

Chapter 6

On the Desirability of Bonus-payments in Public Sector Remuneration

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Abstract

Two-third of all OECD countries implemented a bonus system to reward their employees. This study identifies the two main arguments of the proponents of these bonus systems. First, bonuses would motivate public servants and second, new talented staff would be attracted to the public service. By means of Political Discourse Evaluation, this paper shows that whether these arguments are convincing, is determined by on one's expectations of a public servant. If one supposes that public servants should be motivated by some intrinsic urge to make the world a better place instead of by monetary rewards, the argument becomes less acceptable. Furthermore, this analysis shows that the acceptability of the arguments depends on the doubtful assumptions that humans act fully rationally and suitable targets for public servants can be set.

1 Introduction

In the mid-1970s economic difficulties in several member countries of the Organization for Economic Co-Operation and Development (OECD) provoked a discussion about the performance of the public service¹. As in these years the government budgets were tight and the wage bill is the largest item in the budgets of many OECD countries, limiting pay costs and increasing efficiency became priority. In order to achieve a higher level of efficiency, the public sector copied several managerial techniques from the private sector.² From the 1980s onwards, governmental agencies started to use bonus systems to reward

1 OECD, *Performance-Related Pay for Government Employees*

2 Donald E. Stokes, "The Changing Environment of Education for Public Service," *Journal of Public Policy and Management* 15, No. 2 (1996): 158-170.

their civil servants. Soon many politicians throughout the OECD countries regarded the bonus system as a panacea for an effective and high-performing public service.³ Nowadays two-thirds of the governments of the OECD countries have implemented a bonus system to reward their public servants. They include, but are not limited to: the United States, the United Kingdom, Australia, New Zealand, the Netherlands and Sweden.

Ever since their introduction these bonus systems have been widely debated. Many governments seem to be in favor of a bonus system in the public sector. It would attract talented staff and motivate public servants. For example, the United States Government Accountability Office stated that:

Emphasizing performance-based pay is critical at all levels of government.⁴

However, at the same time much criticism on the bonus system arose. For example, the Australian minister of treasury once described the bonus system as:

modern American crap ... a bit like getting a star or a smiley stamp on your homework.⁵

Criticism on the bonus system culminated just after the financial crisis. In 2009 a UK House of Commons committee raised the question if a public service bonus system constituted value for money.⁶ In other OECD countries, the same question arose, although not always this explicit.

The debate surrounding the implementation of a public sector bonus system lacks structure and is surrounded by vagueness. For example, the Dutch minister of the interior argued against bonuses by saying that the Dutch government should not pay its managers exorbitantly. This argument can be regarded as incomplete, as it still leaves considerable scope for questions. One can wonder why we should not pay our public managers exorbitantly. Is this because they are paid with tax payers' money? Or would the public service attract the wrong kind of people by means of exorbitant wages?

3 OECD, *Performance-Related Pay*.

4 United States Government Accountability Office. "Human Capital: Building on the Current Momentum to Transform the Federal Government," *GOA Report No. 04-976T* (2004).

5 Tim Dick, "A little extra on the Side," *Sydney Morning Herald*, July 11, 2003.

6 House of Commons Public Administration Select Committee. *Executive Pay in the Public Sector: Written Evidence*. (London, UK: 2009).

This paper aims to clarify the debate surrounding the implementation of bonus systems in OECD countries. It gathers the political discourse and summarizes it. Subsequently, the two main arguments used in the political discourse are reconstructed and analyzed. Throughout this paper, an important question reappears: what do we expect of our public servants? Analytical Discourse Evaluation shows that only rarely the political discourse suggests answers to these questions. More often, the answers to these questions are implicit in the debate.

