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The role of performance-related pay in renegotiating the "effort bargain": the case of the British public service

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Abstract
Much of the academic and policy literature on performance related pay (PRP) focuses on its role as an incentive system. Its role as means for *renegotiating* performance norms has been largely neglected. The study examines the introduction of performance related pay, based mostly on appraisals by line managers, in the British public services during the 1990s. Previous research indicates PRP failed to motivate many of the staff and its operation had been divisive. Nevertheless, other information suggests that productivity rose. This article seeks to resolve the paradox using contract theory to show that performance pay was the instrument of a major *renegotiation* of performance norms, and that this rather than motivation has been the key story. Goal setting and appraisal by line managers played a key role in this process.

The role of performance related pay in renegotiating the 'effort bargain': the case of the British public service.[1]

There is a paradox to be explained concerning the spread of performance related pay (PRP) in the British public services. In the public policy debate it has been common to associate its introduction with the aim of improving incentives and motivation among public employees (Brown and Heywood, 2002). This has been a key element in government and top management thinking in the British public services, echoed in two recent government reports (Bichard, 1999, Makinson, 2000), and it has been a long-standing interest in the work of the OECD's public management reform program (Maguire, 1993, OECD 2002). It is also a recurrent theme in much of the Personnel Economics and Human Resource Management literature (eg. Lazear 1998, Milkovich and Wigdor 1991, Mitchell et al. 1990, Armstrong and Murlis, 1994). From the late 1980s, the British public services embarked upon the most systematic and sustained policy of extending and developing performance related pay of any OECD country, mostly replacing annual seniority-related pay increments with performance-related ones based on goal setting and appraisals by line-managers, sometimes called 'appraisal-related pay' (ACAS, 1990). Nevertheless, when surveying both academic research findings and inside management information, the government's Makinson report concluded that performance pay had not motivated public employees in Britain, and its operation had been divisive (Makinson, 2000). Given that the policy has been sustained by three successive prime ministers of quite different political persuasion, two Conservative and one Labor, as well as successive top managers, it is hard to believe its continued use can be explained by political dogma. Likewise, in the face of such evidence, the perseverance of top public management and of successive governments is hard to understand if employee motivation is the main story. We need to look elsewhere for an explanation.

In this article, I argue that the alternative explanation can be found in the use of performance pay, and of performance management more widely, to provide a framework for *renegotiating* performance standards with public employees: to renegotiate the 'effort bargain'. This is consistent with rising organizational performance, which would explain top management's perseverance, and with the repeated evidence that PRP has failed to motivate many public employees. A couple of examples from the fieldwork that accompanied the survey data, which are analyzed later, illustrate the kind of changes management has sought to introduce with the aid of PRP. In one of the hospitals, management wanted to move away from covering extended working after normal hours and at weekends by means of overtime and weekend premium payments. It wanted a more flexible system that would provide cover in a more patient-centered way on which management could draw as extra time was needed. In exchange, it would reward cooperative behavior with a higher basic salary and performance pay. In the tax service, management wanted employees to change from a focus on working to predetermined standards dictated by their job classifications to one of individual performance. This, it believed, would be more responsive to the demands from individual tax-payers, and more relevant to the differences in ability between individual employees in similar jobs. In both examples, there is a degree of working 'smarter', but also a significant element of working more intensively when the patient's or the tax-payer's needs required. In doing so, public

employees also become more exposed to the uncertain timing of citizens' demands, and have less control over their pace and manner of work. Even where such changes are agreed with unions, management has still to make the deal stick on the shop and office floor. Line-managers are the strategic link in the chain translating the abstract objectives of change into the everyday tasks that individual public servants undertake: hence the importance of goal-setting and appraisal. But they are also potentially a weak link as they come under pressure from their staff to be lenient with work assignments and over-generous with performance rewards. The widely observed upward 'drift' in performance appraisal and pay awards stems from just such pressures (eg. Milkovich and Wigdor, 1991).

In both examples, one can see that incentive and goal-setting features of performance pay still play a key part in the story, but motivation is only their secondary function. Their primary function, through appraisal and goal-setting, I argue, has been to enable management to redefine the established performance norms in their organization, and then to operate them effectively, with the explicit or tacit agreement of as many employees as possible.

Performance management as a means of renegotiation: main theories

It has been common to analyze the workings of PRP in recent years through the lens of three main theories: agency, expectancy, and goal setting theory. These shed a great deal of light on the static incentive and appraisal processes present in PRP. They have focused mainly on how management can influence employees' choice between different levels of effort or care in their work. To understand the changes occurring in the British public services, one needs to complement this with a more dynamic analysis of inducements for employees to agree the new set of performance norms, and work within these.

The idea of *renegotiation* is most simply explained in terms of contract theory. A worker and a firm agree the terms of their exchange when the worker is hired. A key feature of the employment contract is that it should be open-ended in terms of both its duration and its content. Workers agree to give the employer's agent, management, some flexibility to adapt that content to changing demands, but only *within certain limits* (Coase, 1937). From time to time, it becomes necessary to revise these limits. This becomes an occasion for renegotiation. This time, however, each party has made investments in the relationship and is vulnerable to pressure tactics from the other. Much of the contract literature emphasizes pay because of changes in the market valuation of employee output (Malcomson, 1997). Less visible, but just as important for management, is the ability to revise job boundaries, and redefine the nature and standards of performance that it requires from employees. These are usually the subject of a tacit understanding between staff and management, sometimes called the 'effort bargain', except that it encompasses qualitative as well as quantitative aspects of performance.

By what processes does renegotiation come about? Much of the recent literature has focused on the role of collective bargaining, as did Teulings and Hartog (1998), but their main interest lay in pay adjustments. Pay rules are generally codified by virtue of their inclusion in collective agreements and individual contracts of employment. In contrast, many of the rules relating to workers' job boundaries and performance standards contain a large uncodified element. It is common for jobs to deviate

considerably from their formal job descriptions, and for their contents to be highly 'idiosyncratic', to use Williamson's (1975) term. They are therefore accessible to higher management only through the eyes of their first-line managers. To renegotiate performance, management needs to get right down to the level of individual jobs, and to the relationship between individual employees and their line-managers. Collective agreements often set the overall framework, but ultimately, this kind of negotiation has to occur between line managers and individuals or small groups of employees in the same office or hospital ward.

