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The Success of Failure: The Paradox of Performance Pay

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Abstract

This normative article examines the contemporary record of pay-for-performance plans in the federal government. These programs, extending back nearly two generations, have consistently malfunctioned. Nonetheless, the state of the field today is one of continued attempts to use the technique despite agency history and research data that document its problematic nature. Based on scholarly literature, news media reports, and interview data, the analysis assesses the practical experience, policy findings, and political realities of this compensation method. The discussion raises questions about rational decision-making models and suggests that belief in performance pay is akin to an urban legend.

Keywords

performance pay, civil service reform, motivation, urban legend

Compensation is a core function of human resource management, one that has important direct or indirect implications for recruitment, appraisal, training, retention, and labor relations. At the center of competency, cost, and productivity issues in government, pay for performance is a key methodology in the compensation field and a central component of contemporary civil service reform.[1] As such, this controversial technique is a fitting topic for the anniversary symposium. Most organizations, in fact, say they recognize merit, and most personnel believe that remuneration should be tied to contribution. Managers see pay for performance as a basis of control, and employees embrace its intuitive appeal. It is not surprising, then, that public and private organizations claim to give great deference to merit; the civil service system is even named for it.

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Yet substantial discontinuity exists between rhetoric and reality, as business scholars point out that performance pay "may not be as desirable, as easy to implement, or as widely used as commonly believed" (Fisher, Schoenfeldt, & Shaw, 2006, p. 512). Public service experts such as Jonathan Bruel, IBM Center for Business of Government, likewise find that it is "complex and deceptively difficult, both technically and politically" (Mosquera, 2008, August 18). Indeed, the managerial discretion promised by contingency compensation confronts agency missions lacking in simple profit maximization metrics, personnel who may be motivated as much by public interest as private gain, and legal provisions against political manipulation of employees. It is by no means clear that the benefits of developing such systems outweigh the costs.

Nevertheless, the concept of merit today is associated with commercial values and corporate-style performance pay (also known as contingency, incentive, or variable compensation). Although it takes many forms (e.g., piece work, sales commissions, skill pay, profit sharing), for most administrative, technical, and professional work, pay for performance typically seeks to use a portion of salary increases to award personal productivity.[2] Seemingly consistent with well-known motivation theories and simple common sense—no one argues that people should not be paid for achievement—incentive plans have grown in popularity in both the public and private sectors. It is the increasing diffusion of this approach to compensation that suggests the need for a reexamination of merit pay for individual performance.

This study assesses the (a) practical experience, (b) policy findings, and (c) political realities of performance compensation in the federal government in contemporary history, followed by a discussion of its persistence. The analysis is informed by scholarly research, news media articles, government publications, and data from 15 unstructured, 30- to 50-minute telephone interviews in fall 2008. This small, diverse group of stakeholders offered insights into the promise, problems, and prospects of contingency compensation. Chosen on the basis of reputation and accessibility, it included representatives from news outlets (1), unions (3), nonprofits (2), consultancies (1), public agencies (2), and academia (6).

Practical Experience

In light of expectations, the performance of pay-for-performance programs, by most accounts, is at best disappointing; indeed, the consequences are often counterproductive. Based on past experience in recent decades, the strategy may or may not be good in principle but it is certainly difficult to do in practice. This section briefly recounts that history and its literature.

Building on the premise that employees should be rewarded for results, reform advocates believe that when emphasis is placed on incentives, organizational productivity will improve. Performance pay is offered as a replacement for the traditional federal pay schedule, ironically an incentive-based system that has not been correctly implemented. Officials are not required under the General Schedule to give raises for time-in-grade rather than for results. A core merit principle, in fact, is retention based

on merit. But supervisors either do not or cannot take advantage of available tools—cash awards, within-grade increases, quality-step increases—because compensation plans seldom provide enough resources to reward exceptional employees without unfairly penalizing valued satisfactory ones.[3]

"Managers," observes author and former Interior Department deputy director of personnel Larry Lane (personal communication, October 15, 2008), "like to look out for their people by ensuring that most will be eligible for rewards." Because performance monies are inadequate, "when the amounts are divided up, the awards are reduced and the program is devalued." Given historic public service below-market compensation strategies, pay-for-performance plans encounter a formidable challenge particularly in a resource-poor economy. In short, whatever the assumed virtues of contingency pay, administrators find themselves unable or unwilling to use it in a robust manner.

