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Back to the Future? Performance-Related Pay, Empirical Research, and the Perils of Persistence

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Given the resurgence of interest in pay for performance in the public sector at the federal level and a new administration taking over, this article is timely. It also manages to achieve two somewhat incompatible goals—it speaks clearly to both academic and practitioner audiences. My comments are in two parts. First, I discuss why both scholars and practitioners should pay attention to this contribution. Second, I

discuss a key issue—namely, organizational goal ambiguity in the public sector—that needs to be better understood and incorporated in research on performance-related pay. Unless this occurs, neither practice nor theory building on pay for performance can profitably proceed.

Perry, Engbers, and Jun begin by identifying the theoretical "wellsprings" of performance-related pay in expectancy theory and reinforcement theory. The careful and succinct overview of earlier research syntheses serves a valuable purpose, reminding us that the motivational terrain in the public sector is powerfully shaped by institutional constraints unique to the public sector. The level and quality of detail provided in table 1 should serve as a model for state-of-the-art reviews of the literature. Although the authors are cognizant of gaps in evidence and technical issues that probably rule out the use of meta-

analytic techniques, they do not let this deter them from formulating a well-grounded synthesis of extant studies. The summary of key variables and relationships in figure 1 is masterful and clearly offers both academics and practitioners a lot to think about.

The authors make the compelling point that the linkage between performance-related pay and performance outcomes is not as simple and definitive as some would make it out to be in this era of government by performance management (Moynihan and Pandey 2005). For public administration scholars, there is an opportunity to conduct research to develop and enhance knowledge about relationships depicted in figure 1. For practicing managers, it offers a valuable way of thinking about how the benefits of performance-related pay may (or may not) be realized in the public sector.

I also applaud the authors' recognition of public service motivation theory as a valuable lever for improving performance (Moynihan and Pandey 2007; Pandey and Stazyk 2008; Perry and Hondeghem 2008). Indeed, in a recent article we provide evidence of positive effects of public service motivation even after accounting for satisfaction with pay (Wright and Pandey 2008).

In sum, I believe this is a powerful and valuable contribution to the public administration literature. If there is one critique, implicit in the authors' invocation of "Back to the Future," it is that future implementation of performance-related pay is likely to suffer from missteps and failures experienced earlier as well. Is this a failure of public managers or of public management theorists? Because I identify with the public management

theorist camp, allow me to accept some of the blame on behalf of public management theorists. Although other reasonable critiques may be advanced about the failure of public management theorists, I want to focus on only one in this commentary. Research and practice on performance-related pay makes very simple assumptions about the nature of the goals public organizations pursue. To make progress on both theoretical and practical matters, it is important to review and refine assumptions about the goals public organizations serve.

As Perry, Engbers, and Jun duly point out, broad acceptance of principal-agent models and a global resurgence of the New Public Management deserve the credit for renewed interest in performance-related pay. Discussing principal-agent models in any detail is a project in and of itself, and therefore, I make no claims about offering a definitive critique of them.¹ That said, my focus in this commentary is on the theory of performance that is implicit in principal-agent models.

Perhaps the best way to characterize this implicit theory of performance is that it is a goal-based theory of performance, a theory that makes somewhat simplistic assumptions about the nature of goals. At the heart of principal-agent models is the idea that principals know their goals, can specify them clearly, and this awareness and knowledge about goals can be transmitted to the agents. When things work according to plan (or the principal's wishes), there are no performance deficits.

However, there are occasions when agents fail to deliver performance consistent with goals. When this happens,

most principal-agent accounts ascribe it to one of three widely cited agent behaviors—shirking, stealing, or subverting (see DiIulio 1994). Notice that in this scheme of things, behaviors that lead to performance deficits have little to do with the nature of goals—agents may shirk, steal, or subvert goals that are implicitly clear or unambiguous. Thus, performance deficits are assumed to link up with the motivation of agents who in the best case scenario merely shirk. In the worst case scenario, agents work actively to subvert clear goals laid out by the principal.²

But what about the possibility that principals face *unclear* goals and as a result may find it difficult to specify clear goals for agents to pursue?³ This possibility has been discussed by noted public administration theorists for decades (e.g., Dahl and Lindblom 1953; Pandey and Wright 2006; Perry and Rainey 1988; Rainey 1993; Rainey and Bozeman 2000). In-depth case studies have documented the challenges multiple, conflicting, and ambiguous organizational goals pose to public managers (e.g., Hargrove and Glidewell 1990; Riccucci 1995). The idea that public managers face goals that can be characterized as being multiple, conflicting, and ambiguous is an old one and can be traced to a number of scholars (see Pandey and Rainey 2006, 87; Rainey, Backoff, and Levine 1976). Indeed, Pandey and Rainey (2006) suggest that organizational goal ambiguity can be thought of as a conceptual linchpin linking the political and economic environment of public organizations with organizational characteristics and/or specific individual behaviors.⁴

