

Performance Management and Performance Appraisal in the Public Sector¹

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I. Introduction

The purpose of this paper is to review and discuss public performance management in general and performance appraisal and pay for performance specifically. Performance is a topic that is a popular catch-cry and performance management has become a new organizational ideology. Under the global economic crisis, almost every public and private organization is struggling with a performance challenge, one way or another. Various aspects of performance management have been extensively discussed in the literature. Many researchers and experts assert that sets of guidelines for design of performance management systems would lead to high performance (Kaplan and Norton, 1996, 2006). A long time ago, the traditional performance measurement was developed from cost and management accounting and such purely financial perspective of performance measures was perceived to be inappropriate so that multi-dimensional performance management was developed in the 1970s (Radnor and McGuire, 2004).

In fact, the term “performance management” was not utilized until the 1970s (Armstrong and Baron, 2005). Since then, the language of performance has become an almost every-day feature of work in many public sector organizations, in some form or another and the language of performance has been associated with the establishment of standards or indicators to be achieved, and the audit of organizational systems to ensure conformance (Boland and Fowler, 2000). In general, performance management includes activities that ensure that organizational goals are consistently being met in an effective and efficient

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manner so that it involves shared vision, management style, employee involvement, incentives and rewards, competence framework, team work, education and training, attitudes, and dialogue.

Brown (2005) notes many different reasons for introducing performance management: (1) to provide information on organizational and/or employees' effectiveness; (2) to improve organizational and/or employees' effectiveness; (3) to provide information on organizational and/or employees' efficiency; (4) to improve organizational and/or employees' efficiency; (5) to improve employees' levels of motivation; (6) to link employees' pay with perceptions of their performance; (7) to raise levels of employee accountability; and (8) to align employees' objectives with those of the organization as a whole. Halachmi (2011) also provides a number of answers to the question of why measure performance based on the statement made by the Interagency Working Group on US Government: (1) to demonstrate the results of program activities; (2) to show how these results support programmatic and organizational goals; (3) to determine what works and what doesn't; (4) to promote accountability and justify resource allocation; (5) to enhance the ability of managers to communicate with stakeholders; (5) to develop and strengthen partnerships among programs and organizations with similar goals and objectives; (6) to motivate and provide tangible feedback to employees; (7) to meet the requirements of related laws such as the Government Performance and Results Act.

The literature identifies the key features of a successful performance management system as being: (1) alignment of the performance management system and the existing systems and strategies of the organization; (2) leadership commitment; (3) a culture in which it is seen as a way of improving and identifying good performance and not a burden that is used to chastise poor performers; (4) stakeholder involvement; and (5) continuous monitoring, feedback, dissemination and learning from results (Wang and Berman, 2001; De Waal, 2003; Franco and Bourne, 2003; Fryer et al., 2009).

A crucial element of a performance management system is performance measurement—monitoring that shows where change is required and which will in turn produce the desired behavior that will produce improved performance (Lemieux-Charles et al., 2003; Fryer et al., 2009). Experts often use the phrases of performance management and performance measurement interchangeably, but two terms are somewhat different. Performance management is action, based on performance measures and reporting, which results in improvements in behavior, motivation and processes and promotes innovation, while performance measurement is quantifying, either quantitatively or qualitatively, the input, output or level of activity of an event or process (Radnor and Barnes, 2007; Fryer et al., 2009). The primary function of performance measurement is to specify broad and abstract goals and missions to enable evaluation and the main aspects of performance measurement are: (1) deciding what to measure; (2) how to measure it; (3) interpreting the data; and (4) communicating the results (Wang and Berman, 2001; Fryer et al., 2009).

Generally, there are four steps in performance management: (1) performance planning (identification of performance goals, confirmation of performance responsibilities, and setting performance indicators or performance agreement); (2) performance execution (execution of performance goals, mid-year review and regular bookkeeping on performance, accomplishment of performance goals); (3) performance assessment (performance evaluation, informing its result to each employee), and (4) performance review and feedback. Among these steps, this paper focuses on performance assessment in terms of performance appraisal for government employees.

II. Performance Appraisal as Performance Assessment

Performance management is an ongoing process that involves both managers and the employees in: (1) identifying the strategic vision, goals and objectives of the organization; (2) identifying and describing essential job functions and relating them to the mission and goals of the organization; (3) developing realistic and appropriate target standards of performance; (4) implementing ways of measuring actual, compared with target performance; (5) communicating constructive performance evaluations; and (6) planning development opportunities to sustain, improve or build on employee work performance (Neely et al., 1996). The performance management process provides an opportunity for the employees and performance manager to discuss development goals and jointly create a plan for achieving those goals. Development plans should contribute to organizational goals and the professional growth of the employees (Carney, 1999).

However, it is not appropriate to elaborate all these steps of the performance management system in this paper. This section focuses on the performance assessment (performance appraisal or performance evaluation) of overall performance management. There are usually two levels of the performance management system in the public sector: organizational-level performance management and individual-level public sector. For the organizational-level, each agency's overall performance could be evaluated in terms of major policy execution, financial performance, and other key areas (personnel, organization, e-government, quality of public service, etc.) using various indicators such as input, process, output, and outcome indicators (Kuhlmann, 2010). In order to assess organizational-level performance, the balanced scorecard (BSC) approach is often utilized in government (Kaplan and Norton, 1996, 2006). Organizational-level performance assessment could be handled by the Office of the Prime Minister or the equivalent agency in the central/federal government or a leading agency in cooperation with several agencies in the areas of finance, personnel, organization, auditing, e-government, quality of public service, etc. However, discussion on organizational-level performance assessment is beyond the scope of this paper.