As one reformer points out, when performance compensation was tried, "under the Civil Service Reform Act of 1978 and then under the Performance Management and Recognition Act starting in 1984. Experience was so bad . . . that [the laws] were allowed to sunset . . . and the idea of pay for performance was all but forgotten" (Risher, 2002, p. 318). It had led to consternation and delay, paperwork and appeals, and cost more money while still not recognizing the best employees. There was limited, if any, evidence of a positive effect on productivity, worker satisfaction, or job turnover.

A set of seminal works published in the early 1990s confirmed this practical experience. The first was a landmark National Academy of Sciences study (Milkovich & Wigdor, 1991), undertaken when the Office of Personnel Management was considering using incentive pay government wide—despite the experience reported immediately above. It found that many of the assumptions in business and government about the technique were without foundation, there was insufficient evidence to determine if incentive pay was efficacious, and that transferability to government was a dubious proposition. In an equivocal, carefully qualified recommendation, the Academy nonetheless suggested that merit pay might be effective. More forthrightly, Alfie Kohn's (1993) widely read critique, *Punished by Rewards*, challenged the psychological and motivational claims that ground corporate reward–punishment programs; it argued that they are worse than doing nothing because they vitiate intrinsic interest in, and commitment to, work.

In the same year, a pair of articles in the public administration academic literature raised fundamental questions about contingency compensation. An in-depth study by Patricia Ingraham (1993) invoked the medieval "buyer beware" admonition when purchasing a "pig in a poke": ensure that a sound reward system—not an inferior substitute like performance pay—is actually in the sack. Kellough and Lu (1993), writing in *ROPPA*, examined empirical research and concluded that although pay for performance repeatedly proves to be unworkable, government is still reluctant to abandon it.[4]

In view of the failure of the 1990 Federal Pay Comparability Act to provide market-based compensation, these agency experiences, and research studies documenting them, meant that departments continued to struggle to offer competitive salaries. Encouraged by the Clinton–Gore National Performance Review, various demonstration projects

and statutory exceptions from Title 5 were granted (for a compilation, see Selden, 2008). For example, the 1996 the Federal Aviation Administration program was later dubbed "a failure" that led to inequity, poor morale, increased union membership, and an overall rating of 204th among 222 agencies in the "best places to work" index (Barr, 2007b; Kauffman & Ziegler, 2004; more broadly, see U.S. General Accounting Office, 2003). As well, the merit pay initiative at the Internal Revenue Service resulted in similar outcomes (Partnership for Public Service and Institute for the Study of Public Policy Implementation, 2007).

Such concerns notwithstanding, support for performance-related compensation escalated during the George W. Bush Administration; in fact, it proposed to expand pay for performance throughout the entire federal workforce by 2010. In the wake of the September 11, 2001, terrorist attacks, two agency reform programs were tied to national security concerns. The Department of Homeland Security's comprehensive plan produced so many productivity problems, court defeats, and widespread dissatisfaction that it canceled its performance pay initiative (Tiefer, 2008). The other major effort at the Department of Defense (initially projected to cost a minimum of $158 million) also encountered difficulties. The Government Accountability Office (GAO) reported in 2007 that the more experience employees had with pay for results, the more negative was their perception of it (Ballenstedt, 2008b).[5] In response, the Pentagon announced that its contentious approach will be limited to nonbargaining unit employees, a fraction of its originally planned coverage (the plan, interestingly, never included military personnel). It delayed any further expansion of the initiative until at least October 2009, pending the outcome of program reviews. The FY 2010 Defense authorization bill requires the Department to make a case for reforming the program or begin dismantling it within one year.

Ironically, a "best practices" performance pay project at the GAO may not "have looked at its own earlier studies of the technique in other agencies," according to former federal senior executive and author Jack Underhill (personal communication, October 22, 2008). Not only did 81% of personnel believe that morale was worse than before pay restructuring, but also employees voted to unionize the Office as a direct result (Ballenstedt, 2008a). In another incentive program, once viewed as a model for the rest of government, Senior Executive Service pay reform was found to have no impact on performance, harmed motivation and morale, hastened retirements, and discouraged mid-level managers from applying to the Senior Executive Service ("Executive Pay for Performance", 2007; Friedman, 2006; Senior Executives Association, 2006; Turley, 2008).

