

Research impact: making a difference

Improving motivation and performance in public services

LSE research identified practical reforms in public sector pay that are effective in spurring individual and team performance

What was the problem?

Successive governments in Britain and around the world have sought to link pay to performance in public services in order to motivate employees more effectively. This approach often fails in practice. Far from motivating employees, performance-linked pay schemes can trigger accusations of unfairness and management bad faith.

What did we do?

For more than two decades the LSE Centre for Economic Performance (CEP) has investigated whether performance-related pay in British public services has helped to improve staff motivation and performance. Professor of Industrial Relations David Marsden has led the research, aided by co-researchers Raymond Richardson, Stephen French and Richard Belfield.

Initially the research focused on performance-linked pay systems at the Inland Revenue (as the British tax service then was), and was subsequently extended to hospitals and to the government's employment service. All of these schemes had been designed according to prevailing best practice.

LSE's unique dual focus on the economic and organisational implications of performance pay in the public sector pinpointed weaknesses in the link between incentive and performance, especially in the processes of goal setting and performance appraisal.

The research helped public sector managers and unions identify the changes necessary to make their schemes fairer and more effective. These included matching goals and appraisal to the differing abilities and job demands of individual employees and recognising the part played by team efforts. Involving employees in establishing their work priorities and measures of achievement was also found to be critical. Further to this was the requirement that the goals set be able to reconcile any tensions between professional values and organisational priorities.

A subsequent study of the new pay system introduced for teachers in 2000 tracked the experience of a number of schools over four years. This revealed that the appraisal process itself could improve organisational performance by linking organisational needs and individual performance. The researchers found that the minority of schools achieving this had also improved pupils' academic performance over time.

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In 2013, Marsden began a new project—welcomed by the professional associations for classroom and head teachers and by the Department for Education—to examine the impact of the 2013/14 performance pay reforms for teachers on teacher motivation and on management practices within schools.

Funding for the initial Inland Revenue study came from the Inland Revenue Staff Federation; it was carried out with management co-operation, notably for distribution and collection of survey questionnaires. Funding for the second stage came from the Anglo-German Foundation, conducted as part of a comparative study. Later stages in the research were funded as part of the Centre's Economic and Social Research Council and Leverhulme programmes on both industrial relations and performance pay, and LSE's Suntory Toyota International Centre for Economics and Related Disciplines (STICERD).

'...whilst there have been failures in adapting performance pay to the public sector, they have been part of a process of experimentation and learning that has yielded subsequent improvements'.

HM Treasury's Hutton Review of Fair Pay in the Public Sector, citing LSE research

What happened?

United Kingdom

Over the past two decades LSE research has provided timely, systematic and independent evidence to support efforts by government and others to extend and improve the link between pay and performance across public services in Britain.

In particular, the research encouraged a more constructive dialogue between management and unions, revealing to managers that employees had widespread and genuine concerns, while demonstrating to unions that their members' disenchantment with performance-linked pay related to practice rather than principle.

The research fed directly into practical improvements introduced by public services into their pay and appraisal schemes. Often such changes were incremental. For example, in response to LSE's finding that the Inland Revenue's scheme unfairly disregarded differences between jobs and individual abilities, Inland Revenue introduced goals that had been agreed between individual employees and their line managers. Further LSE research showed that while the measure might have worked in a less centralised organisation, employees still experienced the goals as divisive, imposed by managers with little scope for negotiation. This finding in turn influenced a government inquiry into incentivising change, which led to experiments with team-based performance pay in the early 2000s.

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In the later review on reforming police pay led by former Rail Regulator Tom Winsor, Marsden briefed members of the Home Office Research and Analysis Unit. Winsor went on to recommend that police pay should contain a higher proportion devoted to performance, with proper recognition for teamwork, in line with the findings of LSE's research.

The impact of LSE research could also be seen in teachers' pay. The Department for Education used LSE findings as part of its evidence to the 2012 Teachers' Pay Review Body, which recommended an end to increments based on seniority and their replacement with performance-related increases for classroom teachers. Also reflecting LSE research, the new system implemented in 2013/14 sought to give more autonomy to individual schools in how they reward performance, while seeking to ensure fairness in operation.

International

Because British governments have pushed experiments with performance pay further than elsewhere, LSE's research has been of special interest to international bodies promoting better public management, such as the Organisation for Economic Co-operation and Development (OECD) and the World Bank. The research made a significant contribution to the OECD's 2005 report on reforming public service pay systems in OECD countries, especially in transition economies. Via the OECD report, the research filtered into work in China, India and Germany, and directly into Australian public policy debates about public sector pay reforms.

In 2012 the World Bank explicitly drew on LSE research in its policy research paper on performance pay in the public sector, prepared for developing economies. This sought to recast workplace culture by aligning employee effort and pay and resolving the conflict between good professional performance and public policy objectives.

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