For the individual level, many countries might have some sort of performance appraisal (or performance evaluation) system in the form of performance agreement, typical trait-rating methods, and/or 360-degree feedback as a supplementary evaluation. Individual-level

performance assessment could be executed by the personnel authority of each agency and performance of government employees could be evaluated regularly. Based on the result of performance appraisal, incentives could be provided to government employees. In general, an incentive system is based on the motivation theory and motivation theory is characterized by a diversity of models and theoretical frameworks. There are numerous motivation theories, but two major theories of motivation are content and cognitive process theories of motivation. Contents models of motivation focus on identifying the substantive nature of individual needs, while cognitive process theories attempt to explain how and why people are motivated (Gortner, Mahler, and Nicholson, 1997).

Many agencies around the world utilize the appraisal results as basic data for promotions and/or the performance-related pay. Descriptions of three approaches commonly used are as follows. First, performance agreements (perhaps for higher-level officials) became one of the common elements of the new management as a performance management mechanism applies to the higher-level in government and as a means to promote the implementation of major public policies. It is the individual appraisal system which contracts an agreement between the minister and managers with the performance objectives and measures based on the strategic plan of the agency. Major elements in the performance agreement could include individual performance goals based on overall organizational strategic goals, performance indicators, measurement methods, performance targets, and accomplishment plans. It could promote the new management principle by clarifying differences between what we do and what we achieve. It also enhances objectivity and fairness of performance appraisal through the necessary processes (mid-year review and monitoring, performance record keeping and interview, and final review). Nonetheless, its effectiveness depends on higher-level officials' willingness to ensure that performance targets are specified in concrete terms and to appraise achievements fairly in terms of the targets.

Second, typical performance appraisal is a common evaluation mechanism of employee performance in the both public and private sectors. The approaches can be grouped as trait-, behavior-, and results-based systems. The main objective of performance appraisal is to measure each employee's annual performance and give feedback to the employee to improve subsequent performance. The performance appraisal is at the heart of the whole performance management system. Typical performance appraisal system based on check list or rating scale could be based on two major areas: (1) job performance in terms of timeliness, completeness, job difficulties, etc.; and (2) job-fulfilling abilities or traits (core competency) in terms of planning, communication, cooperation, innovation, customer-orientation, etc. Performance appraisal should be the most important part of promotion to reflect the significance of employee performance in government. Appraisal could allow each ministry to decide the elements and scores by considering the case details.

Third, 360-degree feedback (multi-rater evaluation) supports the use of multiple raters as an effective method of assessing performance both for developmental and appraisal purposes.

New 360-degree feedback could be used not only for promotions, but also to determine pay step increases, performance-related pay, training, position assignments, and other personnel practices. The 360-degree feedback program requires managers, subordinates and peers to participate in evaluating one another on work related items such as performance, attitude, and leadership (Kim, 2003).

However, in designing a performance appraisal system attention must be given to a number of aspects that impact on how effectively the system actually measures employee contributions in a work setting (Buford and Lindner, 2002). These include reliability and validity, what is to be measured (criteria), sources of appraisal information, timing of appraisals, and control of rater errors (recency, first impression, halo, central tendency, rater patterns, similar-to-me effect, contrast effect, stereotyping, etc.). Therefore, designing an appraisal system requires not only establishing policies and procedures but also obtaining the support of the entire workforce and its unions. Top officials must publicly commit to the program by devoting sufficient resources to it and by modeling appropriate behavior, and managers need to be convinced that the system is relevant and operational (Berman et al., 2006).

III. Competency Framework

In many countries, the performance evaluation system is also known as a performance management system. The reason for this is that it aims to improve the performance of all individuals and, as a result, improve the overall personal and organizational performance. While approaches to evaluation may vary, there are common features of performance management systems. Generally, these are a clear link between the goals of the organization and the work of the individuals; and work plans or objectives that are decided, with deadlines, at the start or during the year and that link directly to organizational need. This includes a clear understanding by the individual of what they have to achieve and how it will be measured clear directions about the kinds of behaviors people must have to perform their duties to the levels that are acceptable by the organization and which can be measured. This is often described in a competency framework: (1) a transparent measurement system that is understood by all with the final mark being determined by the leader – sometimes being approved by the leaders and/or manager; (2) a process for the identification and recording of development needs and achievements; (3) a clear process for identifying and dealing with people who do not perform well; and (4) some forms of motivation and recognition for those who perform very well. Many evaluation systems would normally have the following main sections: (1) objectives or a work plan – with room for written assessment and marking; (2) some will have a summary of the main duties of the job – especially important where there is no job description; (2) a competency framework or other way of recording and marking behaviors and skills; (3) a section for identifying and recording development needs; and (4) written comments on performance and a marking box.

Nowadays, a competency framework is often applied in the both public and private sectors around the world. Much is written about a competency frameworks and it is important that what it covers is made clear at the start of any design process. A competency framework usually covers the knowledge, skills and traits that a person needs to demonstrate to do their job well in an organization, what will be valued and what will not be acceptable. These are really the behavioral elements needed for any job. All jobs have these elements. All organizations have requirements for these elements to be performed well if they are to be successful. Competencies can be used to “raise the bar” on employee performance.

The success of any organization is directly linked to the performance of its staff, and this requires not only good occupational skills, but also the much harder to define and measure behavioral skills which produce the environment for success. Competency frameworks identify these behavioral skills needed for an organization and provide a way to communicate them clearly to staff and then to measure them. An example of the kinds of skills covered is, for example, team working skills. Rather than have a set of general and vague statements about the skills, attitudes and behaviors required, by going through the process of designing a competency framework, organizations can identify what is important to them, set it out in a document which contains detailed examples of what is expected of leaders and staff, fairly easily communicate this to staff and then measure it. Because these skills and attitudes are basically behaviors, they can be changed and improved, and this will benefit the organization.