At the time of hiring, workers who do not like the supervisory practices and incentive systems the employer offers can just walk away, so there is a process of self-selection that matches these to workers' preferences.[2] However, when the time comes for changing work practices and incentive systems in an established organization, the employer faces an incumbent workforce whose preferences for or against the new system may vary considerably. In the change, some will expect to be winners, and others, losers. To get everyone to engage positively in the new system, management would have to offer a very attractive, and costly, deal. It might therefore prefer to make the new deal attractive to a sufficient proportion of its staff so that the scheme functions tolerably well, and to forego the support of the remaining staff in order to keep within some budgetary limit. Indeed, the two hospitals in the data set used in this article took just that path. They gave incumbent employees a choice, and so did not have to buy out those who were most strongly attached to the old system. Thus, one may consider management as operating with some kind of 'median voter' model, albeit probably based on some other proportion, whereby it designs the incentives so as to attract a sufficient number of its employees to make the new scheme effective, subject to an overall budget constraint. Thus, from an empirical point of view, the renegotiation perspective leads us to expect some employees to find the scheme positively motivating, and their performance will improve. Others may not do so, and may not feel adequately compensated, but the degree to which their performance will decline may not be equal and opposite. Because renegotiation takes place within an existing employment relationship, both parties weigh the benefits of accepting the new system against the cost of finding an alternative. Hence one expects to find a number of employees who do not like the new system, but nevertheless choose to work within it because it is not worth their while to change jobs, and they do not wish to be dismissed. Provided performance of the discontented does not fall too much, the organization may still benefit from the increased performance of those who engage positively.

In this reading, incentive and renegotiation can be complementary functions of PRP, and one can say that the incentive and, particularly the goal-setting, mechanisms have to be working properly for PRP to be an effective means of changing work norms. Agency theory also guides us about the static functions of PRP. It explains how the role of performance and output incentives encourage employees to work hard (and not to 'shirk') when management find it costly to monitor their effort closely. It proposes that management can respond by tying pay to output so as to induce employees to choose a higher level of effort (Lazear 1995, Ch. 2), and it can also invest in better systems of work design and performance evaluation to improve the correlation between performance measures and effort, and thus strengthen incentive effects (Milgrom and Roberts, 1992: 226). It also warns against the dysfunctions of

inappropriate incentives, for example, that individual incentives may discourage cooperation among colleagues (Drago and Garvey, 1998)[3].

Expectancy theory, associated for example with Vroom (1964), Porter and Lawler (1968), Lawler (1971, Ch. 6), and Furnham (1997), like agency theory, treats employees as having a degree of choice and places a strong emphasis on the motivational effects of incentives, and the problems posed by poorly defined targets. Simplifying somewhat, it identifies a potentially virtuous circle. Employees will respond to the incentive or reward on offer if they value it (its *valence*), if they believe good performance will be instrumental in bringing the desired reward (*instrumentality*), and if they expect their efforts will achieve the desired performance (*expectancy*). The circle of Valence-Instrumentality-Expectancy can be broken at a number of points. Employees may feel they lack scope to increase their effort, or that their effort will make little difference to their performance, such as might arise if they are given inappropriate work targets by management. This undermines expectancy. They may believe that management lacks the competence or the good faith to evaluate and reward their performance fairly, which undermines instrumentality, and may cause employees to view the schemes as unfair and divisive. Applied to renegotiation, one can see that employees are more likely to buy into a new incentive scheme when they perceive it to be operating fairly and able to deliver the promised rewards.

Goal setting theory places less emphasis on rewards and stresses the motivating power of defining appropriate work goals and engaging employee commitment to them (Locke and Latham 1990, Latham and Lee, 1986, Brown and Latham, 2000). Of special relevance in the current context, is the emphasis on dialogue between line-managers and employees to exchange information about realistic goals, and on agreeing to goals so that employees adopt them as their own. This framework already contains the germs of a negotiation process between employees and their managers, and so it is easy to see how the basic idea can be applied in the context of renegotiating performance norms. Goal setting may be especially important for the employees who do not like the new system, but still prefer not to change jobs. In such cases, it provides management with a channel to clarify the new standards and establish agreed levels of compliance.

Thus, although the three approaches differ in emphasis, they point to the same key processes and variables for the analysis of performance pay systems: reward and motivation on the one hand, and goal definition and evaluation on the other. Although much of the literature has stressed a static sense of motivation and incentive for given sets of performance norms, it is clear that a certain level of motivational effectiveness is required from PRP if it is to serve as a basis for the dynamic process of renegotiating performance norms. Thus, in terms of empirical observation, there is a great deal of overlap in the variables to be tracked for both types of analysis. The main difference in terms of outcomes is that the renegotiation perspective predicts that an organization can expect improved performance from PRP even though large numbers of employees claim not to be motivated by it, whereas the motivational perspective would cause one to expect the widespread ‘disenchantment’ of the kind Makinson (2000) noted to lead to disappointing performance.

These considerations can be expressed informally in a simple model. The incentive that employees perceive from a PRP scheme (perceived incentive) will be a function

of the additional financial reward associated with good performance, the quality and effectiveness of the goal-setting and appraisal process, and the scope for employees to improve their performance. This is summarized in Equation (1). Conversely, when these processes function badly, one can expect employees to experience PRP as divisive and demotivating (Equation (2)). Finally, if the goal setting process is enabling management to communicate new performance standards and make them stick, then it should have a direct effect on employee performance. The more renegotiation contributes to improved performance, the stronger one would expect to be the direct effect of the goal-setting and appraisal process on performance compared with the that pass through motivational changes (Equation 3).

(1) **Perceived incentive** = f (extra financial reward, appraisal quality, clear targets, scope for employees to boost performance, control variables)

(2) **Perceived divisiveness** = f (extra financial reward, appraisal quality, clear targets, scope for employees to boost performance, control variables)

(3) **Performance level** = f (perceived incentive, perceived divisiveness, appraisal quality, interactions, control variables)

Data and descriptive evidence on motivation and divisiveness of performance pay

The analysis in this article reworks the data collected by LSE's Center for Economic Performance in a series of attitude surveys across a range of public services on employee and line-manager judgments as to the effects of performance pay (see, Marsden and Richardson, 1992, and 1994, and Marsden and French, 1998).

Summary evidence on employee responses to PRP and their disenchantment with it is summarized in Table 1, based on the employee replies to the CEP attitude surveys. These relate to six areas of public service work: the Inland Revenue in 1991 and 1996 (tax service); the Employment Service (job placement and benefit payments); two National Health Service trust hospitals; and head teachers in primary and secondary schools (elementary and high schools). These were chosen to represent a cross-section of public organizations using performance pay at the time. Methodological details are summarized in the appendix. In brief, postal questionnaires asked about employee and line manager personal experiences with the operation of their performance pay and appraisal scheme in their service, their views as to whether it provided them with an incentive to perform in specific ways, whether their jobs gave them scope to do so, their judgments as to how management operated their scheme, and some biographical data. Many of the motivational questions were modeled on expectancy theory. In some cases, management gave their support and it was possible to survey a sample of all employees covered by the scheme in their organization. In others, management refused access for the survey work, although they did provide other information, and the unions provided a sample frame based on their membership lists. They all had high membership rates[4]. In the organizations where management cooperated, both union members and non-members were included in the sample, and it appeared that membership had no great influence on replies. Line managers were also included in

the sample, and their replies could be linked to those of other employees by their place of work.