Not to be overlooked, the National Institute of Standards and Technology reported that its long-standing performance pay project has enabled the Institute to "compete more effectively for top talent, retain more its high performers, and expand managers' authority over hiring and pay decisions" (Kirkner, 2008, p. 23). Its effectiveness is attributed to a "tightly controlled" effort, according to John Palguta of the Partnership for Public Service (personal communication, October 22, 2008): a well-defined mission, scientific work culture, and employee participation; "it was designed by scientists

for scientists" (personal communication, Howard Risher, November 18, 2008). Such success stories tend to be isolated, temporary, and/or constrained; if confirmed by independent research, they nonetheless must contend with a substantial body of evidence on performance pay failure.[6]

To summarize this section, pay clearly matters. But as experience demonstrates, it is difficult to link compensation policies to desired results; good intentions are not necessarily assumed in a political environment, and in any event are simply not enough. For example, President Barack Obama, while not rejecting the concept of contingency compensation, has indicated concern about troubled pay-for-performance systems and seeks to have a civil service bill that includes compensation reforms passed by the 2010 elections. For most agencies, it is a major administrative undertaking to implement performance pay, a task that includes the continuous re-evaluation of motivation and productivity, identification of additional levels of contribution that warrant recognition, and provision of incentives on an equitable and timely basis. As Bob Behn (2004) observes, *who* gets *how much* for *what* are insidiously complicated issues. Too good to be true, pay for performance might be "a wonderful theory . . . unfortunately details matter" (p. 2; also see U.S. Merit Systems Protection Board, 2006). Although that may not be a reason not to do it, dealing with performance compensation "is always unsatisfactory," according to Mark Abramson (personal communication, December 2, 2008) of Leadership, Inc.; not only is every agency's situation different, but also the topic is complex and multifaceted. It is easy to see why, in light of the record, simpler, "set-it-and-forget-it" compensation programs historically have been widespread in the public and private spheres. Indeed, performance pay promoters—tellingly—have not sought to apply the technique to presidents, members of Congress, agency secretaries, or the uniformed services.

Policy Findings

To understand why practical experience with pay incentives is perplexing, it is useful to discuss the findings of studies articulating policies that are needed for effective performance compensation. Preconditions—trust in management, a valid job evaluation system, clear performance factors, consistent and meaningful funding, and accurate personnel appraisal—must be present (Risher, 2004; also see U.S. Merit Systems Protection Board, 2006). If these factors exist, incentive compensation nevertheless may perversely:

- focus on the short term at the expense of the long term,
- encourage mediocrity by setting limits on expectations,
- reduce creativity and risk-taking,
- promote self-interest above other interests,
- destroy teamwork because it increases dependence on individual accomplishment,
- generate counterproductive, win–lose competition for merit monies,

- encourage sycophancy ("do-as-I-say performance pay"), and/or
- generally politicize the compensation system (Berman, Bowman, West, & Van Wart, 2009).

Employees may "eventually come to see merit pay as a kind of punishment" (Gabris & Ihrke, 2004, p. 540). Incentive compensation, in theory, may have the potential to produce high performance, but it is difficult to manage in a way that personnel perceive as fair.

Despite their admiration for business, Risher and Fay (1997) conclude that although

> policy statements make individual merit important, salaries have been managed in a lock step manner. . . . The most aggressive corporate programs rarely give meaningful recognition to outstanding employees. The underlying merit philosophy is solidly entrenched . . . but the typical private sector employee can expect an annual salary increase with almost as much certainty as the typical public sector employee. (pp. 3, 43)

Although the actual practices found in corporate programs are poorly documented, one survey revealed that just 17% of companies believe that their performance pay plans are "very successful" (Chou & Risher, 2005). Furthermore, two Harvard University faculty members estimated that the proportion of pay that is performance-based in those programs is well below 10% (Bohnet & Eaton, 2003).

A thorough analysis of economic, management, and social psychological research by the same investigators demonstrates that what is supposed to occur with these initiatives in theory seldom occurs in reality. As detailed in Exhibit 1, the conditions for success for these plans—(a) the output produced, (b) the people who do the work, and (c) the organization where it is done—"are generally not met in the private sector, and even less so in the public sector" (Bohnet & Eaton, 2003, p. 241).