However, before this can happen, these skills and behaviors have to be clearly identified and this is one of the major strengths of a competency framework. It gives organizations a tool to identify what is important, standardize it and then the means to measure how well staff meet these standards. This can then help with the accurate identification of development needs of staff to meet the standards of the framework and also identify those who are unwilling or unable to meet them. A competency framework can also assist organizations in promoting cultural change by identifying how well staff and leaders accept and implement changes. For example an organization that expects staff to have a better customer focus would include this with clear standards required in a competency framework. Then all staff would know that this was important, what they needed to do and it was being measured.

Some of the most important benefits of competency frameworks are that they promote: (1) fairer recruitment, promotion and appraisal systems, so is more merit based; (2) a clear link between the goals of the organization and those of the individual; (3) the development of a job description system; (4) a measurable and therefore more accurate tool for evaluation; (4) standardization of evaluation across large organizations; (5) a clear understanding by leaders and staff of what is expected of them and this provides a better chance of them achieving them; (6) the accurate identification of training needs; (7) the identification of the those who do not perform well; and (8) the implementation of a change and improvement agenda.

A competency framework does not normally cover the vocational or occupational skills, like

accountancy, that may be needed for a job. These skills are normally identified as part of the job description process. General characteristics and content of a competency framework is made up of headings that cover the different behaviors. These headings will show what is expected overall by that behavior.

Competency frameworks need not be too complicated but there are a number of challenges that have been recognized that should be considered during the design and implementation process. They should be relevant to the organization – so off the shelf bought packages are not always the most helpful and the language and phrases should be that of the culture of the organization. There should be good communication with staff about the system before it is implemented and a monitoring system is helpful to track the marks given in different organizations and then compare that year on year to organizational performance etc. It is very important that the work of individuals is aligned to the needs of the organization.²

Table 1. Examples of Core Competencies of Senior Government Officials in the UK and USA

USA (SES) Core Qualifications	UK (SCS) Core Skills
Leading Change (Creativity and Innovation, External Awareness, Flexibility, Resilience, Strategic Thinking, Vision)	Strategic Thinking
Leading People (Conflict Management, Leveraging Diversity, Developing Others, Team Building)	People Management
Results Driven (Accountability, Customer Service, Decisiveness, Entrepreneurship, Problem Solving, Technical Credibility)	Project and Programme Management
Business Acumen (Financial Management, Human Capital Management, Technology Management)	Financial Management
Building Coalitions (Partnering, Political Savvy, Influencing/Negotiating)	Communications and Marketing

In the United States, for example, the Executive Core Qualifications (ECQs) define the competencies needed to build a federal corporate culture that drives for results, serves customers, and builds successful teams and coalitions within and outside the organization. The Executive Core Qualifications are required for entry to the Senior Executive Service

²Core competencies in the Korean government are: strategic thinking, problem understanding and solving, performance-oriented, change management, customer satisfaction, and coordination and integration (http://www.mopas.go.kr/gpms/view/korea/korea_index_vm.jsp?cat=bonbu/pers&menu=pers_07_03).

(SES) and are used by many departments and agencies in selection, performance management, and leadership development for management and executive positions. Executive Core Qualifications are: leading change, leading people, results driven, business acumen, building coalitions.³In the United Kingdom, the Professional Skills for Government (PSG) competency framework is used for jobs and careers in the UK civil service. It sets out the skills that staff in the civil service need to do their job well, at all levels and no matter where they work. PSG sets out the common skills requirements for: leadership, core skills, professional skills (specific to one's profession and role). Six core skills are: people management, financial management, analysis and use of evidence, programme and project management, communications and marketing, and strategic thinking.⁴

Evaluation and the competency framework is one of the major building blocks of many HR processes. The competency framework can be used to help identify both the process and the content of the testing and selecting regime. For example, if team working is important then selectors can look for a track record of co-operation and supporting of colleagues. The results of the evaluation process in relation to a proven track record of achievement of objectives, displaying good competencies and undertaking development activities, can help selectors with both the process and in the identification of the best candidates. With the roll out of the suggested evaluation system, which includes at least a description of the main duties, it should be easier to identify the development needs. These needs are likely to be much more diverse than previously identified – more of the "softer" or management skills needed- so the training and development functions need to be prepared to meet this need.

IV. Incentives for Performance

An incentive is any factor (financial or non-financial) that enables or motivates a particular course of action and it is an expectation that encourages people to behave in a certain way. It can be classified into various classes such as remunerative incentives, moral incentives such as the right thing to do, non-monetary incentives such as social recognition and awards, etc. but a common form of incentive for government employees is a financial incentive under the name of “performance-related pay” (PRP) or “pay for performance.”

Using PRP to raise productivity has been a basic element of management thinking in the United States since the late 1800s, and the early scientific managers are well known for their efforts to rationalize pay systems for factory workers along so-called “piece-rate” lines. Their goal was to increase efficiency in the blue-collar workplace. The current emphasis on merit pay in government emerged in a climate of fiscal stress, and it concentrates for the most part

³<http://www.opm.gov/ses/recruitment/ecq.asp>.

⁴<http://beta.civilservice.gov.uk/about/improving/psg/PSG-framework.aspx>.

on motivating and raising the productivity of white-collar workers (Nigro and Nigro, 2000). Attempts to introduce performance related pay in the civil service took place in 1980s and 1990s in some OECD countries. Public administrations began to react in coping with the fiscal crisis of the country, a way of naming the consequences of the economic crisis originated in mid 1970s. This led many to advocating for a more businesslike approach in public administration operations. Working processes needed to be reviewed and be made more efficient and government employees needed to produce more and better results. Before the 1980s the majority of civil services in OECD countries had salary systems which rewarded the job position regardless of the performance of the position holder. The system was based on job evaluations linked to the job description and grades by using different techniques such as analytical and non-analytical methods or some combination of both. The system was supplemented by an emphasis on seniority and length of service as the basis for career advancement. In the late 1980s and in the 1990s a number of countries sought to reduce the weight of length-of-service and job evaluation by introducing, or increasing, the importance in pay of the element of individual or group performance. There was a tendency to change payment systems in some OECD countries during the 1990s through experimenting with performance-related pay (Cardona, 2007). Pay for performance plans come in a variety of forms, including those using one-time bonuses or variable pay, permanent increases to base salary, and group-based bonuses or gain sharing. Pay for performance is a generic term that applies to a wide variety of monetary incentives programs (Nigro and Nigro, 2000; Kim, 2003).