The CEP evidence of employee disenchantment with PRP shown in Table 1 is broadly consistent with the results of other attitudinal surveys that applied the same methodology as that used by Marsden and Richardson (1992), notably, Thompson (1993), Kessler and Purcell (1993), Heery (1998), IRS (1999), and in the private sector, Carroll (1993). Despite broad support for the principle of linking pay to performance, only a small percentage of employees thought their existing performance pay schemes provided them with an incentive to work beyond job requirements or to take more initiative. Of even more concern to top public management, was the evidence that the performance pay schemes in place were seen by staff to be divisive and to undermine cooperation among staff, and a worrying percentage of line managers reported that the schemes had made staff less willing to cooperate with management. Note, however, the substantial minority of line managers who reported that PRP had caused many of the staff to work harder.

These negative staff reactions cannot be explained by a naïve design of the schemes, summarized in the methods appendix (Table A-1). With the possible exception of the scheme in force in the tax service in 1991, which was one of the first in operation, all of the schemes obeyed the existing canons of good HR practice (as set out for example by ACAS 1990, and Armstrong and Murlis 1994) and had been developed with substantial inputs from private sector expertise. They were seriously thought-out schemes. With the knowledge that ratings often drift upwards, and that their application can be discriminatory, all the schemes incorporated substantial review mechanisms, and shared information with the relevant unions on the distribution of ratings across different categories of staff and workplaces. Reflecting the degree of task complexity in many public service jobs, all the individual schemes involved performance appraisals by line-managers based on a mixture of judgment and recorded data. Written records were kept of appraisals. Nor was the financial incentive negligible. Up to the top of the pay scale for a person's grade, PRP replaced annual salary increments, and was consolidated into basic pay, and several years' of good performance could lead to substantially faster pay progression. For those who would previously have 'topped out' at the maximum for their grade, PRP brought the opportunity of non-consolidated annual bonuses in some organizations, and of further progression in others.

Table 1. Replies to employee attitude surveys in selected public service organizations.

Measurement of key variables

The analysis uses three outcome variables, two motivational ones built up from subjective responses to questions shown in Table 1, and a third based on objective information, appraisal scores, that could be checked against archival data. The survey questions relating to 'perceived incentive' in Table 1 were chosen to represent aspects of the three incentive theories. The first two questions capture the perceived disutility or cost to the employee of effort required to gain the reward: willingness to work beyond job requirements, and to take more initiative in order to get PRP. The one

entails more effort; the other, more risk of failure. The third question captures the element of perceived reward for good work as opposed to 'shirking'. This measure of perceived incentive is close to that of valence of rewards in expectancy theory: are the rewards sufficiently valued to warrant the extra effort?

The downside, 'perceived divisiveness', is explored by three questions chosen to capture the disutility of poorer work relations, and also that of diminished cooperation that may jeopardize the achievement of work targets. If staff are less willing to help their colleagues, the risk of failure to achieve targets is individualized, and the safety net of helping hands is removed. Likewise, should the pay system cause jealousies among staff. Reduced willingness to cooperate with management captures the vertical as opposed to the horizontal aspects of cooperation among work colleagues. The indices of perceived incentive and divisiveness were computed simultaneously using factor analysis based on these questions.

For the third outcome variable, employees reported their latest appraisal score before the survey date. It is likely that they remembered these accurately because they affected their pay directly. The distributions of appraisal scores by occupational and demographic variables in the sample surveys were compared with archival data obtained from the organizations. These indicate that, by and large, respondents reported them accurately, and there were no obvious response biases by appraisal scores. Because performance was graded differently across the organizations, outcomes were classified into a binary scale of 'superior' and 'acceptable', the latter including both satisfactory and the very small number of unsatisfactory ratings.

The key independent variable, the quality of the appraisal process ('appraisal quality'), plays a central part in both agency and expectancy theory. This is built up from three questions: does an employee know what she needs to do to get a good appraisal; is she able to do it; and does she understand her last appraisal rating. These questions were validated against a larger and more concrete set of descriptive questions about the appraisal process used in one of the study's hospitals, and which were very unlikely to be colored by whether or not the employee got a good rating[5]. For clarity of target setting in PRP just one question could be matched across the organizations: did PRP lead managers to set targets more clearly. This was supplemented by a question to line managers in the same office on the scope employees have to raise their performance.

The strength of financial incentives could not be measured directly because good appraisals trigger performance pay, and this study uses appraisal scores as a measure of employee performance. However, its presence can be assessed indirectly in two ways. On the one hand, those on the top of the pay scale for their grade get one-off bonuses instead of an increase in their basic salary. One would expect such employees to feel less incentive than the others. On the other, those who were both of long service and on their grade maximum would remember the former pay system of about 3-4 years before, with its ceilings on pay whereas those more recently recruited would not. Thus, an additional measure of the presence of financial incentive from PRP can be found by interacting employees' being on their grade maximum with their length of service.

Affective commitment, as measured by Meyer and Allen (1997), provides an indirect proxy for 'shirking' behavior, which is otherwise difficult to explore in a questionnaire survey to the individuals concerned. Individual shirking is bad for the employer and usually bad also for one's work colleagues as it usually disrupts their work and adds to their workload. In contrast, commitment, and especially affective commitment, implies a degree of emotional identification with one's workplace, and one's work colleagues. It was included because it was thought that commitment might be strong among public employees, many of whom have quite long service. In the regression, commitment enhanced the perceived incentive of PRP and reduced its perceived divisiveness.

A number of organizational and demographic controls were used. Organization dummies are used to control for fixed effects arising from differences between the schemes operating in each organization, the most notable being variations in the share of employees getting 'superior' ratings owing to differences in the design of their schemes. Occupational controls were used, comparing each occupational group to managers, the one occupation that could be clearly identified across all the organizations. 'Occupation' captures many possible effects, but one notable one is that the clerical and service occupations generally have less control over the detail of their work than do managers, and professionals, and hence less scope to respond to performance pay incentives. On the other hand, the simpler nature of their tasks may make their performance easier to evaluate. Length of service and gender were also used.