The researchers do not claim that incentives are unworkable under the right circumstances, but only that "ideal conditions are rarely met in empirical reality" (Bohnet & Eaton, 2003, p. 251). They endorse the view that "the rising and falling tides of interest in the various incentive plans have more to do with changing social, political, and economic fashions than with accumulating scientific evidence on how well the plans work" (Alan Blinder, as cited in Bohnet & Eaton, p. 241).

Nonetheless, most managers think that performance should be an important part of a compensation system: More than 80% of the nearly 1,000 firms sampled say they "pay for performance," although as noted it is often for a small fraction of their workforce (Hewitt Associates, 2003). Furthermore, one meta-study of 39 quantitative studies in the private sphere (Jenkins, Mitra, Gupta, & Shaw, 1998) found that financial incentives were not related to the quality of results.[7] Indeed, business fascination with pay for performance can actually produce its opposite; *Pay Without Performance* (Bebchuk & Fried, 2004) argued that CEO compensation models were not merely wasteful but lead to corrupt corporate governance. "There is," write Larry Lane, Wolf,

Exhibit 1. Formidable Conditions for Successful Performance Pay

Bonhet and Eaton (2003) analyze three conditions—production, people, organization—for effective incentive programs. First, pay for performance runs well if (a) employees have to complete one well-defined task, (b) the output is clearly measurable, and (c) the result can be attributed to one person's efforts. These overlapping and mutually reinforcing factors are difficult to achieve. Most white-collar employees are faced with multitasking problems, hard-to-measure work products, and team-oriented work environments, none of which fit well with individual incentives.

Second, assumptions about human nature and motivation are key to pay-for-performance plans. These programs may be effective if (a) employees work primarily for cash and (b) they care about absolute pay levels. Yet people are interested not only in money but also in job satisfaction and challenge, something not subject to performance pay. Indeed, most research suggests that humans do not want to believe that they work only for money, a finding that is especially true for public servants. Employees can even be offended when treated as if they can be manipulated by transparent monetary incentives.

Furthermore, personnel are less interested in absolute pay than in comparisons relative to some reference point such as others' salaries, the jurisdiction's budget, or the state of the economy, considerations not germane to pay for performance. In fact, although everyone wants to be a winner, incentive plans usually mean that this is not possible. The result is the "silver medal syndrome, based on . . . Olympic champions, [that] shows the most disappointed people are those that come in second" (Bohnet & Eaton, 2003, p. 248). A system that guarantees that most will be losers is not a useful motivational tool.

Third, institutional factors affect performance pay programs. They operate best when employees know what to do and whom to serve. Knowledge of an organization's objectives, however, is not a given for the rank and file; the absence of clear goals is a result of multiple or changing leaders with different goals. This problem, known as "multiagency," is especially evident in government where staff serve many masters: chief executives, legislators, political appointees, judges, and senior career executives.

Source: Adapted from Berman, Bowman, West, and Van Wart (2009, pp. 215-217).

and Woodard (2003), "an utter lack of empirical evidence in the private and public sectors that pay for performance has any positive effect on either morale or productivity" (p. 138). It is not surprising that among the many techniques used by Sloan workplace excellence award winners, performance pay is not one of them (Galinsky & Eby, 2008). As well, two recent books on civil service reform reject pay for performance (Bilmes & Gould, 2009; Donahue, 2008).

In short, research findings demonstrate that to avoid crippling drawbacks, a set of stringent policy prerequisites is needed to implement the methodology. Although organizations do not necessarily have to wait for perfect conditions, an honest assessment of their readiness and realistic understanding of pay-for-performance pitfalls is needed (Kerr, 2008). Even in favorable circumstances, incentive remuneration may not be successful because the detailed requirements are very demanding and often impractical. Metzenbaum (2006) reported that "an overwhelming body of research and experience suggests that promising rewards . . . seldom works when the rewards are linked to attainment of specific targets, progress relative to peers, progress relative to the past, or per unit of product" (p. 6). Government agencies should use incentives sparingly and rely instead on "intrinsic motivators" such as goal setting and feedback. In fact, because those in public service have strong intrinsic motivations, there is reason to expect that a "market model may actually reduce performance" (Moynihan, 2008, p. 256).

