

# Performance-Related Payments in Local Governments: Do They Improve Performance or Only Increase Salary?

Alessandro Spano and Patrizio Monfardini

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*Alessandro Spano and Patrizio Monfardini*

# Performance-Related Payments in Local Governments: Do They Improve Performance or Only Increase Salary?

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## 5 Introduction

**Q1**  
**Q5**

Performance-related pay systems (PRPSs) are widely considered as one of the cornerstones of a managerial public sector, and therefore, they are deemed one of the most relevant consequences of the New Public Management (NPM) tide (Ammons & Roenigk, 2015; Dahlstrom & Lapuente, 2010; Perry, Engbers, & Yun Jun, 2009). Such systems have been adopted in most OECD countries, though with different characteristics (OECD, 2012, 2005). In general terms, performance-related pay refers “to the variable part of pay which is awarded each year (or on any other periodic basis) depending on performance” (OECD, 2005, p. 20). Incentives should be paid for performance achievements of single employees and/or teams. Strongly relying on performance measurements, a PRPS can be thus considered an important element in the wider system of Performance Management (PM), which all public sector organizations (should) adopt in order to be able to deliver services and achieve results meeting citizens’ expectations (Dahlström & Lapuente, 2010).

**Q3**  
**Q2**

However, the existence of a causal link between the adoption of a PRPS, the employees’ motivation, and the organizational performance is currently under scrutiny and widely debated, especially for public sector organizations; so, the fact that the implementation of such systems would lead to the desired outcome cannot be taken for granted.

**Q4**

The underlying assumption when implementing PRPSs is that they help increase efficiency of public sector organizations and employees’ motivation (Osborne & Gaebler, 1992; Weibel, Rost, & Osterloh, 2010). Pay-for-performance schemes have the broad aim of motivating “workers to higher levels of performance and productivity by linking performance to financial incentives” (Ingraham, 1993, p. 350). The first research question has consequently been formulated as follows:

RQ1. Has the introduction of PRPSs in Italian Local Governments (LGs) contributed to increasing motivation and performance? 40

If PRPSs must increase motivation and performance, they need to be designed and managed accordingly, and, in particular, they need to provide the necessary information on performance so that the distribution of monetary rewards can actually be linked to goal achievement (Speklé & Verbeteen, 2014). As a consequence, the second research question has been formulated as follows: 45 50

RQ2. How have PRPSs in Italian LGs been designed and managed?

Although Italian legislation foresees the use of forms of incentives other than money, monetary rewards are the only ones that are actually used, even though in some countries other forms of rewards are more used, such as formal recognition in US municipalities (Melkers & Willoughby, 2005). For this reason, the third research question regards the possibility of replacing money with other rewards. In fact, even though there is wide recognition of the limitations of monetary incentives, studies regarding the possibility of replacing them with different and more effective incentives are, essentially, lacking. 55 60 65

RQ3. Would employees in Italian LGs agree to replace monetary incentives with other forms of incentive?

To provide an answer to these research questions, the features and the use of PRPSs are analyzed through insights from fifteen interviews with informed respondents in the Italian context. 70

## Literature review

The adoption of PRPSs in public and private organizations is a standard and well-established practice in most OECD countries (OECD, 2012, 2005), and there are established theoretical underpinnings for such adoption, including agency theory and legitimacy theory. In managerial studies, PRPSs rely on agency theory (Bender, 2004), which claims that the principal is not able to control all the activities carried out by the agent, and therefore, he/she is forced to use incentives to align potentially conflicting interests (Eisenhardt, 1989). The agent has, of course, to be self-interested and sensitive to the incentives or other kinds of reward the system allows. Traditionally, the incentive has been mainly a monetary one, and the reward scheme is a function of performance (Burgess & Ratto, 2003). Incentives are thus paid, first of all, in order to align the agent's and principal's interests, so that any information asymmetry and possible opportunistic behaviors can be reduced. This leads to an increase in performance and efficiency (Fernie & Metcalf, 1999). In addition, incentives are paid in order to attract and retain a skilled workforce (OECD, 2002).

Another interesting theoretical perspective is legitimacy theory (Suchman, 1995). As a consequence of NPM (Atkinson, Fulton & Kim, 2014), private sector practices have been considered (with notable exceptions, see Ingraham, 1993), not only inherently superior but also easily transferable to the public sphere (Bellè, 2015; French & Emerson, 2014) and therefore providing legitimacy to the adopters (Kang & Yanadori, 2011) and creating the opportunity for isomorphic behaviors (Bellè, 2010; Bender, 2004).

The attempt to explain and justify why such systems are currently widely used needs to understand the effects of PRPS on public sector motivation and performance. Results offered by the literature are inconclusive (Bellè, 2015). On one side, there are literature reviews (Hasnain, Manning, & Pierskalla, 2014; Weibel et al., 2010) and empirical studies (Fernie & Metcalf, 1999; Stazyk, 2013) that point out the positive effects of PRPS on motivation, performance, and job satisfaction. Other authors are instead more critical and emphasize that PRPS implementation and contextual features may be crucial to achieve positive outcomes (Kauhanen & Piekola, 2006).