The Discourse

In the OECD countries, the debate concerning public bonuses takes place at different levels. First, there is an international level, which mainly consists of OECD reports. In 2005 the OECD wrote a book about the implementation of bonuses in the public sector. This book was based on the country reports that the member states handed in at an OECD expert meeting in October 2003. It describes several motivations for implementing a bonus scheme, the developments concerning the issue and the different systems that OECD countries have implemented. Secondly, there is a national governmental level consisting of national debates, letters to parliament, and think-tank reports. Finally, there is a societal level, consisting of blogs and newspaper articles. The OECD reports could be considered to be the core of the debate, as these summarize the national debates and recommend policies to national governments. Furthermore, many records of the national level refer to the OECD reports. On the other hand, these national records are needed to contextualize the OECDs report. This paper considers the OECD reports of chief importance for the political discourse. Hence, OECD reports and especially the most recent report focusing on public sector bonuses – Performance related pay for government employees (2005) – as the main document for the further steps in Political Discourse Evaluation. Furthermore, the national governmental reports are often referred back to as to contextualize and complete the OECD report.

The Context

In the last decades of the 20th century efforts were launched to introduce a more businesslike approach in the public sector of most OECD countries.⁷ The economic difficulties in the 1970s, including weak economic growth, little productivity increases, high inflation and high unemployment, brought about debates on how to minimize government deficits. As

7 OECD, *Performance-related Pay*.

the wage bill is the largest item in the budgets of many OECD countries, this debate partly focused on how to decrease the wage bill and increase the efficiency of the public sector. In this context the New Public Management doctrine came about. According to this new dogma differences between the private and the public sector had to be removed or at least decreased.⁸ New Public Management brought about several public sector reforms, almost all of them inspired by private sector management techniques. One of these reforms was the introduction of bonus systems in the public sector.

The rationale behind the introduction of a bonus scheme in the public sector is to increase the performance of the public service.⁹ The public service would at the moment provide too little service for too much money. The introduction of a public sector bonus system was, and still is, in many OECD countries seen as a panacea for these problems, as it would motivate public servants and attract talented staff.

Early adopters of public service bonus schemes were Canada (1964), the United States (1978), The United Kingdom (1985), Denmark (1987) and New Zealand (1988).¹⁰ The Netherlands (1989), Italy (1993), Australia (1997), Germany (1997), France (2004) and several other OECD countries followed. There are wide variations in how bonus schemes are implemented in different countries. In many cases, only the managerial staff qualifies for a bonus, but in some countries bonus systems also concern teachers, the military or the entire public service. Furthermore, the size of the bonuses varies across the OECD countries, but in general there is a maximum of approximately twenty percent of the fixed base salary.

In the last decade, debate surrounding public service bonuses arose. After the financial crisis of 2007-2010 in which bonuses became associated with mismanagement and exorbitance, concerns were expressed about the consequences of bonus systems. They would simply increase the wage bill without improving public sector productivity. Newspapers started to publish articles about bonuses earned by high public servants. These articles regularly became 'hot' items.^{11,12} Examples are the tumult concerning

8 Christopher Hood, "The new public management in the 1980s variations: on a theme," *Accounting, Organizations and Society* 20, No. 2 (1995): 93-109.

9 OECD, *Performance-related Pay*.

10 Ibid.

11 "Public Sector Bonus Review Urged," *BBC*, June 22, 2009, http://news.bbc.co.uk/2/hi/uk_news/scotland/8112434.stm.

12 Kevin Magee, "Civil service bonuses criticized," *BBC*, March 5, 2009, http://news.bbc.co.uk/2/hi/uk_news/northern_ireland/7927189.stm.

the bonuses paid to employees of the public channel, the bonuses received by medical specialists, militaries and employees of teaching institutes.¹³

Nevertheless, several countries still consider implementing a bonus system to award their civil servants and others make an effort to increase the coverage of already existing schemes. Governments of several OECD countries expressed that want to get rid of the automatic salary increments. A bonus system is considered to be a wonderful replacement.¹⁴ However, at the same time government departments working with a bonus system find out that a bonus system is not the panacea they hoped for.¹⁵

The bonus systems received several different names, such as 'pay for performance', 'performance-related pay' and 'exceptional rewards'. Only rarely governments use the word 'bonus'. However, this paper will make use of the word bonus, as in the end all these different terms do refer to a bonus system. Moreover, the OECD reports, the main source of this research, also speak of bonuses. The OECD defines a bonus as a "one-off payment which is not consolidated into basic pay, and has to be re-earned during each appraisal period".¹⁶ This definition will be adhered to throughout this article.