Widespread and consistently discouraging results inevitably raise questions about the efficacy of performance pay itself. Undaunted, compensation reformers, as a result, sometimes resort to

- suggesting that technical concerns deflect attention from performance,
- conceding that the evidence does not confirm that pay enhances performance,
- claiming that alternatives are worse,
- blaming critics for not creating better compensation systems,
- arguing that pay for performance is not actually that important because it is not an end in itself, and/or
- declaring that the real problem is not pay at all, but rather personnel appraisal, performance management, "communication," or something else (e.g., "Don't Abandon Performance-Based Pay," 2007; National Academy of Public Administration, 2004; Partnership for Public Service, 2005; Risher, 2008; Schuster & Zinghiem, 2007).

However ingenious (or disingenuous) and wishful (or desperate) these arguments might be, they are certainly effective in the *realpolitik* of public pay plans as discussed below.

Political Reality

In spite of—or perhaps because of—practical experience and policy findings, there is little indication that most stakeholders are ready to forsake attempts to improve performance by manipulating pay—a mindset derived from Taylorist, mechanistic models of work. Indeed, the Office of Personnel Management, the second National Commission on Public Service (Volcker II), the National Academy of Public Administration, the Coalition for Effective Government, the IBM Center for the Business of Government, and the National Partnership for Public Service all recommend a new federal

government-wide incentive compensation system. Such support demands explanation, and a number of possibilities can be suggested.

First, performance pay obviously is a titanic cultural icon. Merit is simply too oceanic a social myth to reject outright; to do so would imply that individuals do not make a difference. It is attractive because, "We are trapped by the core beliefs and values of American culture"—to be rewarded for hard work--according to *FedSmith* columnist Robbie Kunreuther (personal communication, October 15, 2008). Second, sports—which are easily observed, measured, and rewarded—are so popular in contemporary culture that analogies and spillover effects to the workplace are inevitable. Compensation policy, precisely because it seldom yields carefree answers, becomes an easy target for sloganeering, grandstanding, and oversimplification—as if management was as straightforward as athletic entertainment. Furthermore, and in addition to being a method of control over employees, officials are generally reluctant to admit mistakes—especially when the reform that vowed to enhance efficiency proves to be inefficient. A pretense of assumed future benefits seems better than exposing actual past and present failures. Finally, all these explanations reflect a deeply ingrained belief in pay for performance, one encouraged by vendors promising that however difficult the technique may be it nevertheless can be done with their guidance.

Yet, as Larry Lane (personal communication, October 15, 2008) notes, incentive pay fails on behavioral, theoretical, and practical grounds because it uncritically adopts unsophisticated MBA assumptions about motivation and money, as well as the ability to make meaningful distinctions between employees. It matters little that the tool is counterproductive because it is used for its symbolic effect to facilitate the exercise of power (Edward Kellough, personal communication, October 15, 2008). In symbolic politics, the rhetorical value of a policy is more important than its instrumental effectiveness. "In the political give and take of policymaking," write L. Brown and Jacobs (2008), "success often depends on defining 'the problem' in ways that mobilize supporters and marginalize opponents" (p. 45). Political power in this environment does not rest on open debate and logical persuasion. So long as decision makers think the initiative will work (and seldom follow up to see if it does), evidence or argument is of no consequence. "Common sense" prevails as facts are subordinated to values and political visibility trumps policy outcome. Under such conditions, administrative prudence suggests putting aside concerns and supporting agency leadership. Raising awkward questions likely will result in one's exclusion from an important departmental program (the saying that "if you are not at the table, you're on the menu" is apropos).

In a triumph of hope over experience, performance pay accordingly remains as seductive as ever as a quick fix to address human capital problems. Thus, the 16 agencies comprising the national intelligence community began moving toward it in mid-2008 based on a little-known 10-year effort at the National Geospatial Intelligence Agency (the current House of Representatives intelligence authorization bill calls for terminating the program). There is also a contingency compensation proposal for the Foreign Service, an idea criticized in the past because performance is already considered in personnel actions (Congressional Research Service, 2008). And, Office

of Personnel Management Congressional testimony (Statement on Pay for Performance, 2008) claimed success for the federal government's incentive plans, lauded over 25 years of experiments with alternative compensation systems, and announced new pilot sites at the Veterans Health Administration, National Nuclear Security Agency, the Office of Federal Student Aid, the Food and Safety Inspection Service, and the DOD Acquisition Demonstration Project.