PRP's popularity is based in large measure on the proposition that it remedies a fundamental flaw in traditional compensation systems by making pay contingent on performance, as opposed to the position grade and seniority of the employee. Logically, it accepts the cognitive model of motivation set forth in the expectancy theory. Expectancy theory suggests that pay should be treated as a management tool because it can be a powerful source of day-to-day control over employee behavior. Performance is often encouraged through rewards and PRP is motivating to the extent that it is connected with meeting employees' needs for recognition and achievement. So pay level is important and it must meet minimum requirements before PRP can operate as a motivator (Milkovich and Newman, 1999: 276). Expectancy theory posits that people have needs that they want to satisfy, that they are able rationally to calculate expectancies and instrumentalities, and will behave accordingly. People choose the behavior that leads to the greatest reward and employee assessments of their ability are important. Therefore, PRP can be used to induce employee performance.

Traditional systems of pay administration (membership-based inducements), it is argued, do not give supervisors the kind of discretion and flexibility they need to use pay as an effective motivator (Gabris and Mitchell, 1985; Nigro and Nigro, 2000; Kim, 2003). Performance-based pay sounds appealing as a rational means to promote good performance by government employees. It is a message from politicians and the public that the governed are in control

and things are as they should be. At the same time, it is a way for administrators to communicate that they are responsive to important external constituencies and that they are doing something about perceptions of lagging performance (Perry, 1991). PRP can be a powerful instrument in the hands of managers and politicians to assert their power in pushing forward reforms or in achieving other policy goals. Advantages of PRP commonly emphasized are: (1) improved attractiveness to highly qualified and talented professionals; (2) an increase in the probability that superior performers would feel valued and equitably compensated for their efforts; (3) focusing management's attention on the importance of accurate performance appraisals using measurable standards and objectives; (4) providing supervisors with an effective means of pressuring poor performers to improve or leave; (5) encouraging supervisors and subordinates to communicate clearly about goals and expectations; and (6) enhancing organizations' overall capacity to allocate limited financial resources in an effective manner (Nigro and Nigro, 2000).

Despite these expectations, however, the public sector's experience with pay-for-performance programs has not been entirely encouraging. One of the major problems with performance-related pay systems in the public service is that they tend to produce an escalation of performance rating and payments and consequently increases in personnel costs, even if there are formal payment ceilings set. Effectively, under pressure to retain staff or to enlist extra staff needed to overcome internal bottlenecks, managers tend to award better ratings and better pay to staff sometimes in an indiscriminate way. This leads staff and their unions to see performance-related pay as a negotiable part of the salary, with effort being withheld unless performance-related pay is awarded (Cardona, 2007). A research paper by the World Bank (2003) on elements influencing better performance in public administration concluded that: (1) building a meritocratic civil service is of universal value for performance; (2) a well-functioning system of administrative procedures lays the foundation for meritocracy; and (3) performance management systems demonstrated remarkably little influence on anything and in some cases produced negative effects. The Bank concludes that strengthening of both meritocratic civil service management systems and administrative systems (administrative procedures) should precede extensive efforts to build performance management systems. A study by the OECD (2005) concludes that performance related pay has little effect on increasing the motivation of government employees.

Performance-related pay is a controversial issue, but its pay can be a substantial motivator in the right circumstances. These circumstances include the implementation of a system that is viewed as both measurable and fair. If performance pay is introduced where this is not the case then it can have the opposite effect. Once the system has been introduced it is recommended that an amount of money be made available for payment to those who achieve the most.

V. Obstructions in Implementation of PRP Schemes and Strategies to Utilize PRP Schemes

Despite the growing popularity of performance-related pay (PRP) systems around the world, these programs have potential limitations, which may lessen credibility with employees (Martocchio, 2001; Kim, 2003). If employees do not believe in a performance-related pay (PRP) program, the pay system will not bring about expected motivational impacts. Executives, HR managers, and officials in charge of civil service reform must address the following potential problems with PRP programs.

Lack of Experience in Utilization of PRP: PRP was relatively recently embraced even in the private sector. Intensifying competition at home and abroad forced private companies to introduce merit pay programs to improve employee and organizational performance. Amid the proliferation of performance-based incentives, meanwhile, regular bonus payments were gradually giving way to performance-linked, differential bonus programs. Nonetheless, utilization of PRP is even relatively new in the private sector, particularly in developing countries. The government may not have a long experience with it. For example, it was introduced after the Asian financial crisis in some East Asian countries. The government's lack of experience with PRP still generates conflict in implementing PRP programs in government.

Union's Resistance and Egalitarian Culture: The central personnel authority usually recommends that agencies do not allocate equal performance bonuses to government employees whose performances do differ. However, union leaders often demand to have performance bonuses as allowances that do not differentiate among government employees. When someone receives better treatment than others, it often accelerates sensitivity among members of society. Such emotional sensitivity could affect administrative culture through history. Policy makers in government should expect that PRP could motivate government employees. However, in the process of personnel policy making, such an idea could be sabotaged by demands of fellow government employees for sharing such fruits more equally or broadly. In many countries, people demand democratic values such as equality and fair representation without discrimination. Such sentiments may accelerate egalitarian culture. There are other cultural factors that affect PRP's success or failure. For example, the seniority system would be another major barrier for full-scale materialization of the PRP program in government.⁵ Seniority has been a major factor in determining pays based on grade and pay step. Also, other cultural characteristics (whether employees are materialistic, individualists, risk-takers) could affect employee's motivation toward PRP (Kim and Ofori-Dankwa, 1995; Pidd, 2005).