2 Reconstructing the Motivation Argument

The most heard argument in favor of a bonus system in the public sector is that it would motivate public servants.¹⁷ Accordingly, the public sector would become more efficient. However, neither the OECD report nor the parliamentary debates and reports of advisory boards specify the doings to which public servants should be motivated. For example, Gregory Barker, a UK minister stated in 2010 that performance pay:

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- 13 See the following newspaper articles: Michael Darlow, "Bonus Time at the BBC," *Guardian*, July 18, 2005. ANP, "Veel specialisten UMC's verdienen boven norm," *NRC Handelsblad*, July 28, 2010. S. Barr, "What's good for the military?" *Washington Post*, May 11, 2007, D4; Sharon Otterman, "Teachers at some low-performing schools to receive get bonuses," *The New York Times*, November 20, 2009; & "Doubts over Performance Pay," *BBC News*, April 10, 2003: http://news.bbc.co.uk/2/hi/uk_news/education/2936607.stm.
- 14 OECD, *Performance-related Pay*; Dijkstal Committee, *Over Dienen en Verdienen* (The Hague, 2004). Beth J. Asch, "Economic Complexities of Incentive Reforms", in *High Performance Government: Structure, Leadership, Incentives*, ed. Robert E. Klitgaard and Paul C. Light (Santa Monica: RAND Corporation, 2005).
- 15 House of Commons, *Executive Pay in the public sector*, 2009. OECD, *Performance-related Pay* (Paris, 2006).
- 16 OECD, *Performance-related Pay* (Paris, 2005), 17.
- 17 See J. Fetter and R. Mitchell, "Relationships and the Adoption of High Performance Work Practices: Final Report Prepared for the Workplace Innovation Unit," (Victoria: Industrial Relations, 2003); OECD, *Performance-related Pay* (Paris, 2005); and GOA, *Transform the Federal Government*.

“Motivates employees by linking an element of compensation to the achievement of departmental objectives”.¹⁸

Barker specifies how public servants can be motivated, but he does not make reference to what these public servants should be motivated to do. However, this is exactly the interesting part of the debate. How do we want our public servants to perform? What do we want them to do? Since the debates do not reveal this component of the argument, it has to be reconstructed.

Bonus schemes work with predefined targets that have to be reached in order to earn a bonus. Hence, it should be possible to objectively measure if public servants have met their target.¹⁹ In the private sector, targets often include the number of secured assignments or a profit level that has to be reached. In the public sector targets, can be defined as for example reducing absenteeism with a certain percentage, completing a certain task within a time limit, reaching a specified number of finished tasks or achieving a particular score on customer satisfaction questionnaires. It is easier to set targets for the less complex jobs in the public service, while mainly the higher public officials qualify for a bonus.

Considering the above, the goal of a bonus system must be that it should motivate public servants to reach that certain predefined target. Furthermore, for this argument to work a Warrant is needed. In this case the only Warrant that complements the Data is that public servants should be motivated to work towards a predefined target. The following argument can be reconstructed.

[Data]	A bonus system motivates public servants to reach a pre-defined target.
[Warrant]	Public servants should be motivated to work towards a predefined target.
[Claim]	The public sector should make use of a bonus system to reward its employees.

First, the Data part of this argument will be considered. Then, the Warrant will be evaluated. Both the Data and the Warrant will in the end arrive at the same question: what do we look for in our public servants?

In order to back up the Data of the motivation argument, the principal-agent theory has to be considered. This theory argues that incentives are needed in order to align the

18 Gregory Barker, Commons, “Written Answers Commons Debate,” *Daily Hansard*, June 23, 2010.

19 See Dijkstal committee, *Over dienen en verdienen*; and House of Commons, *Executive Pay in the public sector*:

interest of a principal, the employer, and the interest of the agent, the employee.²⁰ It assumes that both the principal and agent act out of self-interest and therefore try to maximize their utility. Already in 1776, Smith laid the foundation for this theory when he defined the following problem:

What are the common wages of labor depends everywhere on the contract made between those two parties, whose interests are by no means the same. The workmen desire to get as much, the masters to give as little as possible.²¹

In 1938 Barnard formulated a solution to the problem defined by Smith.