A union representative, however, noted that, "the patchwork of pay programs across government cannot be collectively or individually characterized as a success; the reality is that each is terribly flawed" as they have lead to increases in grievances, litigation, attrition rates, low morale (Walker, 2008). Bert Subrin (personal communication, October 14, 2008), of the Senior Executive Association, states that officials from overburdened, understaffed departments "go to meetings at OPM, and are supposed to verify 'this and that' element in a rubric; everyone thinks it is ridiculous and absurd." Many agency representatives doubt that the benefits of the program to government exceed the costs of simply meeting its reporting requirements.

In any case, recent reports suggest that incentive plans continue to experience implementation issues. At the Federal Deposit Insurance Corporation, for example, just 12% of employees believed that its pay-for-performance program reflected actual performance (Mosquera, 2008). When insurers such as Medicare introduced incentive pay for physicians, unintended and untoward consequences resulted (for devastating account, see Jauhar, 2008). And an arbitrator ruled that the Security and Exchange Commission performance compensation program discriminated on the basis of sex and race (Davidson, 2008).

The ongoing lure of variable pay lead James Perry, Engbers, and Jun (2009) to examine 57 systematic studies published between 1977 and 2008 (25 of which appeared since the last literature review in 1993 by Kellough & Lu). The analysis showed that the pre-1993 conclusions on the dubious nature of contingent remuneration were confirmed by research after that date. The authors suggested that this was not a cause for "despair" about the potential of the concept; instead, in an effort to make the most of a tainted idea, they recommended increased attention to performance compensation to detect ways that it might work.

To summarize this section, it is difficult to overstate the attractiveness of pecuniary incentives in a political arena. When called into question by practical experience in the field and policy findings in research, stakeholders deny the undeniable and seize on performance pay as a solution to human resource problems. Success is not required, failure is overlooked, and new programs are inaugurated with little attention to agency histories or systematic studies.

Discussion

Although pay for performance seems theoretically and intuitively appealing, the reality is very different for many organizations. At best, it remains to be seen if recent initiatives will overcome inherent problems found in contingency compensation. Even

Howard Risher (2004), in an enthusiastic endorsement of the methodology, believes that it "may well prove to be the most difficult change any organization has ever attempted" (p. 46). As if to make the point, he offers no fewer than 29 recommendations to get it to function. It is easy to see why the direct and indirect results of establishing and operating such a program has not increased productivity but increased cost of doing business.[8]

For reform to work, organizational commitment, time for rehearsal and review, and stakeholder consensus on design, implementation, and cost is required. Plans must be well drawn, meet expectations for pay gains, and be implemented in an atmosphere of high trust and employee morale. As the U.S. Merit Systems Protection Board (2006, p. xii) stipulates, these efforts can *only* be effective if these additional elements exist:

- A supportive organizational culture
- Fair-minded, well-trained supervisors
- A system of checks and balances
- An ongoing system of program evaluation
- A rigorous performance appraisal system[9]

The technique might be introduced first for administrators; if expanded, then the management of employee performance should be an important factor in the evaluation of the way supervisors are paid.

The difficulty here is that well-known psychometric errors—deficiency (omission of important issues) and contamination (inclusion of irrelevant matters)—are not easily susceptible to corrective training. This is because cognitive information processing theory (Berman et al., 2009, p. 313) maintains that appraisal is a complex, challenging memory task. Consider, to take one example, actor/observer bias where an actor sees his or her own behavior as blameless, but when he or she observes the same behavior in someone else it is viewed as blameworthy. The bias, write Campbell, Campbell, and Chia (1998), derives at least in part from the position, not the behavior, of the evaluator (pp. 137-139). Pay for performance, in any event, must "uniquely and subtly mesh with the precise purpose, culture, and norms, as well as its particular personalities" (Behn, 2000, p. 3).

Contingency compensation, in brief, is neither quick nor easy. It should never be oversold as a panacea for organizational problems, and, if attempted, it should be merely one part of the compensation and benefits system (Gabris & Ihrke, 2004, p. 506). Indeed, given the conditions pay for contribution requires, it is likely to work only in rare, hard-to-duplicate circumstances. Although an organization's program can reinforce achievement, a focus on performance compensation, paradoxically, should not emphasize only money. Other factors—public service motivation, good management, and importance of work—affect job productivity. Professionals do not choose government service to maximize income; they do not work for profits, stock values, commissions, or handsome bonuses.