The effectiveness of PRPSs may be influenced by the typology of the job, meaning that they work: where ambiguity and autonomy are limited (Perry et al., 2009), where the reward is not publicly disclosed and the activity has a strong social impact (Bellè, 2015), when the tasks are non-interesting (Weibel et al., 2010), when job responsibilities are clear (Perry et al., 2009), and in certain sectors such as education and health care (Hasnain et al., 2014).

Some authors are strongly negative about the opportunity to adopt a PRPS in the public sector. Using both correlational designs and experiments as research methods, Larkin, Pierce, and Gino (2012) demonstrated that in addition to the mentioned criticalities, there may be relevant psychological issues to be considered. The most debated issue is the (supposed) different structure of motivation public servants have, which downplays the explanatory powers of well-known theoretical approaches such as the reinforcement and expectancy theories (Skinner, 1969; Vroom, 1964). Public sector motivation is the "individual's predisposition to respond to motives grounded primarily or uniquely in public institutions or organizations" (Perry & Recascino Wise, 1990, p. 368). The underlying idea is that due to the difference in motivation between public servants and private sector employees, the incentive system has to be modified accordingly (Liang, 2014). Public sector motivation is supposed to be more internal. Psychologists therefore use self-determination theory to argue that promising incentives, often in the form of extra money for doing things, can produce the negative effect of weakening personnel's internal motivations (Ryan & Deci, 2000; Weibel et al., 2010). In psychological studies, motivation can be external and internal, and that distinction is made according to the concept of the "locus of causality," that is, the source of pressure to do something. In other words, sometimes a task may provide its own utility for the doers, so personnel can be intrinsically motivated, and such a human feature may affect performance so strongly that additional money may not be required for rewarding results (Ryan & Deci, 2000). On the other hand, in such cases incentives create the perception of an external pressure and reduce willingness to cooperate (Ryan & Deci, 2000). This phenomenon is called the "crowding out effect," and it has been empirically tested, with mixed results, in public sector organizations (especially in the healthcare sector) to verify its existence (Andersen, 2009; Stazyk, 2013; Weibel et al., 2010) as well as to understand its consequences (Georgellis, Iossa, & Tabvuma, 2011). Therefore, PRPS should be redesigned to avoid the excessive use of extrinsic rewards, perhaps substituting them with different kinds of rewards (Frey, Homberg, & Osterloh, 2013; Georgellis et al., 2011; Liang, 2014). Also, there is a lack in the critical analysis of the risks connected with the introduction of PRPSs with regard to personnel motivation (Demmke, 2007).

Another aspect that has been studied in the literature refers to the design and implementation of PRPSs, which is particularly critical in the public sector for several reasons (Frey et al., 2013; Perry et al., 2009;

Speklé & Verbeeten, 2014). In fact, public sector organizations have some peculiarities in the following aspects: the presence of multiple goals and tasks (Marsden, French, & Katsuyuki, 2000), goals ambiguity (Campbell, Campbell, & Chia, 1998; Frey et al., 2013), difficulties in measuring performance (Burgess & Ratto, 2003), poor planning (Marsden et al., 2000), strong political influence which fosters ambiguity (Hofstede, 1981), not enough resources to be used to motivate (Perry, Petrakis, & Miller, 1989), limited knowledge of the tasks by the evaluators (Marsden et al., 2000), limited trust in the evaluation (Spano & Asquer, 2011), possibility of free riding (Holmström & Milgrom, 1991), and gaming (Hood, 2006). Performance evaluation is the backbone of every PRPS, and when it is either lacking or not correctly linked to the way monetary incentives are administered (Cardona, 2007), any pay decision is arbitrary (OECD, 2012). Whenever such features and criticalities are not taken into adequate consideration during the designing and the implementing of the PRPS, they would lead to only partial implementation (Ammons & Roenigk, 2015), to failure (Bellè & Cantarelli, 2014), to achieving no effects on performance (Pearce, Stevenson, & Perry, 1985), or, at least, to a reduction in efforts paid by the workers (Francois, 2000). To work properly, a PRPS needs the organization to achieve contractibility (i.e., clarity of goals; the capacity to measure results objectively and the capacity of managers to control the transformation process) (Speklé & Verbeeten, 2014), participation in job design (Camilleri & Van der Heijden, 2007; Perry, Mesch, Paarlberg, Durant, & Kramer, 2006), fairness and transparency (Bender, 2004; Bregn, 2008; Kim & Rubianty, 2011; Stazyk, 2013), and enough money to be distributed (OECD, 2005).

Finally, one needs to consider that the fiscal crisis, with an increasing level of debt and the consequential need for the restoration of public finance, especially at the local level, called for an increase in taxation and a reduction in budgets that took place in some countries in particular, such as Greece, Ireland, Portugal, Spain, and Italy. As a consequence, there has been either a cut or a freeze of the salaries of public employees (OECD, 2012). These trends have affected PRP practices as well with a closer dependence of salary increase and contingent pay to performance (OECD, 2012).