Regression results 1: perceive incentive and divisiveness

Table 2. Determinants of perceived incentive and divisiveness

The regression results shown in Table 2 relate to equations (1) and (2) above, and show that having an effective appraisal increased employees' perceived incentive and reduced perceptions of divisiveness. The measures of perceived incentive and divisiveness, as well as that of appraisal quality, were all based on factor analysis, and so have a mean of zero and a standard deviation of unity. The standardized coefficients imply therefore that a doubling in the measure of appraisal quality will lead to change of +17% and of –19%, respectively, in measures of perceived incentive and perceived divisiveness. Likewise, employee judgments that PRP has led line managers to set targets more clearly boosts perceived incentive and reduces perceived divisiveness, although the way the variable was measured makes the coefficients hard to compare with those on appraisal quality. Consistent with the theories reviewed earlier, when line managers judge that employees lack scope to improve their performance, perceived divisiveness increases, although the effect on incentive is barely statistically significant.

The results also show that the lesser rewards from PRP associated with being on the top one's pay scale diminish perceived incentive. In contrast, the positive interaction with length of service indicates that longer serving employees are conscious of the improvement compared with the previous age-incremental pay system when they would have had no scope for extra pay.

The control variables deserve comment. The lower down one's occupation is in the organizational hierarchy, the stronger is the perceived incentive of PRP, but so also is perceived divisiveness. The exception is professionals, who appear to find PRP particularly divisive, possibly because they have long been accustomed to exercise considerable discretion in their work and so resent the extra management control that comes with performance management. Length of service and gender were introduced as additional demographic controls. Long service employees may be generally more resistant to change having invested more in the former pay systems, and this appears to be the case in Table 2, but the coefficients are small. One might expect men to be more responsive to individual performance rewards than women, but in this sample, the effects of gender appear to be weak or not statistically significant.

Finally, the coefficient for the group PRP scheme hospital deserves comment. It shows that the group scheme was considerably less divisive than the individual PRP schemes used in the other organizations.[6] This supports the evidence of Drago and Garvey (1998) that strong individual incentives may diminish helping behavior among colleagues if this gets in the way of individual targets.

Thus, a first conclusion is that the performance pay and appraisal schemes were actively influencing employee motivation, and that they did so in the manner the main theories predict.

Regression results 2: impact on appraised performance

Table 3. Effects of perceived incentive and divisiveness on employee performance

The second set of regression results, reported in Table 3, is based on Equation (3) above. The left-hand column shows the effect of perceived incentive and divisiveness on employee performance as measured by the latest appraisal score, and the right-hand one includes also appraisal quality and reports the interactions among these variables. To compare across schemes, the performance variable had to be simplified into a binary one, whether or not the employee's performance had been graded as 'superior', so a logistic regression was used. The results show quite clearly that incentive and divisiveness affect individual performance. The effect of the first is positive and of the second is negative, and both are strongly statistically significant. As an approximate guide, given the crude nature of the Likert scales, one can say that a one standard deviation increase in perceived incentive would raise the probability of 'superior performance' by about 0.6 and a similar increase in perceived divisiveness would reduce it by about 0.4.[7] The strong coefficient for appraisal quality deserves comment: it implies that a standard deviation increase in effectiveness of appraisal would lead roughly to a 0.7 increase in the probability of superior performance. The robustness of this coefficient, despite the inclusion of interaction terms, indicates that there is also a strong *direct* effect of appraisal on performance, in line with the renegotiation perspective.

Appraisal and the re-negotiation of performance

Because management has to renegotiate performance norms within a budget constraint, it is likely that the terms offered will be accepted voluntarily by some employees, but will find only involuntary compliance from others who do not feel

adequately compensated. This suggests there will be 'two faces' to appraisal. It can provide incentives by clarifying work goals and giving recognition, but it can also be a vehicle for management to pressurize employees into giving higher levels, or different kinds, of performance, for fear of losing pay or even losing their jobs. The CEP survey data for the tax service provide some evidence for this. In line with concerns raised by the department's Review Team (Inland Revenue, 1994b), respondents were asked whether staff felt pressurized to accept management's choice of objectives, as opposed to agreeing them voluntarily, despite the latter being the express philosophy of the service's performance management scheme (Inland Revenue, 1995). They were asked whether they thought everyone was in effect given the same targets – despite the philosophy that targets should be adapted to the capabilities of individual employees, another concern of the Review Team. They were also asked about the negotiation of objectives: whether they thought those who were awarded superior appraisals did so because they were cleverer at negotiating their objectives; and whether, when agreeing their objectives, they were more concerned to avoid the risk of a bad appraisal than to aim for a superior performance rating. They were asked too about how they thought management operated the scheme, fairly or otherwise, captured by whether or not they thought management applied a quota on good appraisals, and whether they used the scheme to reward their favorites.

The measures of appraisal quality, perceived incentive and divisiveness and the appraisal scores were regressed on the replies to these questions, using the same control variables as in Table 2. The results, available in Marsden (2003), paint a consistent picture in which staff feelings that management pressurized staff, and were not playing the game, undermined both motivation and faith in the appraisal process, and boosted perceptions of divisiveness. Staff feelings of pressure and management bad faith did not bear a statistically significant relationship with appraisal scores, so one can rule out the 'sour grapes' factor.[8]

One group of employees was especially likely to report feelings of duress: part-timers, who are particularly numerous in the public sector. Being an objective characteristic, part-time status will not be influenced by the employees' experience with their PRP scheme. Given that many staff become part-time in order to reconcile work and domestic responsibilities, they are particularly likely to be unhappy about the new trade-off between new work norms and reward and hence to renegotiate reluctantly. The replies show that they were twice as likely as full-time staff to report staff being pressurized to agree targets, and they were also more likely to express cynical views about the operation of appraisal.

A final question is whether feelings of duress arise because some line managers are just bad at appraisal and goal setting, and so do it in a threatening way, in which case, better design and more training might be the answer. This was suggested in some of the internal management reviews in the tax service (e.g. Inland Revenue, 1997). Alternatively, it might be caused by the degree of pressure from the employer to raise performance, as part of a renegotiation of performance levels. To explore the causes of duress more fully, it is helpful to consider the respective roles of individual and collective bargaining (Table 4).

One indication of the intensity of renegotiation at the individual level is the degree to which the new scheme is made compulsory for all employees. Thus, at the Inland

Revenue and the Employment Service, the schemes were universal and compulsory, and all employees had to agree work objectives and accept monitoring of their progress. In contrast, at the two hospitals, incumbent employees were offered a choice between their new scheme with higher basic pay and PRP, and remaining on the old nationally negotiated time-based pay scales without PRP. By doing this, management avoided conflict with some groups of employees, which were either hostile, or stood to lose accumulated premium payments they had under the old pay system. School head teachers came in an intermediate position because the implementation of performance pay at their schools depended on the initiative of school governors whom they could often influence. Finally, the scheme in force at the Inland Revenue in 1991 was very much a hybrid between the old seniority-incremental system and the new performance management system. In the words of the union negotiators, it was 'bolted on' to the old pay and appraisal system. Thus performance pay meant accelerated movement up the old incremental scale: there were carrots but no sticks. Thus, ranking the organizations on this measure of individual negotiation indicates that greater intensity is broadly associated with stronger perceptions of divisiveness.