"The reality is that pay for performance," as James Perry (2003) observes, "is likely to be of little benefit to organizations with serious performance problems and may actually be harmful" (p. 150). M. Brown and Heywood (2002) note an official who identified two common attributes of these plans—they involve huge amounts of management time and make everyone unhappy (p. 11). Indeed, performance pay can become a substitute for good management. Manipulating compensation packages is far easier than designing meaningful jobs and paying everyone fairly.

The key flaw in contingency compensation is the assumption that the interests of the organization and its workforce are at odds—viz., conditioning pay on performance is needed to impose alignment of conflicting employer–employee needs. The conceit is that the civil service, uninterested in the common good, is not productive and that small incentives will be good enough to correct the situation. Although this may be good "bash-the-bureaucrat" politics with a cheap solution, it is bad administration as this study—and the numerous others—documents.

Conclusion

When unexamined cultural beliefs, well-meaning ideas, ideological goals, and political loyalty prevail, administrative values are overpowered and the ability to manage is thereby impaired. What accounts for the difficulty encountered by performance pay schemes is that the normative framework of contemporary civil service reform (one that takes an inaccurate, glorified view of corporate programs) is simply inappropriate for effective public human resource management (Bowman & West, 2007; Riccucci & Thompson, 2008). After years of being told to "run government like a business," if it was not clear before, then today's systemic financial collapse—derived at least in part from foolhardy risk taking encouraged by corporate pay-for-performance systems—makes it obvious that the fascination with market values and compensation incentives is problematic.

There is a distinction, stated differently, between pursuing objectives as a function of monetary exchange versus as a function of duty, between an obligation to personal gain versus public good, and between extrinsic versus intrinsic work motivation (Crenson, 1995, p. 190; Perry & Hondeghem, 2008). The values of economic rationality inherent in performance pay systems, as David Dillman (2007, p. 892) observes, are inconsistent with the civil service ethos. In the end, government is a public service.

Nonetheless, practices are seldom discarded simply because they are dysfunctional; rather, pay-for-performance programs may well have become an urban legend. Debunking such folk myths is not likely to have much effect because of their very nature: The tales are compelling because they reinforce world views about human behavior and provide common sense explanations of complex phenomena. Consider the symbolic importance of performance pay and how difficult it is to question it in a political environment. To suggest that such convictions can be readily changed is to ignore the "cult of unreason" celebrated in American culture (Jacoby, 2008) and to put undue faith in rational decision making.

Indeed, the emerging field of behavioral economics (e.g., Ariely, 2008) seeks to understand why people behave as they do rather than to rely on models of rationality and *homo economicus*. It reveals that perception, not analysis, is key in thinking about decisions; as personal investment in a fiction increases, the importance of fact declines. Execrable ideas persist, even flourish, in "the dark of light." If this research is correct, then humans are far less logical than generally assumed. They are not cool calculators of self-interest who sometimes do unreasonable things. They are instead—often and predictably—credulous, irrational actors who are sensible only some of the time.

The claim that "people tend to believe things they want to believe" offers a plausible explanation for why so many are so wrong for so long and seem unable to learn from error. Some of the worst mistakes are not those that take people by surprise but rather those that were made with eyes wide open, a kind of "false consciousness" that dictates that what is preferred is inevitable. It follows that the more that performance compensation is discredited, the more that such testimony is ignored. Promoters convince themselves over and over again that the methodology will function properly. It is striking, for instance, how unaware some of its champions seem to be of criticisms levied against incentive pay. The legend dictates that—no matter what—empty, misguided pay-for-performance models *should* work.