## The Italian context

The insight coming from the literature debate seems particularly interesting in the Italian scenario where the implementation of PRPSs is considered to be highly problematic

for several reasons (Cristofoli, Turrini, & Valotti, 2008). Firstly, implementation is problematic because rewards often consolidate in the payment system and become fixed instead of being connected with performance, and therefore, they lose any incentivizing effect; secondly, rewards are often equally distributed and do not differentiate individual performance (Cardona, 2007). Di Mascio and Natalini (2013) found that performance-related pay was used in a noneffective way in almost 55% out of the 169 surveyed Italian local authorities and that its use raised managers' concerns. Cristofoli, Turrini, and Ongaro (2011) found evidence of a resistance to the introduction of PRPS in 37% of the Italian municipalities, in particular by city managers. They also found that the adoption of a PRPS is linked to the size of the municipality and that municipalities are more likely to do so if other municipalities in their region have done so.

Italy is characterized by a Napoleonic culture that is traditionally not open to English or American managerial issues (Peters & Ongaro, 2008). The overall process of managerial reforms has been developed through extensive use of the law (Panozzo, 2000), and Italian LGs are "still more knowledgeable of legislative and regulatory interpretation than of management" (Mussari, 2005, p. 163). Reforms in the Italian public administration since 2009 (mainly, the legislative decree no. 150, enacted in 2009—the so-called "Brunetta reform") have placed the Performance Management at the forefront of public management (OECD, 2010), and PRPSs had already been introduced into the Italian public administration by previous reforms. In fact, in Italy, the law has prescribed PM systems since the 1990s for the various public sector organizations (e.g., LGs, health care trusts) (OECD, 2005). In the Italian political-administrative context, several significant changes occurred in a relatively short period during the 1990s (Radaelli & Franchino, 2004), and PM systems have changed together with the basic features of the state (Ongaro et al., 2008). Thus, PRPSs have been, at least formally, reinforced until very recently through a continuous flow of legislation.

Capano (2003) argues that the traditional cultural paradigm in administrative law is one of the factors that explain the dynamics of public sector reforms in Italy (Pollitt & Bouckaert, 2004). As a consequence, norm compliance has become more important than the actual achieving of objectives and targets (Borgonovi, 2005). Italian LGs (about 8,100 in the country) represent a relatively diversified empirical field, as they range from very small cities (60% of which have fewer than 3,000 residents and some fewer than 200) to quite large ones (Rome and Milan, for example, with about 2.5 and 1.2 million residents, respectively).



A study carried out in Italy showed that in 2005, 140 out of 155 top managers in ministries achieved the maximum monetary reward (more than 90%), while over 50% of the 2,094 lower-level managers did the same (Dipartimento della Funzione Pubblica, 2005). Such an outcome would imply a rather efficient and effective public sector, while reality proves to be quite different. Nevertheless, bonuses have been paid regularly. In fact, the use of PRPSs in Italy is considered to be scarce, and the distribution of rewards is not connected with actual performance (Cristofoli et al., 2008; Ongaro & Bellè, 2009).

Some studies showed that Italian managers in regional governments do not trust performance evaluation systems due to the perceived political influence that makes the evaluation itself unfair (Bellò & Spano, *in press*). A similar problem has been found in municipalities (Spano & Asquer, 2011) where managers learned how to adapt their behavior in order to get better evaluations and, in turn, higher monetary rewards. As a consequence, performance evaluation systems completely lost their intended purpose, which was to foster improvement rather than distributing monetary incentives.

In such a scenario, PRPSs have also been part of the effort to make public sector organizations more efficient and effective, with the underlying rationale that the promise of an increasing amount of money would push public servants toward better results, and, in doing so, the overall organizational performance would be enhanced (OECD, 2005). The 2009 legislation was an attempt to reinforce the implementation of PM systems in public sector organizations, obliging them to modify their PRPSs. It should be noted that the design of the PRPS is still left to the autonomy of the individual public sector organizations—in other words, the law prescribes only the general principles to comply with (i.e., it prescribes measuring and assessing both individual and organizational performance), but it does not impose a method of evaluation (i.e., it does not set the coefficients to weigh objective achievement against other performance dimensions). Therefore, PRPSs in LGs can be highly differentiated, considering alternative measures of performance in different ways and with different weights. The same 2009 legislation imposes differentiation in the evaluation of personnel to avoid the frequently unfair distribution of reward in equal parts among public servants that was leading to a strong de-motivational effect on personnel. In a study on 11 municipalities, Ongaro and Bellè (2009) found that the average evaluation of managers was over 90% in a scale from 1 to 100 and that 98% of individuals received some sort of remuneration linked to

performance. Similar results are found by Ponzellini (2010) in a study on 12 municipalities where almost all individuals received the maximum available monetary prize, with basically no differentiation. The practical implementation of such compulsory differentiation has encountered very fierce resistance in the administrations at all levels and in their managers, so that its enforcement has been currently suspended. Finally, the decree issued in 2009 also allows for other kinds of rewards other than money (e.g., participation in high-level educational programs for highly performing public servants).