Collective bargaining has played a somewhat smaller role because it cannot do much more than set up a framework and establish incentives. The levering up of performance levels and the detailed reorientation of performance has to be done at the individual level between line managers and their staff. Nevertheless, the two collective agreements that ushered in performance pay at the Inland Revenue were conflictual. The 1988 agreement was obtained with a management threat that if PRP were not included, there would be no national agreement, and the 1993 agreement was preceded by a bitter strike despite early joint working parties on pay reform. The hospitals had the least conflictual introduction of performance pay as it came with new provisions for local bargaining. Thus, prima facie, it would seem that the pressure from management as expressed through the extent and intensity of individual negotiation partially accounts for the different levels of perceived divisiveness in the various organizations in this study (Table 4).

Table 4. Intensity of re-negotiation and perceived divisiveness

Discussion of possible objections

Before moving to conclusions, five possible objections to the renegotiation hypothesis need to be considered.

a) Did appraisal scores influence reporting of appraisal quality, thus undermining a key statistical relationship for the renegotiation thesis?
b) Did appraised performance represent actual performance, or just management leniency?
c) Did performance improvements represent 'working smarter rather than harder', and hence require no renegotiation?
d) Would not the elimination of widespread 'shirking' also explain resentment coupled with higher productivity?
e) Would new recruits attracted by higher performance pay account for the rise in productivity whereas incumbent employees remained discontented?
f) Was PRP a 'lightning conductor' for general discontent about work reorganization?

a) It is possible that employees' performance appraisal scores may color their reporting of the quality of their appraisal process and the measures of perceived incentive and divisiveness. Although a recent study found that appraisal scores had little influence on perceptions of the appraisal process, this may depend on how it is operated in different organizations (Boswell and Boudreau, 2000). This was checked further in two ways. The first test used the richer descriptive data collected on the appraisal process in the CEP study's two hospitals and show that they also correlated well with the measures of appraisal quality. The second used a two-stage least squares regression. This sought to predict, respectively, perceived incentive and perceived divisiveness from the appraisal quality variable shown in Table 2, and then, using the predicted values of incentive and divisiveness, to predict performance appraisal scores. These had the correct signs and were highly significant, and so confirm that even though there may be some perceptual bias caused by the employee's appraisal score, it was not such as to undermine the model proposed here[9].

b) A second potential objection is that appraisal scores do not represent actual performance, productivity, so much as the leniency of line managers. There is considerable evidence from other studies (eg. Milkovich and Wigdor, 1991) that appraisal scores are prone to inflation as lenient managers use appraisals to buy peace and sort out other organizational problems. It is therefore necessary to check whether the measure of appraised performance in this study was sufficiently robust against such pressures. Three checks were made and are analyzed in detail in Marsden (2003). First, top management had the necessary procedures to monitor appraisals by line managers. Except in schools, where this was not feasible for head teachers, the schemes in this study involved mechanisms for the next higher level of management to 'grand-parent' appraisals by the line-managers for whom they were responsible. The distribution of appraisal scores was also monitored in line with anti-discrimination legislation, and in several cases, such as the Inland Revenue, information on the distribution of scores was shared with the main trade unions. In several cases there were also appeal procedures. Finally, in the conduct of appraisals, considerable emphasis was put on agreeing written objectives, and appraising against these. Thus, although appraisal is necessarily judgmental, there were a number of checks on how that judgment was exercised.

A second check by the author was to analyze the distribution of appraisal scores across administrative units in the Inland Revenue for which a good ten-year time series could be obtained, and to compare their evolution over time with that of the units' operational performance targets published in its annual report and accounts. These included such indicators as the percentage of tax cases processed within a fixed deadline, and quality targets such as time of response and, latterly, percentage of work correct first time. What emerges is that top management used the targets it set for the administrative units in order to control the behavior of local line managers, and they managed to hold quality and output targets at a time when staff numbers were falling. This, coupled with the increasing sophistication of targets and increasing use of probability sampling procedures for their measurement, indicates a good degree of control by top management.

Thirdly, productivity was increasing steadily through much of the period, measured by real tax revenue per employee and by the ratio of tax yield to cost of collection. Rising economic activity brings rising tax revenue per tax-payer, but it also increases

the number of tax transactions as more enter employment, and more varied sources of income and saving make tax files more complex. Part of the increased load may have been eased by new technology and by 'Self-Assessment' which shifted some obligations from the tax service onto tax-payers, but even these required considerable changes to staff work routines and methods, and throughout, the unions were drawing attention to the workload implications.

c) Even though organizational performance improved, a number of other questions remain. One might ask whether this was simply the result of staff working 'smarter' rather than 'harder', with no need for renegotiation. To some extent, this is a misleading dichotomy because working 'smarter' may also require greater mental effort at one's job, but let us give the benefit of doubt. A substantial minority of line managers, who have to appraise their colleagues' performance, replied that PRP had caused many of the staff to worker harder (Table 1 above). This view was also echoed in an interview with one senior HR manager at the Inland Revenue. Indeed, he expressed precisely the opposite view: that people were working, in his words, 'harder but not smarter'. This was so largely because, especially at junior levels, staff lacked the expertise and resources to design new work methods themselves.[10] Increased work load is also reflected in the growth in the percentage of posts in the tax service classed as 'extra loaded', that is, with 'objectives significantly more stretching than the average' (Inland Revenue 1994a). It grew from about 8% of staff in 1993 until 1996, when it leveled off at about 17-18% of staff. Thus, in the organization with the best data, the evidence points strongly to increased work load and mental effort accompanying PRP.

d) If PRP had eliminated widespread 'shirking' among public servants, might not productivity rise along with employee resentment? This is not consistent with the levels of organizational commitment found, whereby the great majority of respondents (67%) felt a strong sense of commitment to their place of work[11]. There may have been a small minority of 'shirkers' but it does not seem large enough to explain the widespread disenchantment noted in this and the other studies.

e) If we follow Lazear's (1998) finding that improving incentives attracted more productive recruits, it might seem possible that productivity rose as a result of the new recruits whereas incumbent staff felt alienated. This is ruled out by the low levels of recruitment in the public services during the 1990s, and by the lack of influence of length of service in the regression analysis.

f) Might PRP have acted simply as a 'lightning conductor' for the resulting discontent caused by other organizational changes? This might seem plausible had PRP shown no motivational effects, and had there been no link between appraisal quality and individual performance, but the statistical analysis showed that PRP was a central instrument in the renegotiation.

