

# Pay-for-performance mechanisms in the public sector. The case of the Program for Management Improvement in Chile

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# Agenda

1. Motivation
2. Literature review
3. Methodology
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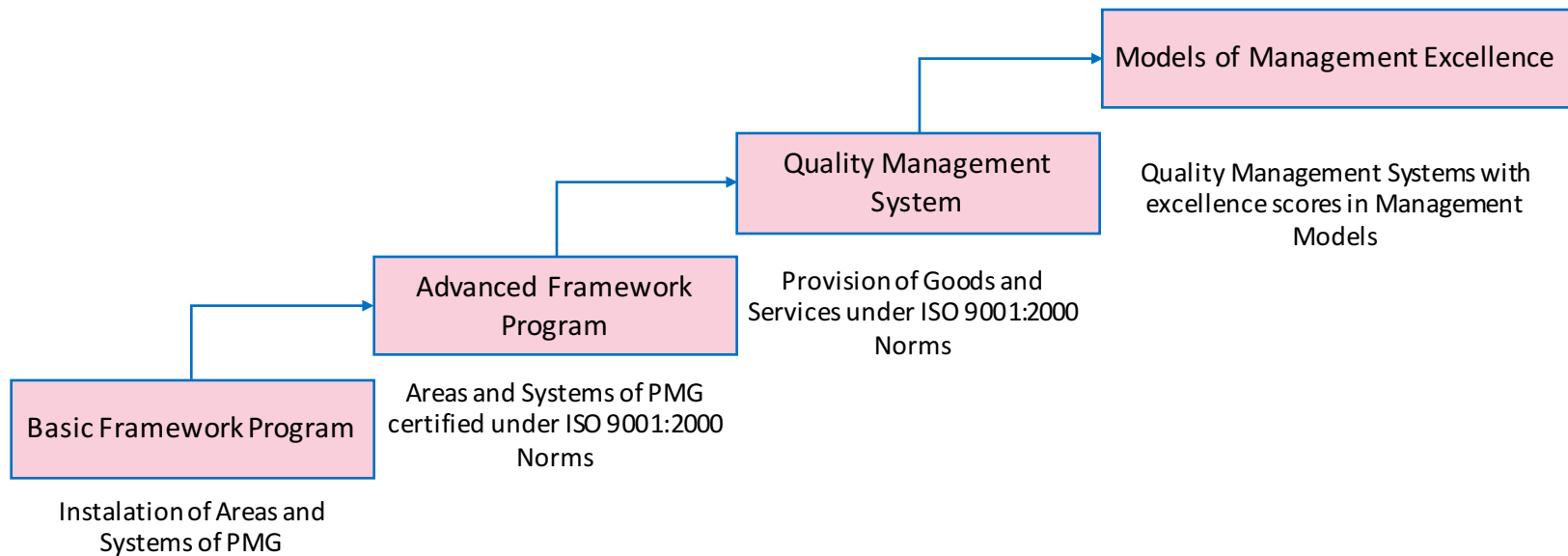
# Motivation

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# Motivation

- Abundant international evidence on the effects of monetary incentives in the management of private organizations
  - They would function in the performance of simple and repetitive activities
  - Does this logic apply to the public sector?
- Public sector
  - Multiple principals
  - Performance measurement problems
  - Exclusive use of quantitative indicators in management control systems
- Influence of the New Public Management in Chile
  - There are debates about the influence of this current on the effectiveness, efficiency and quality of public services
  - Management Improvement Program (PMG) as an example of this trend in Chile in 1998

# The History of PMG



Increase in the remuneration of officials for compliance with the

## Increase in the remuneration of public officials for compliance with PMG

Level of compliance	1998-2003	2004	2007	2008	2009	2010- Today
90%-100%	3,0%	5,0%	5,7%	6,3%	7,0%	7,6%
75%-89%	1,5%	2,5%	2,9%	3,2%	3,5%	3,8%
<75%	0%	0%	0%	0%	0%	0%