The National Collective Work Contract in force for public employees in Italian LGs calls for the creation of a special fund intended to stimulate performance; such resources work toward “stimulating real and relevant increase in efficiency and effectiveness” and can be used to “pay compensations to stimulate increasing productivity and better service provision, through meritocracy” (ARAN, 1999 art. 4.9, National Collective Work Contract 01/04/1999). This would mean that when objectives are not challenging at all because they merely describe already existing functions, incentives should not be paid. Similarly, an administration can refuse to pay the incentives by showing that performance objectives have not been achieved. Both these cases are quite uncommon in the real world, since personnel evaluated often take part in objective setting, as the literature suggests, and can therefore easily define reachable objectives.

## Methodology

The methodology adopts a qualitative approach using semi-structured interviews with managers and external evaluators coming from different Italian LGs. The aim of the interviews was to investigate existing practices of PRPSs “from the perspective of the interviewee and to understand how and why they come to have this particular perspective” (King, 2004, p. 11). From an epistemological point of view, our interviews can be regarded as following a realistic approach, since interviewees reported their real experiences that go beyond the interview itself; besides, the interviews provided researchers with insights that allow comparisons (King, 2004).

The article adopts a purposive sampling method to elicit relevant knowledge from experts in the field of performance evaluation and PRP in local governments (Teddle & Yu, 2007). A purposive sampling is adopted by dividing the group of interest according to different personal and organizational characteristics and then selecting a limited number of cases that are able to

offer an in-depth knowledge on the phenomenon under study (Palinkas et al., 2013). Such method can utilize expert judgments to select relevant cases, persons, or groups through which it is possible to gain desired knowledge. The highest possible variation has been pursued in order to achieve a full comprehension of the issues at stake (Patton, 1990).

In order to select the individuals to be interviewed, one needs to consider that in the Italian context, LGs are composed of different kinds of public organizations: Municipalities, Provinces, and City Alliances. A fourth type also exists, Metropolitan Cities, but it is relatively new and all LGs of this type are not fully operating yet. For this reason, attention was focused on the first three types. According to the Italian Legislation with regard to performance evaluation and rewards, there are no differences among LGs; in particular, Law 267 of 2000 and more recently Legislative Decree 150 of 2009 introduced the same requirements for all LGs, making it compulsory for them to evaluate individual and organizational performance. In addition, all LGs share the same National Collective Work Contract. The respondents belong to ten municipalities of varying sizes (from 11,000 to almost 300,000 inhabitants), three provinces (from 50,000 to 200,000 inhabitants), and four city alliances (*Unione di Comuni*). City Alliances, which are made up of small municipalities (see Table 1), were selected to include small municipalities (with less than 5,000 inhabitants). Each one of the 537 Italian City Alliances has about 22,000 inhabitants and is made up of about six municipalities, and each one has an average population of about 3,800 inhabitants.

With regard to the choice of the individuals to be interviewed, seven Director Generals and Secretary Generals (the heads of the administrative level), nine Top Managers (responsible for HRM and for the PRPS), and nine components of Evaluation Units (under the Italian legislation) were selected; all LGs have to appoint an internal evaluation unit that deals with individual and organizational performance evaluation. In this way, the diversity of the different roles involved in the evaluation process was encapsulated. In fact, they are all actively involved in the evaluation, and the Director and Secretary Generals and Managers represent both the evaluator and evaluated. All selected interviewees are experienced not just in the evaluation field but in the broader area of planning and control as well. Experts were selected to point out those issues debated in the literature that may be relevant in the Italian scenario and to integrate them with the criticalities of the PRPS implementation that the experts may raise thanks to their practical experience in the field. Some of them are LG professionals, while others are

**Table 1.** Respondents.

Respondent	Role	Type of local government
1	DG	M
2	Ev	M
3	Man	M
4	Ev	M
5	DG	M
6	Man	CA
7	SG	P
8	Man	P
9	Ev	P
10	Ev	M
11	SG	M
12	Man	M
13	Man	M
14	Man	P
15	Man	M
16	Ev	P
17	Ev	CA
18	EV	CA
19	Ev	M
20	SG	M
21	SG	M
22	Man	M
23	Man	M
24	Ev	M
25	SG	CA

academics with broad experience in teaching and research in the field and occasionally hired as external evaluators. About half of them also bear direct experience in performance evaluation in both public and private organizations. In this way, the saturation rule has been followed (Teddlie & Yu, 2007).

As for the selection of the topics to be included in the interview, the main sources were literature research, research on personal knowledge and experience in the field, and preliminary work, such as discussions with people experienced in PRPS (King, 2004). These topics include the amount of resources involved in different organizations, the functioning of the reward system, and the level of satisfaction with it expressed by employees and evaluators. In addition, the interviewees have been asked to give their opinion on possible changes in the present incentive system. Twenty-five interviews were conducted between September 2013 and May 2016. Each interview lasted about 1 hour and has been transcribed and analyzed. Eighteen questions were asked on four different areas. The first one aimed at building a description of the performance evaluation system in use, and the second one was about the links between the kinds of rewards used (monetary and non-monetary) and the evaluation system. The connection between these two systems is particularly relevant because they need to be consistent with each other (Demmke, 2007). In the third area, the interviewees were asked to provide their opinion about the reward system in use (satisfaction with the reward system, their strengths and weaknesses) and to state whether or not they would be willing to substitute the

monetary reward with other rewards. The last group of questions was devoted to understand what kind of support was provided to the reward system to administering the rewards. The complete list of questions used for the interviews is reported in the Appendix.