Insignificant Monetary Value and Failure of Differentiation among Performers: PRP programs may not always influence employee motivation positively as intended. According to motivation theories, increases in performance must be matched by commensurate increases

⁵The seniority-based pay system, a time-honored tradition among domestic firms and agencies, is causing problems in terms of deterrence of fair compensation and incentive creation.

in pay or incentives. Employers and employees may differ in what they see as large enough merit increases to motivate positive worker behavior. For example, increases diminish after deducting income taxes and contributions to pensions. Assuming that an employee receives a PRP increase once per year, differences in employees' monthly paychecks may not be substantial or large enough. Performance pay in the private sector can be self-financing to the extent that better performance leads to larger profits, but this is often not the case in the public sector. Employees may receive merit increases even if performances do not warrant them, because supervisors want to avoid creating animosity among employees. Cultural roots that produce champions may be relatively weak. Performance pay systems create expectation of pay supplements (Bregm, 2008), but pay differentiation between high and poor performers may not be significant in many countries, although the level of PRP is gradually increasing over the years. Therefore, poor performers may receive a similar pay increase to exemplary performers, and poor performers may come to view PRP increases as entitlements.⁶ Consequently, superior performers may question the value of striving for excellent performance.

Supervisors' Bias and Poor Performance Measures: Employee's job performances tend to be assessed subjectively, based on supervisors' judgments (lack of valid performance appraisal process, lack of objectivity and transparency, and lack of dialogue with the line management). Performance evaluations often rely on supervisors' subjective assessments of employees' job performances. Supervisors are subject to a number of possible errors (halo, horn, first impression, recency, leniency, severity, central tendency, clone, and spillover errors) when they make subjective assessments of job performances. These errors often undermine the credibility of the performance evaluation process. Performance evaluation processes that lack credibility do little to create the perception among employees that pay reflects performance. Accurate and comprehensive performance measures that capture the entire scope of an employee's job are essential to successful PRP. Unfortunately, developing bias-free performance measures for every single job is not only difficult but also expensive.

Side-Effects of Competition: PRP programs focus mostly on individual employees and these programs do little to integrate workforce members. With limited budgets for merit increases, employees must compete for larger shares of this limited amount. Competition among employees is counterproductive if teamwork is essential for successful projects. Merit increases are best suited for jobs where the employee works independently as in many professional positions. In other words, merit increases based on individual performance might create undesirable consequences in which team spirits are strongly required. When people perceive competition as a personal war, as a zero-sum game, it is counter-productive for human relationships in an agency.

Other problems with PRP could be identified. Nigro and Nigro (2000: 147) summarized such problems as follows: lack of adequate funding for PRP, perceived inequities in performance

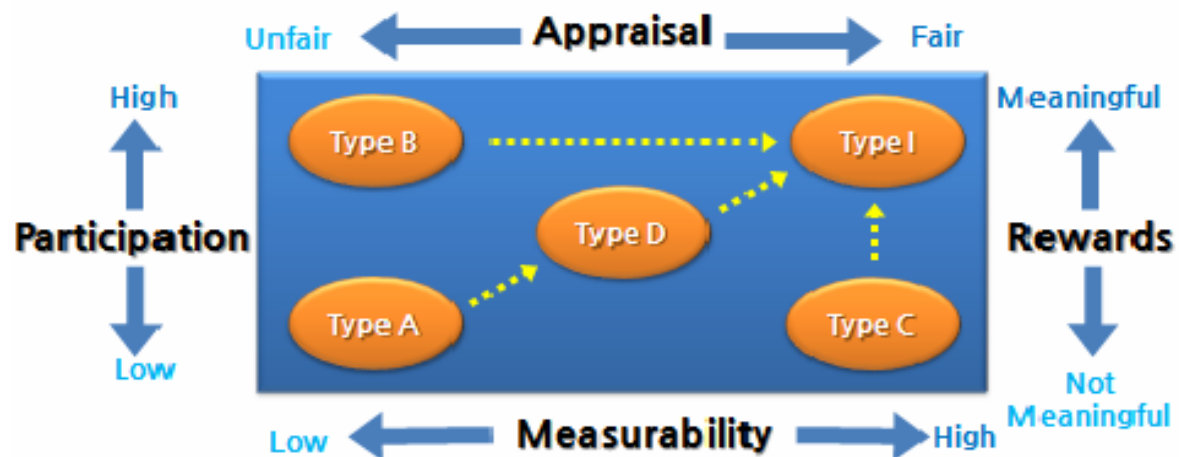
⁶An entitlement refers to the following situation where a person performs well enough to be entitled to the same size pay-check as everyone else but not poor enough to be fired. The PRP program is a movement away from entitlement (Milkovich and Newman, 1999: 296).

awards, conflict between raters and those being evaluated, lack of confidence in performance evaluation techniques, excessive demands on supervisors' time, employee suspicion and distrust of management's motives, system failure to meet employee expectations, and lack of supervisory compliance with program requirements. Issues mentioned above may apply in the public sector in various ways although the intensity of such problems may vary.

What are strategies to utilize PRP schemes? The traditional approaches to performance evaluation and pay do not conform to the merit principle. Some experts (Kellough and Selden, 1997: 1-2) documented difficulties associated with PRP, but the public sector will continue to utilize PRP as globalization and the market economy prevails. HR managers and officials in charge of civil service reform can employ a number of approaches to strengthen the link between pay and job performance (Martocchio, 2001: 82-83). Possible approaches are summarized in the following section.