Thus, all of these possible objections can be set aside. The solution to the paradox noted at the start is that PRP was as much a vehicle for renegotiating the effort bargain as it was for motivating employees to perform better.

Conclusion

This article has argued that the main story behind the introduction of PRP across large sections of the British public services during the 1990s has been to facilitate the renegotiation of performance norms. When introducing a new incentive scheme with an established workforce, management is almost certain to encounter a wide spread of employee preferences and to encounter the problem of winners and losers. Thus even when a scheme is well-designed and managers are well-prepared to operate it, there will very frequently be a mix of employees who respond favorably, and agree to the new norms, and others who resent them, and consider themselves worse off. Whereas the former are positively motivated to improve or adapt their performance, the latter are not, and management hold them to the new performance norms by means of goal setting and appraisal. In this way, one can explain why successive governments and top managers have believed in the merits of PRP for the public services despite the evidence they were aware of that many employees saw little incentive and much divisiveness.

To some extent, renegotiation has emerged as a latent rather than an explicitly stated goal of PRP in the British public services. When Marsden and Richardson asked senior managers at the Inland Revenue in 1991 about the goals of the PRP scheme they operated then, they explained it in terms of motivation. Likewise, the union representing Inland Revenue staff had invited them to carry out the survey hoping to demonstrate publicly what they knew from discussions with their members: that it was not motivating staff. The second Inland Revenue scheme, introduced in 1993, did not speak of renegotiation, but it did use the language of agreeing objectives and establishing a 'contract' with individual employees, and of relating these to the department's operating plans. Nevertheless, the prevailing language of public policy debate, as noted in the introduction, remains that of motivation and incentive, and yet, the success of the schemes in helping public management to reshape public service performance lies in a different domain, that of negotiation. This is where contract theory, and some of the older industrial relations literature may prove helpful in understanding what is going on. Both stress that the rules and practices, which we observe in organizations, are outcomes of a negotiated order. Unions and their workplace representatives may be weaker now than in years past, but the labor market continues to confer sometimes considerable individual bargaining power to workers. Of course, a large organization can always face down an individual worker, no matter how skilled or talented, but few organizations can afford a gradual bleeding away of their skilled personnel. Thus one has to consider the initial position that management seeks to change by means of PRP as one that is the result of a negotiation, albeit an implicit one. This is not a medium onto which management can just impose an optimal design. Rather, it has to negotiate its way there, and so in doing, respect the various budgetary and efficiency constraints it must satisfy to meet its own objectives.

In his JEL review of work on incentives, Prendergast (1999) commented on the need to extend the study of incentives beyond CEOs, sales and sports personnel. Such personnel often have short job tenures, and the high rate of labor turnover means that self-selection often brings about a match between employee preferences and the type of incentive offered by the organization. The British public service has highlighted the opposite problem whereby high labor stability, especially during the early to mid-1990s, meant that employers had to obtain results from new incentive schemes when implementing them for a large incumbent workforce. Many of these people may be

critical, if not of the principle, then of the new management practices and methods of work associated with them. A difficult decision for management is where to draw the divide between those who support and those who oppose a new incentive scheme, and whether to go for administrative simplicity by applying the same scheme to all employees, or to allow a degree of choice.

Finally, the public service experience of renegotiation has highlighted the key role of line managers. They are essential to the renegotiation process because they are the link between top management's goals, and the way ordinary staff carry out their jobs. This introduces another layer in the principal-agent analysis of incentives. Their abilities and interests are not identical to those of top management, and they have no protective gatekeepers controlling staff access to them. When agreeing to performance objectives with individual staff, the pressures on them to be lenient are great. What seems to have kept these mostly at bay has been the articulation between performance objectives at different levels within the public organizations. This has provided support to line managers, and given them the means to keep a focus on broader organizational performance when establishing individual objectives. It has not always worked. At the Employment Service, shortly after the CEP survey, the controls did break down, and managers and staff appeared to collude in over-reporting of job placements by some local offices (Marsden and French, 1998). In contrast, the internal auditing controls in the tax service, which the author followed over several years from the published accounts, show use of increasingly sophisticated procedures[12]. Indeed, after the misreporting incident, the Employment Service changed its methods of internal auditing, an indication that it took its internal performance indicators seriously. The importance of this intervening level of performance management should not be underestimated. In a famous case in the British automobile industry, lack of attention to this level transformed top management's much heralded 'Measured Daywork' scheme into what its workforce nicknamed 'Leisure Daywork', and productivity collapsed. The British public services appear by and large to have avoided this by attention to the agents of renegotiation, line managers.

Endnotes

[1]. I wish to acknowledge the helpful advice and comments from the editor and the anonymous referees, and workshop participants at the Centre for Economic Performance, the Society for the Advancement of Socio-Economics, and at the University of Grenoble. I also wish to thank the numerous managers, union officials and staff of the various public organizations for their time and help with the study.

[2] Lazear (1998) attributes a good deal of the increased productivity associated with output-based pay to such self-selection processes, as more productive employees are attracted by the higher earnings opportunities offered by incentive pay.

[3]. Strictly speaking, their evidence relates to promotion.

[4]. It was 90% in the Inland Revenue, 60% in the Employment Service middle management grades studied, and around 90% among head teachers. Public hospitals are also highly unionised.

[5] . A detailed analysis of these checks can be found in Marsden (2003).

[6]. The individual trust hospital was not included in the regression because the pay system did not operate scale maxima and so absence of that variable excluded data from that hospital.

[7] . The standard deviation of both perceived incentive and perceived divisiveness is 1.0. The logistic regressions estimates the change in the log of the odds of achieving superior performance associated with a unit change in a given independent variable, that is log(p/(1-p)), where p is the probability of the event, i.e. achieving superior performance. With a standard deviation of 1 for both motivation variables, p = e exp(b)/(1+ e exp(b)) where b is the regression coefficient.

[8] The one exception was seeking objectives to avoid a bad appraisal which was negatively related to the person's appraisal score.

[9] The results are reported in Marsden (2003), and are available from the author.

[10] . To make his point, he gave an interesting example. Under the new system, staff telephone work played an important in keeping close to the 'customer', yet many staff saw this as 'queue jumping' and as slowing down their work. In one case, the staff set up a team to answer the phone and bank up enquiries, but this then distanced them from the 'customer' and slowed down response times. Thus local staff initiative at working smarter to meet their output targets undermined their management's goal of a more customer-centred service.

