / 3 discusses the difficulties of building an incentive framework under severe budgetary constraints. The author notes that “the challenge associated with pay reform is political”. Tanzania has developed a medium term pay policy aiming to achieve competitive pay in comparison with the private sector, and a long-term pay policy aiming to achieve a ‘living wage’ for all civil servants. In order to motivate and retain key managerial and professional posts, an additional incentive scheme was devised called SASE- Selective Accelerated Salary Enhancement. Previously, donors had provided top-ups and allowances to civil servants which led to great inconsistency and lack of transparency. To rationalise the situation SASE was introduced to allow the government to top up salaries over a 6 year period based on the priority of their position, with a phased exit strategy. Because SASE is discretionary, in effect it functions as a form of PRP. A new performance appraisal system has been introduced “to check whether objectives are being achieved and targets met, on the clear understanding that poor performance will result in the withdrawal of the individual from a staff position which enjoys SASE payments” (p.443). Rugumyamheto states that “the Ministry of Finance has noted the much-improved quality of planning and budget submissions from the ministries that have installed Performance Management Systems and whose key staff are now receiving the incentive of enhanced pay through this scheme” (p.443). However, despite this success, it appears that the political context has prevented further progress as the government has decided not to continue to roll out SASE “on account that it is discriminatory” (p.443).

Stevens, M. and Teggeman, S., 2003, 'Comparative Experience with Administrative Reform in Ghana, Tanzania and Zambia', Draft paper, Public Sector Reform and Capacity Building Unit, World Bank

<http://www1.worldbank.org/publicsector/civilservice/acrext/100103b.htm>

This paper discusses the introduction of the Selective Accelerated Salary Enhancement (SASE) in Tanzania from page 17. In particular, the authors note that good implementation requires:

- Proper records management
- Predictable, stable economic growth to finance the SASE
- Strong donor – government coordination
- Good donor cooperation and willingness to pool funds
- Performance improvement targets and performance measurement systems in place.

Problems with the SASE in Tanzania have included donor reluctance to pool funds, the continuation of donor salary top-ups and the government not providing salary rises causing a prolonged reliance on donors. The paper also discusses the possible introduction of SASE in Ghana and Zambia.

Kiragu, K. and Mukandala, R., 2003, 'Public Service Pay Reform: Tactics, Sequencing and Politics in Developing Countries - Lessons from Sub-Saharan Africa', World Bank, Washington D.C.

<http://www1.worldbank.org/publicsector/civilservice/Mayseminar/PayReformStudy.pdf>

This study has been an influential piece of research emphasising the importance of considering the political dimension to any substantial pay reforms. The authors only briefly discuss performance related pay on page 31, and dismiss its implementation in developing countries as “managerially too challenging to successfully implement, even in private sector organisations.” They note worker resistance to PRP in Benin and Burkina Faso stating that “it is both strategically and tactically inappropriate for the prevailing organisational and political environments that prevail in these two public services.” (p.31).

Reid, G., 2006, 'Advice on Performance Related Pay', informal note provided in response to a request to the World Bank for examples of successful performance related pay reforms which the Kyrgyz Republic could use as a model.

This informal note emphasises that PRP is very difficult to implement successfully in a developing context. Research conducted by the author finds that meritocratic personnel management practices are the most significant contributor to organisational performance, whereas performance management techniques yield only mixed results. Reid suggests that, instead of implementing PRP, developing country governments should pursue competitive remuneration (to attract and retain skilled personnel) and then link pay to performance via a system of meritocratic promotion. This is less burdensome to administrate and manage than annual PRP schemes, and is easier to safeguard via a system of checks and balances. Both systems require strong annual performance assessment procedures on which to base decisions.

3. Developed country experience

OECD, n.d., 'Performance Related Pay for Government Employees', Executive Summary, OECD, Paris

<http://www.oecd.org/dataoecd/16/11/35117916.pdf>

This short executive summary does not focus on developing countries, but does summarise research on public sector PRP in OECD countries, and includes a list of relevant recommendations for the implementation of PRP schemes. Research does not conclusively show that PRP improves performance, and in some cases it is shown to have a negative impact on performance and an ambivalent impact on individual motivation. PRP is particularly difficult in the public sector because of the difficulty in quantifying successful performance, the high degree of managerial judgement required and because of potential changes in government policy. Alternatives are suggested, including effective appraisal processes.

Relevant recommendations include the following:

- The design of a PRP is a trade-off between various options which have to take country culture into account. Management should consider the acceptability of proposals to staff and consider team PRP systems which are less disruptive and have been found to produce more effective results.
- A strong performance appraisal process is critical and should be participatory and transparent.
- PRP implementation should be coordinated with staff and unions and appropriate planning and resourcing must be ensured.
- Some degree of human resources and pay management has to be delegated.

- Regular evaluations of the PRP scheme should be conducted.
- PRP should be applied in an environment that maintains and supports a trust-based work relationship.
- PRP should be used primarily as a stimulus for the introduction of wider management and organisational change.

Behn, B., 2004, 'On the Limitations of Pay for Performance', Public Management Report, vol. 1 no. 5

<http://www.hks.harvard.edu/thebehnreport/January2004.pdf>

This short report highlights a number of difficulties in the implementation of PRP:

- Although conceptually easy to grasp, PRP raises difficult questions in practice, for example deciding who to select for bonuses and how large these should be.
- Most PRP bonuses actually equate to a relatively small amount of money.
- It is difficult to measure performance when people do different types of jobs, and when people operate primarily in teams.
- PRP can act to demotivate those who do not get selected for a bonus.

Behn emphasises that money is not necessarily a strong motivator and instead argues that organisations should aim to motivate by communicating the significance of their mission.

4. Performance based financing in the health sector

Eldridge, C. and Palmer, N., 2009, 'Performance Based Payment: Some Reflections on the Discourse, Evidence and Unanswered Questions', Health Policy and Planning, vol. 24, pp.160-166

Only available for purchase online:

<http://heapol.oxfordjournals.org/cgi/reprint/24/3/160>

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Toonen, J. et al, 2009, 'Learning Lessons on Implementing Performance Based Financing, From a Multi-Country Evaluation' KIT (Royal Tropical Institute) in collaboration with Cordaid and WHO

Synthesis Report: Summary and Conclusion:

<http://www.rbfhealth.org/rbfhealth/system/files/PBF%20Synthesis%20report%20KIT.pdf>

Full report: <http://www.kit.nl/smartsite.shtml?id=SINGLEPUBLICATION&ItemID=2692>

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Websites visited

Google, Google Scholar, GSDRC, World Bank, OECD, Public Administration and Development, UNRISD, ELDIS, Christian Michelsen Institute (CMI), ECDPM, Ingenta Journals, J. F Kennedy School of Government, Results Based Funding for Health, Royal Tropical Institute (KIT), UNDP and various academic journals.

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