Develop a Model Case: Performance agreement is now commonly adopted as an evaluation tool for higher-level officials. Accordingly, more strategic HRM is necessary for higher-level officials in the near future. New HRM strategies should be benchmarked for further development. In doing so, performance management can be improved for high-level officials and such development could affect mid- and lower level employees in the long run. Higher-level officials must demonstrate a model case in the performance improvement system so that mid and low-level employees can follow their footsteps.

Figure 1. A Model for Pay-for-Performance



Furthermore, as shown in Figure 1, a model for pay-for-performance must be utilized when government develop or execute a policy for PRP schemes. Measurability, appraisal, participation of employees, and rewards are key variables in an equation of pay-for-performance (Choi, 2007). Type A (low participation, no meaningful rewards, low measurability, and unfair appraisal) might be the worst case for pay-for performance, while Type I (high participation, meaningful rewards, high measurability, and fair appraisal) might be the best possible option for implementing PRP schemes. However, it is not easy to move

from Type A to Type I overnight; it takes time and it is costly. Government must prepare a strategic plan to proceed with PRP schemes depending upon the situation. Many countries, at different phases of introduction, and have varied objectives and approaches to implementing PRP schemes. Therefore, one size could not fit all.

Improve Pay System for Government Employees: In many countries, government employees have a general discontent with the government pay system and such situations generate distrust between workers and management, as well as dissatisfaction with the current pay system including the PRP program. Pay systems need substantial improvements in order to build up trust with the pay system and make PRP successful. Furthermore, it is critical to secure adequate funding of the PRP program so that employees could see payouts as meaningful. The standards for employee performance judgment should be linked to the competitive strategies an agency has engaged. For example, each member of a policy development team charged with the responsibility of developing a new policy might be given merit increases if certain goals are reached. In order to do so, alternative or supplementary methods could be utilized. For example, incentive payment and task specific bonus would be other alternatives for improving performance in government. These forms of bonus payments usually have the benefit of being tied to specific quantitative or verifiable measures of performance and do not rely on the more subjective appraisal rating of performance to determine a person's PRP award (OECD, 1997: 22).

Establish Effective Appraisals and Analyze Jobs: Performance could be more difficult to assess in the public sector than in the private sector due to complex goals which are harder to measure, and a lack of financial indicators in the public sector (Burgess and Ratto, 2003; Bregm, 2008). Moreover, government employees often complain about performance appraisal and performance measures in many governments around the world. The biggest problem with the move to a meritocracy is that it is susceptible to subjective measurement where doubt undermines the system. During performance appraisal meetings with employees, supervisors should discuss goals for future performance and employee career plans more seriously and clearly. When performance deficiencies are evident, supervisors and employees should work together to identify possible causes to develop an action plan to remedy these deficiencies. Job analysis is vital to organizations that wish to establish internally consistent compensation systems. Supervisors that create objective performance measures, use job descriptions or a product of job analysis. Job descriptions note the duties, requirements, and relative importance of a job within an agency. Supervisors appraising performances can match performances to these criteria. This approach may help reduce supervisors' arbitrary decisions about merit increases by clarifying the standards against which employees' performances are judged.

Differentiate among Performers: The performance appraisal system might have leniency problems. Sometimes, managers tend to evaluate subordinates too leniently with little differentiation between high and low performers in attempting to retain harmonious culture by producing lenient appraisals of subordinates than to arouse conflict and tension through critical or negative appraisals. Paternalistic leadership behavior, for example, under traditional Confucianism, could also tend to lead managers to produce generous, lenient ratings of subordinates. Accordingly, the PRP difference between top and poor performers in

government may not be not large enough. In general, superior performers could feel valued when they are equitably compensated for their efforts. Thus, merit increases should consist of meaningful increments. If employees do not see significant distinctions between top performers and poor performers, top performers may become frustrated and reduce levels of performance. If most employees receive PRP, PRP will lose its attractiveness to employees and they will see it as an entitlement. Accordingly, PRP's payment scope must be readjusted for substantial differentiation among performers. Good performers should get proper incentives or recognition, while bad performers should have necessary training or performance-related discipline.⁷

Break "Their" Culture and Communicate with Employees: Sometimes low performers do not accept PRP schemes in a positive sense and they might see that PRP is just "their" (elite employees) game so that they feel that it is nothing to do with them. Consequently, no matter how attractive incentives government provides to employees, some employees might not see those as realistic incentives for them. In order to stimulate all levels of employees (i.e., high performers, average-level performers, and low performers) to be more productive, government must come up with a strategy to shake low performers' behavioral patterns. Managers need to take on a coach's role to empower workers. It is important to find a way to embed individual-based knowledge in the agency, making it accessible and useful not just to one unit or function but to the entire organization. As coaches, managers must ensure that employees have access to the resources necessary to perform jobs. Particularly in a somewhat authoritarian culture, the role of managers as coaches is critical for successful implementation of PRP. Managers can have a means of pressuring poor performers to improve through PRP schemes, but they should not wield the scepter excessively. Instead, supervisors should help employees interpret and respond to work problems as they develop. Empowering employees in this fashion should lead to more self-corrective or self-directed actions rather than a reactive course of action to supervisory feedback. Trust is difficult to build when decisions are kept secret and employees and unions have no influence on pay decisions. For PRP programs to succeed, therefore, employees and unions must clearly understand what they need to do to receive merit increases and what the rewards for performances will be. Open communication helps employees and unions develop reasonable expectations and encourage them to trust the system and those who operate it. Therefore, employees' participation in the design, implementation, and evaluation of PRP schemes is also an important factor to the success of PRP.