[11]. The correlation between responses to this question and the constructed measure of commitment used in Table 2 was 0.736 significant at the 1% level.

[12] . For an analysis of these, see Marsden (2003). The Inland Revenue annual report and accounts are published as Parliamentary Papers by the Stationery Office, London.

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Tables and Charts

Table 1. Replies to employee attitude surveys in selected public service organizations.

	Civil Service			NHS trust hospitals		Schools	
Question: % in each cell replying 'agree' or 'agree strongly'	Inland Revenue 1991	Inland Revenue 1996	Employment Service	Individual PRP trust	Group PRP trust	Primary (NAHT)	Secondary (SHA)
Pay and work orientations							
PP a good principle	57	58	72	62	52	29	42
Motivation: perceived incentive							
PP gives me an incentive to work beyond job requirements	21	18	12	32	22	8	10
PP gives me an incentive to show more initiative in my job	27	20	20	36	19	9	11
PP means good work is rewarded at last	41	19	24	47	34	38	40
Motivation: perceived divisiveness							
PP causes jealousies	62	86	78	61	51	58	70
PP makes staff less willing to assist colleagues	28	63	52	22	19	51	54
PP has made **me** less willing to cooperate with management	10	30	26	19	14	7	4
Relations with management: non-manager replies:							
Management use PP to reward their favorites	35	57	41	41	27	Na	na
There is a quota on good assessments*	74	78	74	57	36	48	45
Line manager replies:							
PP has reduced staff willingness to cooperate with management	20	45	39	30	27	Na	na
PP has increased the quantity of work done	22	42	28	52	34	Na	na
N (total replies)	2,420	1,180	290	680	900	1,050	860
Response rate (%)	61	30	33	28	21	51	21

Note: based on five-point Likert scales: 'strongly disagree', 'disagree', 'no view', 'agree' and 'agree strongly'. NAHT: National Association of Head Teachers (mainly primary schools); SHA: Secondary Heads Association (mainly secondary schools). For an explanation of the nature of the surveys, see the methods appendix.

Table 2. Determinants of perceived incentive and divisiveness (individual employees)
(OLS regression: Dependent variables: perceived incentive and divisiveness)

Dependent variable →	**Perceived incentive**			**Perceived divisiveness**		
Independent variables	Unstand-ardized Coefficients		Standardized Coefficients	Unstand-ardized Coefficients		Standardized Coefficients
	B	SE	Beta	B	SE	Beta
Operation of PRP schemes						
Appraisal quality	.195**	.020	.175**	-.213**	.019	-.194**
Mgrs set targets more clearly	.263**	.018	.250**	-.042**	.017	-.041**
No scope to raise performance§	.124+	.085	.030+	.221**	.080	.055**
Financial incentive						
Max on pay scale	-.204**	.064	-.098**	.001	.060	.000
Interaction: length of service*pay_max	.011*	.005	.099*	-.001	.005	-.014
Commitment						
Affective commitment	.173**	.020	.153**	-.183**	.019	-.165**
Goal commitment	.153**	.022	.131**	.030	.021	.026
Organizational controls						
Inland Revenue 96	-.022	.052	-.010	.577**	.049	.252**
Employment Service	-.189+	.120	-.029+	.396**	.113	.062**
Group trust hospital	-.085	.116	-.024	-.706**	.110	-.202**
Occupational and demographic controls						
Professionals	-.159	.153	-.034	.421**	.144	.091**
Technicians	.165*	.079	.060*	.185**	.074	.068**
Clerical	.311**	.074	.140**	.262**	.070	.120**
Service employees	.475**	.193	.057**	.357*	.182	.043*
Craft dummy	.357	.703	.009	1.020+	.663	.026+
Length of Service	-.016**	.004	-.130**	.014**	.004	.115**
Male (dummy)	-.080*	.040	-.037*	.050	.037	.023
(Constant)	-.978**	.282		-1.039**	.266	
Adjusted r2			0.203			0.264
Significance			0.000			0.000
N			2752			2752

Significance levels: ** 2%; * 5%; + 15%.
Sample: non-managers in workplaces with sample observations >19 employees.
Notes: § Based on line manager judgments that staff in their office have no scope to improve their performance. Note that analysis excludes line managers in order to use their judgments of employees' scope to change their performance in their office.
Results shown exclude head teachers, but their inclusion does not alter the main results, except for the occupational control variables.

Table 3. Effects of perceived incentive, divisiveness and appraisal quality on employee performance:
(Logit regression: Dependent variable: probability of achieving 'superior' performance.)

	Model 1		Model 2	
	B	S.E.	B	S.E.
Incentives and commitment				
Perceived incentive	.372**	.040	.273*	.135
Percieved divisiveness	-.273**	0.45	-.275*	.136
Operation of appraisal and target setting				
Appraisal quality			.996**	.065
Targets set more clearly			-.149**	.050
No scope to raise performance§			-.985**	.219
Commitment				
Affective commitment			-.075#	.055
Goal commitment			-.282**	.056
Interactions				
Incentive*appraisal quality			.051	.057
Divisiveness*appraisal quality			-.143**	.056
Incentive*targets			.015	.044
Divisiveness*targets			.062#	.048
Incentive*divisiveness			.000	.048
Occupational and demographic controls				
Professionals	-1.878**	.285	-1.638**	.325
Technicians	.302+	.182	.299#	.197
Clerical	.198	.169	.306+	.184
Service employees	-6.968+	3.871	-6.596#	4.262
Craft	-1.1181	.935	-1.922#	1.508
Length of service	.021**	.005	.026**	.006
Male (dummy)	.009	.092	-.155#	.102
Organizational controls				
Inland Revenue 96	-.259**	.101	.792**	.131
Employment Service	-2.547**	.569	-2.242**	.594
NHS trust hospitals	.509**	.215	.826**	.249
Constant	-.883**	.198	2.038**	.722
R2 (Cox & Snell)	.125		0.226	
R2 (Nagelkerke)	.171		0.308	
% correctly predicted	65.6		72.0	
N	2991		2819	

Note: superior performance includes 'exceed' and 'succeed at extra-loaded' jobs.
§ Based on line manager judgment that staff in their office have no scope to improve their performance.
** 2%; * 5%; + 10%; # 20%.
Results shown exclude head teachers, but their inclusion does not alter the main results, except for the occupational control variables.