# Literature Review

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# Literature Review

- Monetary incentives for performance began to be incorporated massively into the public administration within the framework of the modernization of the State that has revolved since the 1990s around improving the performance of public institutions.
  - Management by results as a central aspect of the NPM (Hood, 1991)
  - Public choice and new managerialism (Aucoin, 1990; Hood, 1991)
- The performance payment policy began in Canada in 1964 (OECD, 2005)
- Other countries follow it through a process of institutional isomorphism
- As of 2000, the effectiveness and consequences of these mechanisms are questioned by some
  - Difficult to implement. The principal agent relationships are the same as in the private sector (Burgess and Ratto, 2003)
  - Different types of motivations of officials, such as the Public Service Motivation (PSM) (Perry and Wise, 1990, Perry, 1996, Perry, 1997)
  - There could even be negative effects of the incentives, such as the crowding-out effect and also the **gaming**



# Methodology

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# Methodology (1/2)

- A mixed research methodology was used, which integrates quantitative and qualitative methods. For the data collecting of the study case various methods and sources of information were used (Yin, 2009)
  - Document Review
    - From organizations such as the OECD, the World Bank
    - Analysis of relevant legislation and regulations
  - 40 interviews (individual and group)
    - 20 to officials associated with PMG administration, 11 interviews with experts linked to the PMG throughout its history, and 9 interviews with other authorities involved, including 5 DIPRES (Budget office. In charge of PMG) directors and the ANEF (national association of public officials) national board.
  - Focus groups with key informants

## Metodology (2/2)

- Survey applied on different actors (n = 554) regarding the design, implementation, costs and effects of the incentive mechanism

Tipo de encuestado	N	Number of completed questionnaires	Target achievement	%
Service senior managers	146	35	24%	18,0%
Internal audit officer	140	40	29%	20,6%
PMG coordinators	148	74	51%	38,1%
Representatives of civil service associations	120	45	38%	23,2%
<b>TOTAL</b>	<b>554</b>	<b>194</b>	<b>35%</b>	<b>100%</b>