Avoid Distorting Behavior: Performance targets certainly help to clarify performance expectations for an organization or an employee for a given time period. There are reports from all sectors of unintended or deviant behavior. Broadly, deviant behaviors fall into the following categories (Smith, 1995; Bevan and Hood, 2006; Fryer et al., 2009): (1) setting undemanding targets and working to only just achieve them; (2) performance clustering around the target either through deliberately; (3) underperforming or manipulating the data; (4) concentrating on meeting targets at the expense of other (unmeasured) factors; and (5)

⁷Although this paper is about PRP, other non-financial forms of ego-boosting recognition can be applied, which are less transferable or open to sharing. There are other methods of motivation besides carrot and stick.

choosing indicators and targets to influence the results/manipulating the measures. There are problems with setting targets too low and/or too high. Setting performance targets too high often creates unrealistic expectations and distortion effects (gaming or scoring). Moreover, there is a tendency to set easier targets than tougher ones in order to achieve the target. Some of the most pronounced disadvantages associated with target systems are the so-called threshold effects (efforts towards reaching the minimum levels specified by targets, rather than to exceed those levels), output distortions (efforts towards achieving success in the specific measures used for targets, at the expense of other important objectives that are not included in the target measures), and others. Such distorting behavior is a great challenge for all levels of government. Possible perverse effects could include goal distortion: organizations and managers focusing on a few specific indicators and targets, usually the most achievable or saleable, at the expense of the overall objectives or program. In extreme cases of goal distortion, agencies or staff, under serious pressure to meet targets, may deliberately present misleading information (Martocchio, 2001; Kim, 2003; OECD, 2005).

VI. Capacity Building through Education and Training.

The nature of current public affairs is becoming more complex, more diverse, more fragmented, more interdependent, more time-consuming, more transparent, more blurring, more decentralized, and more stakeholders with a resulting increase in conflicts and dilemmas or trilemmas. Particularly in developing countries, capacity deficit becomes a serious issue because their capacities are limited and the challenges are really daunting. The public sector capacity has declined over the years due to the shrinking role of the states, a lack of resources in an economic crisis, the increasing cost of governance and more complex problems. At the same time, the number of critical citizens is increasing and there is also an increasing resistance culture with an aggressive voice (Norris, 1999). Additionally, more needs to be done, and it needs to be done better with less, so that there needs to be a reduction of the capacity deficit (deep gap) between new demands and existing capacity; both institutional and personal. There is currently a public capacity deficit which needs urgent strengthening. Consequently, the needs for capacity building have been widely recognized in the public sector around the world.

Along those lines, the United Nations Educational, Scientific, and Cultural Organization (UNESCO) undertook capacity-building for many years and the main areas of capacity-building are: policy formulation and implementation, institution building, planning and management, curriculum development and materials design, teaching and learning strategies and methodologies, training of trainers and facilitators, developing support structures and mechanisms, and learner performance assessment. Likewise, in the field of public administration, new initiatives equipping individuals with the understanding, skills and access to information are needed.

The UNDESA/IASIA Task Force (2008) underscores the importance of the following capacities, in particular: (1) visionary leadership and strategic thinking; (2) policy coordination (including design of appropriate information and knowledge management systems); (3) performance management (including design and implementation of service delivery systems to enhance access to water, health, sanitation, education, poverty eradication

and other services, and application of appropriate monitoring and evaluation mechanisms); (4) management of change (with emphasis on conflict and diversity management, reconciliation of paradoxes and ambiguities, team-building, and negotiation); (5) containment of major pandemics and monitoring and evaluation of impact of intervention measures; and (6) leadership succession planning (including the development of succeeding generation of leaders, and empowerment of subordinates. Accordingly, public administration schools and training institutes should provide effective education and training to prospective students and/or trainees to build their capacities and competencies, but some schools and institutes may not meet such new demands. Therefore, standards for educational and training programs should be developed and broadly exercised. In other words, it is necessary to develop appropriate standards for educational and training programs through proper review or accreditation in order to improve public sector performance. Many schools and training institutes deliver numerous programs for prospective students and public sector employees, but the quality of such programs is sometimes in question. In that regards, a professional review or an accreditation system should be developed and utilized for the development of educational and training programs.

The UNDESA/IASIA Task Force (2008) asserts that criteria for evaluating excellence in public administration education and training should facilitate public sector performance through providing the highest quality of public servants; and the purpose of public administration education and training is to provide public administrators with the competencies and capacities to contribute to the improvement of the quality of life, especially for the most economically, socially, and politically disadvantaged members of society. The UNDESA-IASIA's report (2008) lists up 8 key elements: (1) public service commitment; (2) advocacy of public interest values; (3) combining scholarship, practice and community service; (4) the faculty are central; (5) inclusiveness is at the heart of the program; (6) a curriculum that is purposeful and responsive; (7) adequate resources are critical; and (8) balancing collaboration and competition (UNDESA-IASIA, 2008).⁸ The UNDESA-IASIA developed main categories of criteria for measuring stands of excellence into two groups: the first being those concerned with the organizational nature and characteristics of the institution providing programs and the second being those criteria that relate to the actual program being delivered by the institution. Accordingly, it distinguishes: (1) institutional criterion (strategic planning process, financial and budgetary structure, quality assurance system, HRM system, contribution to the discipline, social and cultural diversity, facilities, student services, public relations, grievances, exemplary functions, and benchmarking); and (2) program-related criterion (program development and review, program content, program management, and program performance).

⁸http://www.ias-iisa.org/iasia/e/standards_excellence/Documents/Standards%20of%20Excellence%20English.pdf.