### Findings from the interviews

The interviews afforded important insights that allow us to provide an answer to the research questions. All the interviewees reported that in their LGs, employee performance is evaluated from top management to lower positions. In Italian LGs, employees are grouped into different categories based on salary level and education: from A to D, plus top managers. Performance is evaluated according to two broad elements: the achievement of strategic and operating goals and individual behavior related to a set of predefined items. A higher weight for goal achievement in the overall evaluation is assigned to managers and higher categories and decreases for the lower ones. For instance, 60% of the managers' evaluation might be related to goal achievement and 40% to behavior. A significant variance in the weight of goal achievement was found, and in some LGs, this weight is higher than in others. In one case, it is lower than 30%, and in another it is 100%. Individuals in the lower categories are evaluated mainly in relation to their behavior. In every case, the primary reward, if not the only one, is money. One of the interviewees reported that self-evaluation is also used. In some cases, managers and employees may receive other forms of incentive apart from money, such as the opportunity to participate in advanced training programs or a fast-track for promotions. In one case, the formal recognition of achievements was reported as a powerful incentive.

With regard to the first RQ (effect of PRPSs on motivation and performance), our interviews provided us with mixed results. On the one hand, it emerged that thanks to the introduction of PRPSs, nowadays performance is measured and evaluated. The simple fact that somebody measures and assesses someone else's performance is considered an important change. In fact, apart from any consequences in terms of reward, knowing that performance is actually observed and taken into consideration can certainly influence individuals' behavior.

Behaviors of many public servants changed; although objectives were absent in the past, now they know what they are talking about. This is very important. (R6)

In Italian LGs, this has determined a significant change in employees' behavior, and even though not always and not for everybody, employees are more concerned with

individual and organizational performance and have an idea of what measuring and evaluating it may imply. Concepts such as performance, evaluation, output, and outcome are becoming more widespread, and people have started to pay attention to them. Furthermore, they are more sensitive to citizens' satisfaction and to how their work can contribute to increase it.

The simple fact that the PRPS exists is good news. The administration indeed needs tools to stimulate individuals. It is also positive that people know someone is evaluating them. (R1)

At the same time, interviewees told us that the provision of monetary rewards did not increase motivation and performance at either the individual or organizational level. The main reason is that monetary incentives are taken for granted and are considered just an additional portion of the salary. Some interviewees also argued that monetary incentives have no effect on motivation as long as the planning system is inconsistent and objectives are not SMART.

With regard to the second RQ (the way PRPSs in Italian LGs have been designed and managed), the interviewees reported several problems in the way PRPSs have been designed and managed that makes it difficult for them to work properly. For example, in order to prevent everybody from receiving the same positive evaluation so that monetary rewards are distributed in equal parts while still respecting the existing regulations, the law called for a (semi) compulsory obligation to differentiate evaluations. One of the elements for assessing the managers' performance is, in fact, their capacity to diversify the employees' evaluation in order to avoid, or at least limit, the traditional tendency to evaluate all the employees in the very same way. In fact, evaluators tend to give employees the highest possible rating in order to make sure that all enjoy the monetary reward. However, even when evaluations are at least partially differentiated, the features of the evaluation system often neutralize the differentiation itself. Evaluation systems are built in such a way that on a scale from 0 to 100, when an individual gets a grade of, say, at least 85 out of 100, he or she receives 100% of the monetary reward. Evaluations are thus differentiated, but in the range from 85 to 100, although rewards may not be paid at all.

They have discrete layers of evaluation, instead of a progressive percentage. Thus, from a certain result onward it is always possible to get the full incentive. (R5)

This is motivated by the fact that differentiation of evaluations may ruin the internal climate.

The compulsoriness of differentiation in the evaluations of personnel can really create discontent within the organisation. (R25)

Another aspect related to the design of the PRPS is the complexities and difficulties in understanding the system; moreover, the overall amount of money is limited, so sizeable machinery has been built for a very limited use. One of the interviewees encapsulated this idea by saying the following:

The game isn't worth the candle; we set up a complex system to distribute little money. If you really want to assess performance properly, you will need more time and resources. (R5)

Things are made also worse by monetary reward's relative weight in the overall salary, which is higher for managers and lower for other positions. Managers may receive up to 30% of their basic salary as a monetary reward based on their performance evaluation. Other employees' monetary rewards are lower in both absolute and relative terms (as a percentage of the basic salary) and are usually equal to one additional monthly salary. This is also due to the fact that the amount of resources available is limited (Ongaro & Bellé, 2009), and the prevailing policy seems to be providing managerial positions with higher portions of monetary rewards and, at the same time, giving minor rewards to all public servants. Some interviewees highlighted the disproportion between the managers' and the other employees' monetary rewards, which creates dissatisfaction among those in non-managerial positions.