Any theory of performance of public organizations and individuals—and by implication, efforts to improve performance—therefore needs to account fully for organizational goal ambiguity. There are three questions that need to be answered in this regard. First, what are the sources of organizational goal ambiguity for employees of public organizations? Second, how is organizational goal ambiguity experienced at the individual level and at the task level? Third, and relatedly, what can be done to mitigate any negative effects? To some, this first question about sources of organizational goal ambiguity is an easy "open-and-shut" case. Public organizations are not subject to price-based market signals and must respond to a variety of external forces in the political environment. The evidence on this point, at least from the vantage point of public managers, has been weak. Rainey and Bozeman (2000) clearly and ably summarize a host of empirical studies testifying to the fact that public and private managers face similar levels of organizational goal ambiguity.

The cumulation of this evidence also has had an unintended effect—redirecting focus from the original question about sources of organizational goal ambiguity to measurement thereof. Pandey and Rainey (2006) propose and test three models to explain organizational goal ambiguity experienced by managers—namely, political, organizational, and individual. Although this study is preliminary and based on a single sample, the results are intriguing. Contrary to received wisdom about the central role of political influence in public organizations, the single biggest source of orga-

nizational goal ambiguity is organizational characteristics such as centralization, internal communication, and task specialization.

Other recent studies also have begun to address the second and third questions related to how organizational goal ambiguity translates into job-level goal ambiguity (e.g., Pandey and Wright 2006; Wright 2004). In a recent study, Brad Wright and I argue that organizational goal ambiguity translates into job-level ambiguity for public managers (Pandey and Wright 2006). We make the case that organizational goal ambiguity leads to role ambiguity through two causal pathways.

First, unclear goals have a direct effect on job-level goals: "vague, multiple, and conflicting goals distract attention and do not provide clear guidelines on searching for alternative solutions. The net result of organizational goal ambiguity is to increase information deficiency about job processes and salient outcomes" (Pandey and Wright 2006, 517). We also highlight how unclear organizational goals can lead to increased job-level ambiguity through a second causal mechanism: bureaucratic structure and standard operating procedures. To compensate for unclear goals, organizations often turn to structural mechanisms to bring about behavioral consistency. These structural mechanisms do not clarify goals at the job level; instead, they institute standardized and routine responses that are not necessarily rooted in or oriented towards goal clarification and/or achievement.

What does all of this mean for performance-related pay? Success of performance-related pay programs/initiatives

requires well-validated knowledge regarding the relationship between individual-level goals and performance. That said, when organizational goals are hard to define and measure, they will create challenges in developing well-defined and measurable goals at the individual level.⁵

Thus, to state the obvious, organizational goal ambiguity is an all-pervading part of organizational reality in public organizations.⁶ Specifically, organizational goals influence goals at the individual level, and performance ultimately has to be judged against overarching organizational goals.⁷ Advancing our understanding and practice of performance-related pay must involve grappling with a range of such questions about unclear goals at different levels and performance. Although we can make simplifying assumptions about the nature of goals, any resultant progress in understanding will prove to be illusory in the final analysis.

We must, therefore, embrace the reality of organizational goals in the public sector and begin the challenging work of developing a better-grounded understanding of performance and whether or not, and how, pay can have any meaningful influence on organizational or individual-level performance in the public sector.

Notes

1. Typically, the terms principal and agent denote elected official and public manager, respectively. In the context of performance-related pay, however, one also can think of the supervisor as the principal and the employee as the agent.
2. See Pandey and Welch (2005) for a critique of stereotypical portraits of public managers.
3. It also is possible to sketch out second-order scenarios such as that even though goals are clear, efforts to communicate information about these goals did not succeed.

4. Recent studies have explored the best way to measure organizational goal ambiguity. Chun and Rainey (2005) propose a measurement scheme that relies on "objective" indicators. A number of studies on the other hand use perceptual measures of organizational goal ambiguity (e.g., Pandey and Garnett 2006; Pandey and Rainey 2006; Wright 2004). See Yang and Pandey (forthcoming) for a discussion of the advantages of measures based on self-reporting. Among other things, Yang and Pandey remind us of the observation by Herbert Simon that our actions are profoundly shaped by our cognition and beliefs about organizational realities.

5. It should be noted that the authors are familiar with this challenge as exhibited by lesson 3.

6. For the sake of completeness, it should be noted that many view organizational goal ambiguity as a positive aspect of public organizations (Maynard-Moody and McClintock 1987; Noordegraaf and Abma 2003).

7. Note that some of the best social science research linking goal clarity and performance is at the task level (Locke and Latham 1990; Wright 2001).

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