If legends are stories that hold lessons, then performance pay is no different. For advocates of the technique, the primary one—stated immediately above—is patent. All other teachings are epiphenomenal, and any difficulties that might be experienced are simply reflections of a lack of faith and commitment by management. A different set of lessons, drawn directly and indirectly from the analysis here, includes the following:

- Successful compensation plans, based on practical experience and research findings, are exceptions that prove the rule that performance pay is hazardous to implement; to assume otherwise is wasteful, self-defeating, and reckless.
- Even an unusual, well-funded program is subject to the legacy of governmental below-market compensation strategies; as such, it is vulnerable to economic conditions, leadership changes, budget cuts, and skepticism about giving bureaucrats extra money to simply do their jobs.
- Contingency pay approaches can provide either limited or substantial managerial flexibility in rewarding performance; finding a balance is challenging because both too little and too much discretion undermine pay for performance (if not enough, the program may not be worth the trouble; if too much, it may be susceptible to corruption).
- Performance pay can result in politicization of the civil service and manipulation of employee appraisals, a problem at the center of the Justice Department's termination of U.S. attorneys in 2007.
- Money is important, but not in attempts to induce better work; perhaps pay is most effectively used in recruitment, a human resource function with marginal long-term bearing on performance.

- Monetary incentives, as mentioned earlier, may be more productively employed in gain-sharing programs than for rewarding individuals (see Note 2).
- Compensation rewards in many government incentive programs provide little more consideration of performance than the present system, while often weakening employee protections from arbitrary management practices.
- Funding and using the flexibilities in the General Schedule, as discussed above, is a more promising strategy than instituting disruptive and costly radical new systems.

Such implications are not likely to temper the rush to further expand the use of incentive compensation until or unless the incipient climate change in American politics becomes manifest in the years ahead. Pay-for-performance programs are exemplars for the success of failure syndrome: Although the initiatives themselves fail, they nonetheless have succeeded in altering the political environment as the "new normal" is performance pay. Past experiences and policy findings are no match for political reality.

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Notes

1. Small parts of this study are adapted from the author's work in Berman et al. (2009, chap. 7).
2. Merit pay contingent on performance may be efficacious and empowering for self-directed employee groups or gain-sharing programs where collaboration (teamwork), content (meaningful tasks), and choice (autonomy) can be nurtured and stimulus–response manipulation and formal compliance de-emphasized (see, e.g., Charlotte, North Carolina's approach in Jurkiewicz & Bowman, 2002).
   Stated differently, competition may work best in the marketplace rather than the workplace. Unfortunately, because organizations hire individuals, people are likely to be treated, and see themselves, as distinct from the work unit. Some commentators (e.g., Turetsky, 2006), in fact, maintain that performance pay could be attractive to Generation Y employees who may not see public employment as a career (see, however, Barr, 2007a; Yoder, 2008). Yet the success of the organization rests with the group.

3. It is likewise ironic that the extra monies for rewarding employees in most federal pay-for-performance programs are derived from funds that would have otherwise gone to step increases, quality-step increases, and promotions under the General Schedule.
   In fact, an official at the U.S. Merit Systems Protection Board recommends that "if agencies believe that pay for performance is the better way of compensating employees, then they can begin by making better way of the pay for performance elements of the General Schedule" (Crum, 2009, p. 3).
4. ROPPA has also published other interesting, relevant research, including Getha-Taylor (2008), Kellough and Nigro (2002); Kellough and Selden (1997), Leavitt and Morris (2008), O'Donnell and O'Brien (2000); and White (1997).
5. Some skeptics, however, were won over by larger-than-expected DOD performance rewards; others found that the payouts were riddled with inequities and doubted that high raises could be sustained in the future (Davidson, 2009; Losey, 2008a, 2008b).
   Not to be overlooked is the difference in value between a base-pay increase and a one-time incentive payout. Not only are base-pay increases "look ahead" rewards (vs. "look-back" lump sum bonuses; Hill & Tande, 2006), but also, unlike bonuses, they are calculated into retirement benefits.
6. For an early evaluation of the NIST program, see Schay (1997).
7. It did, however, find that financial incentives are related to performance quantity. An exhaustive review of past research can also be found in Bucklin and Dickinson (2001). One factor to consider in reviewing business studies is that the compensation system in many private organizations is not transparent.
8. A superior approach to improve individual and organizational performance, according to Bob Behn (2000), would include offering competitive salaries, giving people an important mission, avoiding personnel systems that create a lot of "losers," finding techniques to celebrate teamwork, and making it easy to remove poor performers.
9. Because compensation is tied to performance, an appropriate evaluation system is required. Unfortunately, personnel appraisal is so problematic (Berman et al., 2009, chap. 10; Bowman, 1994) that an emphasis on it is likely to erode the trust necessary for performance pay.

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