In our municipality, the value and the amount of monetary incentives are far higher for managers and for those heading offices than for the other public servants [...]. A relevant part of the fund is allocated to specific projects, so that money will be distributed to the ones participating in them. Just to put it in quantitative terms, the individuals outside the projects may receive an incentive of about half a monthly wage, while the ones who are involved in it get the equivalent of a whole monthly wage. (R1)

Dissatisfaction clearly grows in lower-grade public servants when they compare their rewards to those given to top managers. Despite the position of public servants, performance evaluation is essentially used just to provide individuals with monetary rewards. This additional money is often not seen as a recognition for achieving a predefined set of objectives, or more generally for a superior performance, but it is taken for granted as additional salary.

Nowadays, the manager considers the incentive as part of his/her remuneration. (R3)

Incentive is culturally considered a fixed and stable part of the wage. (R4)

The interviews also highlighted the fact that planning and performance evaluation systems have a deep impact on the way PRPSs are managed. As individual performance is also evaluated on a goal achievement basis, the planning system plays an important role. If objectives are not SMART, that is, if they are vague, not specific, and difficult to measure, a fair evaluation is hardly possible. This is a common problem in the Italian public sector (Bellò & Spano, *in press*; Dipartimento della Funzione Pubblica, 2012), and it undermines the very core of the evaluation process.

The planning process is weak: objectives are ill defined, targets and indicators are not properly defined. (R1)

Evaluations are too subjective and scarcely related to the organizational planning and programming system. (R8)

Sometimes opportunistic behaviors occur, as individuals tend to adapt their behavior in order to maximize their probability of achieving a high evaluation and, as a consequence, receive the (full) monetary reward.

The main weakness is that the present system somehow incentivizes opportunistic behaviors, that is, managers only care for maximizing their objectives, and therefore only do the "easy task." (R9)

This is consistent with previous research (Spano & Asquer, 2011), which emphasized how managers in LGs are more concerned with receiving a good evaluation than improving organizational performance.

A corollary to this problem is that employees tend to consider just that portion of the evaluation and reward process they are involved in and do not have a wider view of the systemic and behavioral consequences of evaluating and rewarding performance.

The municipality of XXX has a problem with monitoring organizational performance. This is the main weakness. Because in this way managers get bonuses for their individual performance, and not for how they contributed to the overall organizational performance. (R10)

A sound and fair performance evaluation system that allows the recognition and reward of good performance is necessary for the effective functioning of PRPSs. Our interviews show that there is inappropriate use of performance evaluation systems, and performance is usually overevaluated. Evaluators tend to be too "benign" in evaluating performance to make sure that everybody receives his/her share of the monetary reward.



There is the risk of being too benevolent in the evaluations. (R1)

According to some interviewees, this may be considered as a consequence of the common belief that evaluation is just a means of distributing money and not a means of improving performance. In some cases, individuals tend to avoid problems while evaluating performances simply by giving a general positive evaluation. As a consequence, a negative evaluation is only rarely reported.

The system of distributing incentives in equal parts is still common for the public sector organizations, so differentiation is very limited (not only in my organization). Assessing performance is still difficult. (R6)

Interestingly, one of the interviewees mentioned that performance evaluation can be difficult depending on what the organization does.

To evaluate performance is difficult whenever the organisation is not producing services but regulating them. (R25)

Evaluation and reward systems are often set to comply with the legislation requiring them and not exactly because they are considered necessary.

At present the process follows legislation and bureaucracy to avoid conflicts among the different actors. (R4)

This is consistent with previous research showing that performance evaluation is just a way of distributing money rather than a managerial tool (Capano, 2003; Corte dei Conti, 2001).

Actually the need to diversify the evaluations is weak, so the managerial role is abdicated. (R3)

Moreover, even in those cases in which there is a differentiation in the evaluation of performance, the difference in the distribution of money is very limited.

At the end of the process of evaluation, the difference in monetary terms between the good performers and the others is less than one hundred Euros, so how can such difference really motivate employees? Right the opposite! (R20)

As a consequence, as highlighted by the Italian Audit Court (Corte dei Conti, 2001) and by ARAN (i.e., the Italian Agency supporting the Italian Public Administration for matters related to contract and bargaining [Bordogna, 2002]), pay for performance has been applied incorrectly, in the usual distributive way.

With regard to the possibility of replacing monetary rewards with other forms of reward (RQ3), mixed results were also found. Even though the majority of

interviewees said that in theory they would be disposed to accept such a change, in practice they believe this is not feasible. The main reason is that people would not accept a reduction in their salary, bearing in mind that the average salary of LG employees is far lower than in other public bodies, such as regional governments and national agencies (€28,742 gross salary vs. an average of €34,576 for the Italian public sector as a whole) (Ragioneria Generale dello Stato, 2013).

The contemporary context makes it difficult to remove the monetary incentive. In times of crisis it is too important. If something else could be added (involvement in important activities, training activities, common projects) it would be very nice. But more efforts need more money. (R3)

On the premise that it would be much better to increase wages for public servants getting rid of monetary incentives, the alternatives like training and participating in special projects are carried out in a context of blocked carriers. But LG personnel are the least paid in all public sectors, so it is difficult to avoid paying those extra 400–500 euros per year. Furthermore, other kinds of incentive could be used, but the money to be distributed is very little. (R11)

However, some interviewees expressed a different opinion. One interviewee declared his complete dissatisfaction with the present PRPS and believes that the majority of employees in LGs regret the previous system where no monetary reward was distributed (R11).