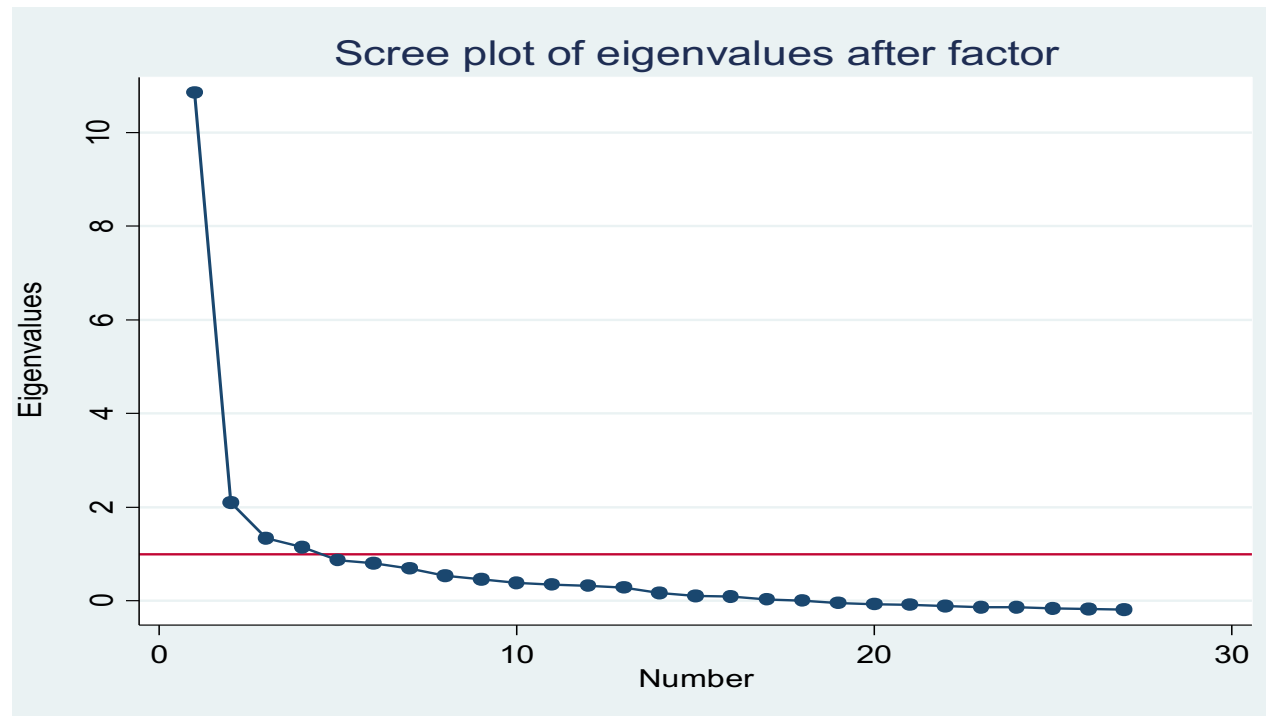
# Results

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# Main Survey Results

- High degree of agreement
  - Public officials know the degree of compliance with the goals (83% of mentions 4 and 5)
  - There is alignment between the MII and the strategic objectives of the Institution (72% of mentions 4 and 5)
  - The goals established annually have been demanding (72.4% of mentions 4 and 5)
- High degree of disagreement
  - The users of the Institution know the institutional goals (58% of mentions 1 and 2)
  - The MII allows to improve working conditions in institutions (42% of mentions 1 and 2)
  - The MII allows a more efficient allocation of resources (34.6% of mentions 1 and 2)

# Factorial analysis of the answers



## Values of latent variables by official type

Official type	Factor	# of observations	Mean
Service top managers	Global Perception	24	0,33
	Gaming perception	24	0,21
Internal audit officers	Global perception	30	-0,21
	Gaming perception	30	-0,03
PMG coordinators	Global perception	45	0,31
	Gaming perception	45	-0,05
Representatives of civil servants' associations	Global perception	27	-0,58
	Gaming perception	27	-0,06

## Results using both indicators

- 1) Better perceptions between service managers and PMG managers, while the worst are among audit managers and officials' leaders
- 2) Significantly higher perception of gaming strategies by the heads of the services compared to the rest of the groups surveyed



# Main qualitative results

- Purposes of the system. Two different perspectives depending on the interest group
  - Mechanism to put pressure on public institutions to generate modernization processes that would translate into a better performance of the public services (designers and managers of PMG)
  - Mechanism to improve remuneration (officials)
- These two different purposes, depending on the interest group, could explain different expectations regarding the PMG, and, therefore, the judgments that are issued.
- In any case, there is convergence on the PMG as helping to install a "common language" in terms of "performance management."
- The results also suggest that the indicators do not provide useful information for the service manager. That is, the PMG indicators would not be relevant

# Public Policy Discussion

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## Analysis and discussion

- PMG played a central role in the installation of hygienic systems to improve public management and the implementation of a culture of measurement
  - This strong installation of the mechanism, and the relative tranquility it has brought in the salary negotiations, can explain the positive perception that arises in the survey carried out, in the case of PMG Managers and for some Service Managers, even though the latter perceive a high degree of gaming.
- Is the current design of monetary incentives appropriate to affect behavior and thereby improve public management? The answer is, a priori, negative
  - Trend to gaming
  - Formulation of formalist indicators and little representative of the actual management of organizations
  - The bonus is perceived as a proportion of the compensation too large to be lost
  - Management control system capture from the central level
  - Preliminary evidence of crowding-out effect. Intrinsic motivation is replaced by extrinsic motivation

## Anex: Bibliography

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