The [American] National Association of Schools of Public Affairs and Administration (NASPAA) also provides useful criteria for the public administration education program. Since the mission of NASPAA is to ensure excellence in education and training for public service and to promote the ideal of public service, the NASPAA shows 7 categories of standards: (1) managing the program strategically (mission statement, performance expectations, program evaluation); (2) matching governance with the mission (administrative capacity, faculty governance); (3) matching operations with the mission: faculty performance (faculty qualifications, faculty diversity, research, scholarship and service); (4) matching operations with the mission: serving students (student recruitment, student admissions, support for students, student diversity); (5) matching operations with the mission: student learning (universal required competencies,⁹ mission-specific required competencies, mission-specific elective competencies, professional competencies); (6) matching resources with the mission (resource adequacy); (7) matching communications with the mission.¹⁰ Furthermore, the European Association for Public Administration Accreditation (EAPAA) also has similar accreditation criteria.¹¹

Prospective students who are interested in public service and incumbent government employees need to have a proper level of public administration education and training with a high quality and those education and training institutions ought to be equipped and revitalized for the specific objective of developing the critical capacities that government and public service needed to anticipate and respond to complex challenges. In that regards, educational and training programs should be professionally and regularly reviewed based on the following areas: mission and overall policies, curriculum, faculty quality and performance, student performance and student service, and quality assessment system. Particularly, the curriculum should express the general idea of public administration as a multidisciplinary program, with the purpose of preparing students for professional academic level roles in the public sector. All components of the curriculum should be justified with respect to their quality and consistency with the mission of the program. The core curriculum should provide a thorough teaching of the basic concepts, theories, methods and classics of public administration as well as contemporary discourse on the level of the program in terms of undergraduate or graduate level of works; or practical applications of public administration for training programs.

⁹The required competencies will include five domains: the ability to lead and manage in public governance; to participate in and contribute to the policy process; to analyze, synthesize, think critically, solve problems and make decisions; to articulate and apply a public service perspective; to communicate and interact productively with a diverse and changing workforce and citizenry.

¹⁰<http://www.naspaa.org/accreditation/NS/naspaastandards.asp>.

¹¹http://www.eapaa.org/index.php?option=com_content&view=article&id=14&Itemid=18.

VII. Conclusions

In an increasingly competitive world, performance improvement is not optional; it is essential for enhancing government's effectiveness and competitiveness. In the era of globalization and the borderless economy, competency and performance of government employees need substantial improvement. In that regard, having performance management and performance appraisal including PRP programs seems to be a good idea. However, the well-articulated system design based on in-depth understanding of complex human nature and effective management of such programs is a key to success. Having a good idea is not enough. So the good idea must be followed up by system improvements and sound practices. If performance measurement is simply viewed as a data collection and reporting exercise, it will serve little purpose to a policy community (Hernandez, 2002). Accordingly, performance appraisal and performance measures must be improved or adjusted to be successful in aligning with overall organizational and social environments. There needs to be understanding of the relationship between strategy, people, organizational design and performance systems in order for performance management to be achieved in the public sector (Radnor and McGuire, 2004).

Although there are substantial variations among the countries, it might be fair to say that the performance evaluation system has been widely introduced and government employees' awareness on performance has been gradually improved since the 1980s. However, a number of limitations are also salient for the time being. Recently, performance appraisal and performance measures faced criticism from government employees for various reasons. First, people dislike to evaluate as well as to be evaluated in general. Second, the seniority-based system might be still prevalent in many organizations so that it is hard to change perception and behavior in the short term. Third, it is difficult to develop performance objectives and measurable performance indicators because the nature of public affairs is often hard to quantify. Fourth, these systems appear to require more paperwork and increase both performance pressure and stress. Fifth, many officials may lack in-depth understanding about the nature of these systems and the difficulties setting performance objectives to fulfill for the year.

Despite of its controversy on performance management and performance appraisal, it will be growing but varies in form and force among different countries and different tasks (Pollitt, 2005). Accordingly, the performance appraisal scheme should be well designed and practiced in a way that places its legitimacy beyond any doubt. This has many meanings. Among others, it signifies that the performance appraisal scheme should imply a fair and balanced system of allocation of individual responsibilities within the organization, a transparent mechanism for setting organizational objectives and to make them known by the incumbents, an individual evaluation procedure pre-established in legal instruments or in clear internal guidelines, a possibility of internal and external review and oversight over the procedure and results of the appraisal, and finally individuals need to be reassured that the results of their evaluation will be used correctly.

Nonetheless, the impact of PRP should not be overestimated (OECD, 2005). Perry and his associates (2009) warn that performance-related pay has often failed to trigger expected intermediate changes in employee perceptions necessary to change motivation. Therefore,

performance appraisal and PRP measures must be improved in order to alleviate complaints and discontent with PRP and performance measures. It will take time to succeed at such new systems so it is necessary to make continuous improvements based on both domestic and international partnership. Changing from an entitlement to a performance culture (utilizing new working methods and measurement tools), represents a particularly major philosophical shift, or cultural revolution of government employees for promoting a performance culture (Schay, 1997: 270). Such cultural change can take many years so that commitment to change can overcome the absence of pre-existing ideal conditions. Resistance to change can be overcome if there is a strong, long-term commitment of top management to making the change successful. The support of politicians and higher-level executives in the legislature and the executive helps to reinforce the need for change and to push reform, although it is particularly difficult to obtain the support of politicians in the legislature because politicians do not take much interest, and neither do citizens unless and until disasters, scandals, or breakdowns come along (OECD, 2005: 78; Pollitt, 2005: 41). Therefore, strong commitment of government leaders in promoting a performance culture is critical to success of government.

Last but not least, government must invest in human capital and provide more opportunities for further human resource development. Motivated people are central to the operation of any agency that wishes to function well in the new age. A decade of organizational restructuring, reinventing, and reengineering has produced employees who are more exhausted than empowered, more cynical than self-renewed. Many agencies' managerial attention is only marginally focused on the problems of employee capability and motivation. Somewhere between theory and practice, precious human capital is being misused, wasted or lost these days (Barlett and Ghoshal, 2002: 34). Therefore, management needs to develop the engaging and motivating culture necessary to attract, excite and retain well-performing employees in government.

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