Two interviewees believe that non-monetary incentives should couple with the monetary ones, rather than substituting them.

In addition, another interviewee said that some individuals really think that they would particularly appreciate other forms of incentives:

Some time ago I sent an email to a public servant to thank her for a certain behavior and to praise her. I got back a surprised reply, where this lady said that my message had been more important for her than any monetary incentive, although she deserved it. So formal recognition is a powerful incentive. (R5)

Another interviewee (R14) believes the following:

Giving up monetary incentives would not change much in terms of efficiency and effectiveness. Other incentives may be more stimulating, i.e. a sabbatical leave or advanced training. It would be acceptable, there are now the right conditions, and as the crisis affects everyone, everyone should take a step back. I believe that 50% of my colleagues would accept it.

About one-third of the interviewees say that they would give up monetary incentives and would like to have more training opportunities. In this way, the role of performance evaluation would also be different and

would change from a mere tool to distribute monetary incentives to an instrument to foster individual professional growth. Not using performance evaluation to distribute money would encourage focusing on improving performance rather than maximizing results in order to get monetary rewards.

Two interviewees reported that even though they would agree to this substitution of monetary rewards with other forms of rewards, the main obstacle would be trade unions, as they are committed to protect the status quo and would consider this change unacceptable.

It should be noted that there seem to be very few data and little information to support the evaluation process. Management control offices have not always been established in LGs, so they are sometimes unable to provide the evaluators with the necessary data and information. In such cases, the information to be used for evaluation is often provided by the people being evaluated. This is particularly relevant because it supports the idea that evaluation is more a formal and often self-referential process to justify money distribution to employees rather than an effective tool to improve performance.

Of course there is a support for evaluation, but at the present stage it does not provide the necessary data and information. (R1)

Some interviewees highlighted that accounting is the usual form of data (if not the only one), while data on performance are more scarce.

The evaluation is supported by data provided by the accounting department of the municipality. (R4)

This confirms that the evaluation of performance achieved is only considered a tool to distribute additional money. This also suggests that additional money is taken for granted and considered a standard element of the overall salary an individual receives. In fact, individuals are not happy when they receive the monetary rewards, but they are unhappy if they do not receive them totally or partially. Unions are considered one of the elements that strongly support this position, as suggested by most interviewees.

## Discussion

Some comments can be drawn from what emerged in the interviews. First of all, PRPSs are highly differentiated among administrations under the same regulative framework. This allows them some discretion in choosing what has to be measured and how to measure it, but it also implies the risk of a distorted use of PRPSs.

Secondly, the vast majority the interviewees seem to agree with the need to drastically change the way that PRPSs are designed and managed and how monetary rewards are allocated. In fact, the effect of PRPSs on performance and motivation is potentially strong, but on a practical basis they seem to produce no significant effects on these dimensions, as expected by a vast strand of literature (Larkin, Pierce & Gino, 2012; Pearce et al., 1985). Two elements may explain such diffused perception. The first one is the limited role of the planning and evaluation systems, as many PRPSs downplay the importance in the planning and in the evaluation of achieving objectives (Marsden et al., 2000). Though interviewees consider evaluation as a potentially fundamental function, at present it is deemed just as a means to distribute additional monetary resources to managers and other employees and not as a means to improve performance. Therefore, the second element is that contingent pay is not perceived as a reward but as a necessary and expected portion of the salary. Respondent report that LG's employees are not willing to accept a reduction in the overall amount of money they receive, including the portion related to monetary reward, even though it appears quite clear that this tool has a limited effect on both performance and motivation (Demmke, 2007). Of course, to pay monetary incentives is not risk-free, as opportunistic behavior may arise again and provide the basis for new and greater requests for monetary rewards, while the literature clearly warns against the shortage of resources to motivate (Perry et al., 1989). From a purely economic point of view, nothing would change, as LGs would face the same cost if the level of the basic salary increased to comprise the present portion distributed as a consequence of performance evaluation.

The fact that contingent pay is not perceived as a reward but as a necessary and expected portion of the salary is an aspect that seems peculiar of the Italian context, and it has not been previously discussed in the literature, confirming that the context in which PRPSs are implemented matters and deeply influences their effectiveness (Kauhanen & Piekkola, 2006; Liang, 2014; Pearce et al., 1985). A possible explanation may be the lower levels of salaries of LG's employees compared to other Italian public sector organizations. This is particularly relevant, since the normal contractual increase in salaries has been stopped since 2009 due to the present crisis.

In this article, the possibility to substitute monetary with not monetary rewards was also investigated (Frey et al., 2013; Georgellis et al., 2011; Liang, 2014). The results of this investigation are that, even though individuals would in principle agree with the idea of

replacing monetary rewards with other forms of rewarding performance, salaries are considered very low; so, it would be necessary first to guarantee the present level of remuneration (including monetary rewards) and only then could monetary rewards as such be canceled.