Comment [DM1]:
```
USE ALL .
COMPUTE
filter_$=(org=1|org=2|org=3|(org=4&trust=
1)|org=5).
VARIABLE LABEL filter_$
'(org=1|org=2|org=3|(org=4&trust=1)|org=5
) (FILTER)'.
VALUE LABELS filter_$  0 'Not Selected'
1 'Selected'.
FORMAT filter_$ (f1.0).
FILTER BY filter_$.
EXECUTE .

WEIGHT
 BY new_wt1 .

 LOGISTIC REGRESSION VAR=
getprp_d
 /METHOD=ENTER org_ir96 org_es
org_nhsi org_schl isco_prf isco_tec
isco_cle isco_ser isco_crf losorg male_dum
 incent_f divis_f
 /CRITERIA PIN(.05) POUT(.10)
ITERATE(20) CUT(.5) .

FILTER OFF .
```

Table 4. Intensity of re-negotiation and perceived divisiveness

	Divisiveness: Standardized Mean	Standard error	Role of individual agreement on PRP	Role of collective agreement
Inland Revenue 1996	0.472	.035	Compulsory for all	1993 pay agreement after strike
Employment Service	0.252	.061	Compulsory for all	Series of agreements for different staff grades 1994-95
Schools: Head teachers	0.142	.060	Compulsory if adopted by school governors	Implemented by government after pay review as one criterion for pay awards by school governors
Hospital with individual PRP	-0.041	.066	Voluntary for current staff	Implemented by local mgt; subsequent agreement with unions
Inland Revenue 1991	-0.158	.067	Compulsory but no losers	1988 pay agreement
Hospital with trust-wide bonus	-0.486	.067	Voluntary for current staff	Implemented by local mgt; subsequent agreement with unions

Note: mean perceived divisiveness for all organizations combined is 0, with a standard deviation of 1, and a mean for each organization of between 0.9 and 1.
The standardized means are derived using the organizational dummies and constant term as in Table 2, but excluding the questions on scope to raise performance, and on the maximum pay for the grade because these were not asked for head teachers and staff in the individual PRP hospital. This makes no difference to the rank order of divisiveness by organization, nor does using the raw mean calculated directly from the sample.

Methods appendix

Details of schemes, the employee attitude surveys, and derivation of key variables.

Table A 1 Summary details of performance pay schemes studied.

Organization	Type of scheme	Treatment of employees at the top of their respective pay span	Per cent of employees on their pay span maximum
Inland Revenue 1991	Employees move up existing seniority pay scale faster on receipt of good appraisal by line manager. Appraisal against standardised criteria.	Smaller % merit increases for higher level grades and limit of 3 increments above span max for merit payments.	69%
Inland Revenue 1996	No seniority scales. Appraised as 'Succeeding' at agreed targets brings pay increase, and 'Exceeding' brings additional increase, as does 'Succeeding' at jobs classified 'extra loaded'. No cost of living increase in some years.	Smaller % merit payments as staff progress up the pay span for their grade, and restrictions on overlapping with grade above	51%
Employment Service	No seniority scales. Pay increase depends on achieving appraised performance objectives & is based on a share of a union-negotiated pot.	Performance pay above the maximum for the grade is non-consolidated	59%
NHS hospital – individual PRP	No seniority scale. Pay increase dependent on appraised individual performance.	No scale max but bonus for above average performance is non-consolidated	Not applicable
NHS hospital – trust-wide bonus	No seniority scale. Pay increase depends on trust-wide bonus, poor performers only excluded.	Bonus at the grade maximum becomes entirely non-consolidated	27% of those on PRP; 80% of those remaining on the former pay system.
School head teachers	Additional movement up pay spine for appraised excellent performance by school governors. No seniority increments	No limit on additional spine points that may be awarded	Not applicable

Full details of the schemes are available in Marsden and French (1998) available online at www.cep.lse.ac.uk, or from the author.

All of the schemes had been in operation for about three years before they were surveyed so that many initial teething problems should have been overcome. Management made the initial decision on the design and implementation, and only subsequently were the unions involved.

The performance appraisal systems used, especially after the first of the tax service studies, drew heavily on the experience of outside consultants. The systems used in the two hospitals were the Lloyd Masters and Mediquate systems that are quite widely used in the health sector. The scheme in the tax service that was in operation in 1996

had a substantial input from private consultants, and incorporated many 'best practice' ideas from the private sector and from the HR profession generally. Indeed, even the scheme in operation at the time of the 1991 survey met many of the criteria for good appraisal set out by the government's Arbitration, Conciliation and Advisory Service, (ACAS, 1990). Through the 1980s and 1990s, the public sector made extensive use of private sector consultancy organizations. The schemes contained a number of checks and balances, notably, all line-manager appraisals were vetted by a higher level manager (except for head teachers). The overall distribution of appraisal scores was also made available to the unions, and was monitored by management to ensure the schemes were operated without bias and to protect them against an upward drift in performance ratings. Measures of internal performance were also checked by the Audit Office, which has overall responsibility for monitoring the quality of public spending. All of these help ensure the reliability of individual performance ratings.

The attitudinal data were collected by postal questionnaire sent to individual employees in each organization. Mostly these were completed in the employee's own time. In three organizations, management cooperated with the study, enabling lists of employees to be used for drawing the sample, and the internal mail for distributing and receiving back questionnaires. Lacking management support for the 1996-97 surveys of the civil service departments and for schools, union membership lists were used, but membership density is very high. It was about 90% in the Inland Revenue grades covered, about 60% for the relevant grades in the Employment Service, and about 90% among head teachers. In the hospitals, all staff were included except medical doctors who were outside the PRP scheme.

The staff grades covered were the following. In the Inland Revenue all grades were included except higher management and most clerical grades, which were represented by other unions and covered by different PRP schemes. In the Employment Service, those covered were mostly in middle management grades. In schools, head teachers were covered, there being no PRP at the time for classroom teachers.

Most of the attitudinal questions used 5-point Likert scales, ranging from 'disagree strongly' to 'agree strongly'. Questions were piloted with groups of employees and where management cooperation was lacking, with groups of union members. Preliminary results were presented to the organizations and interpretations discussed with management and unions in feedback seminars.

The questionnaires were divided into sections. Each dealt with a specific aspect: general attitudes to pay and performance; employee judgments of whether or not it gave them an incentive, their personal experience with their most recent performance appraisal; and line-managers' views of the effects of the scheme on staff. The full text of the questionnaires can be found in Marsden and Richardson (1992) and Marsden and French (1998).

The survey response rate was 43% overall, but the questionnaire was long, over 100 questions. Details by organization are given in the main text (Table 1). Response patterns were compared with such demographic and other breakdowns as were available. Response rates were higher among the more managerial occupations, but all occupational levels were well represented in the sample. Response by gender and by age or length of service, and where asked, by ethnic background, and full- and part-

time showed no great divergence from the organizations' employment figures. There was also a good response from across the regional offices of the tax and the employment services. Response patterns were compared with appraisal markings and found to be very similar across performance ratings.