In addition, the peculiar cultural approach that makes individuals take for granted the monetary incentive is confirmed by the fact that respondents stated that it would be difficult not to pay incentives once the reward fund has been created. Unions would vigorously protest, claiming that the current salaries of public servants are low, that the internal climate would be damaged and that conflicts would arise, and that incentives would therefore have to be paid anyway.

Clearly, policymakers are fully aware of this commonly distorted implementation of PRPSs, but until now no changes have been made to correct this problem. Despite the different sizes of the public administrations involved in this empirical analysis and the different settings of their PRPSs, the picture emerging from the interviews is indeed univocal in using money as the main tool for rewarding performance and considering this unavoidable. This, even though the decree issued in 2009, allows for different kinds of reward (for instance, participation in high-level educational programs for high-performing public servants). As a consequence, till today, in many administrations rewards have been paid in equal parts, despite varying individual and departmental achievements, which has led to a strong de-motivational effect on personnel.

## Conclusions

The Italian situation has similarities and differences with other countries. For example, the introduction of PRPSs in Italy had very limited results (Cristofoli et al., 2008) in the very same way as other jurisdictions (Cardona, 2007). This is true for those countries such as The Netherlands, New Zealand, and the United Kingdom that have been at the forefront in the adoption of PRPSs but also for other countries such as Austria, Denmark, Finland, France, Germany, Norway, and Spain (OECD, 2012, 2005). In some cases, PRSPs generated side effects as well (Cardona, 2007). For example, in the United Kingdom, access to monetary compensation is mainly limited to top performers, and, as a consequence, the majority of employees found these schemes de-motivating (Cardona, 2007). Only 7 per cent of public sector employees in Britain received performance-related payment compared with 28 per cent of their private sector counterparts (Van Wanrooy et al., 2013).

Broadly speaking, even though there are differences between Italy and other countries with regard to the specific features of PRPSs, there is limited evidence of positive effects on motivation and performance.

Although the issue of PRPSs in public sector organizations has been thoroughly studied, further research is needed on PRPSs on several aspects (Perry et al., 2009, 13), and this article contributed to the literature on PRPSs by providing some empirical evidence of the perception of monetary rewards in public organizations in order to have a better understanding of the reasons for their application and management in the Italian context even to respond to the call coming from the literature (Bellè, 2015). The article has some limitations. Firstly, the number of interviews is limited, and it is therefore not possible to generalize the results. In addition, the chosen public administrations, despite their variability, are not necessarily representative of Italian LGs. However, thanks to interviews with individuals with a robust knowledge of the way PRPSs work in practice, some aspects could be linked to the perceived effect of PRPSs on motivation and performance, and light has been shed on the way these systems have been designed and are implemented.

The lessons from the Italian case are that using monetary rewards without understanding the features of the context where this tool is going to operate as well as taking for granted that additional money will improve individual motivation and performance despite the lack of evidence may determine the opposite results (Ryan & Deci, 2000; Weibel et al., 2010). In addition, it is important to carefully design the PRPSs so that they are consistent with the planning and evaluation systems (Marsden et al., 2000). A poor planning system will bring vague, unrealistic, or not easily measurable objectives and frustrate the achievement of the aims for setting up a PRPS. On the other hand, an evaluation system that does not recognize the effective contribution of each individual is not aimed at improving but is essentially a tool to allow contingent pay and is not recognized and accepted by individuals. For too long, public sector organizations have assumed that money is the only reward; this article shows that other rewards may be as effective as money and perhaps more capable to increase motivation.

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## Appendix

### List of questions

#### Preliminary information:

Name, Surname, Type of Administration, and Role

#### Section 1: Description of the Performance Measurement System 1270

Who is evaluated? (only managers or all the personnel)

What performance dimensions are evaluated beyond objective achievement? (competences, behaviors, etc.)

How different dimensions of performance are weighted? (i.e., what are the weight between objective achievement and behaviors) Is the weight system fixed or modified every year? 1275

Is it in place a system to weight different importance of managerial positions? Is the weight system fixed or modified every year? 1280

#### Section 2: Linkages with the PRPS

What kind of incentives are used? (only money? Something else also?)

What is the average amount of resources to be distributed every year as incentives? 1285

How big is the incidence of the incentive on the annual gross salary?

Once the total distributable amount of resources has been established, is it always entirely distributed or is it possible not to distribute it all? 1290

In order to distribute the monetary rewards, is the evaluation system organized along discrete strata or a continuous one? In other words, once an employee gets a certain evaluation (i.e., more than 85%) does he or she receive the full incentives or does he or she receive a share based on the percentage of the evaluation? 1295

#### Section 3: Assessment of the PRPS

What are the main strengths and weaknesses of the PRPS?

Would you think it could be feasible to substitute the monetary incentive with something else? If yes, what kind of incentive? Why? 1300

Are you satisfied with the present way of distributing incentives? Why?

#### Section 4: Evaluation Office

In your administration, do you have an office in charge of management control? 1305

If so, does such Office provide data for the evaluation process?

Is there any other internal Office supporting the evaluation process? 1310