An essential element of organizations is the willingness of persons to contribute their individual efforts to the cooperative system. (...) In all sorts of organizations the affording of adequate incentives becomes the most definitely emphasized task in their existence.²²

Barnard is nowadays credited as the founder of the principle-agent theory. The principle-agent theory assumes that agents can exert different levels of effort and the utility that the principle receives depends on the level of effort exerted by the agent.²³ Furthermore, the theory presupposes that there is asymmetric information: the employee knows how much utility he or she gets from working at a certain effort level, but the employer does not. According to the Data for the Claim a bonus system is a motivator for public servants. So, a bonus system would form an adequate incentive for the kind of employees that work in the public sector. In order for this to be the case, the bonus system should align the interests of the principal with the interest of the agent, in this case the public servant. In the political discourse there are several records of politicians and in particular the OECD that support the motivation argument with the Verifier Data that a bonus system aligns the interest of the government and its public servants.²⁴ However,

20 See P.K. Dutta, *Strategies and Games: Theory and Practice*. (Cambridge: MIT Press, 1999).

21 Adam Smith, *An inquiry into the nature and causes of the wealth of nations* (London: W. Strahan and T. Cadell, 1776), p. 42.

22 C. I. Barnard, *The Functions of the Executive*. (Boston: Harvard University Press, 1938), 139.

23 Dutta, *Strategies and Games*.

24 See OECD, "Public Sector Modernisation: Modernising Public Employment," (Paris, 2003); OECD, *Performance-related Pay* (Paris, 2005); and GOA, *Transform the Federal Government*.

again the Warrant is not revealed in the debate. In order to make the argument complete, it need to be true that when public servant's interests are aligned with the interests of the government, they are motivated to work towards a predefined target.

The Verifying Data still leaves scope for explanation. It should be defined what it means to say that a bonus system aligns the interest of the government and its public servants. This is not defined in the political discourse, so it has to be reconstructed. By promising public servants money if they reach a goal that is defined by their employers, these public servants should desire to reach this target. If this is the case, the interests of the government and its public servants are aligned. This alignment will however only occur if a promised monetary reward indeed generates the desire to reach the defined target. Hence, effort and expected monetary pay-off should be positively related. Yet, the effect of a bonus is not only monetary; a bonus can also result in a feeling of recognition. Employees that are stimulated by factors such as a potential monetary pay-off and recognition are said to be extrinsically motivated.

[Data\Data\Data]	Public servants can be motivated by extrinsic factors.
[Data\Data\Warrant]	If public servants are motivated by extrinsic factors, a bonus system aligns the interest of the government and its public servants.
[Data\Data\Claim]	A bonus system aligns the interest of the government and its public servants.

The Data part of this argument will be criticized in the evaluation of this argument later on. The Verifier Warrant states that as public servant's interest are aligned with the interests of the government, they are motivated to work towards a predefined target. In other words, public servants would make a rational decision about the level of effort to put in under different levels of expected pay-off, and choose the effort that gives them the highest utility. The Homo Economicus theory, describing human beings as rational utility maximizing agents, is the predominant model of human behavior used by economists. According to this theory, humans make rational decisions as to maximize their own well-being. The theory was introduced by John Stuart Mill, who wrote that man is: "a being who desires to possess wealth, and who is capable of judging the comparative efficacy of means for obtaining that end".²⁵

25 John Stuart Mill, *Essays on some unsettled questions of political economy; and on the method of investigation proper to it* (London: Longmans, Green, Reader, and Dyer, 1844), 97.

It is important to note that a utility function does not only include monetary factors; it can include features of life that an agent deems valuable and all factors that are seems as harmful.

[Data\Warrant\Data]	Public servants are Homo-Economici.
[Data\Warrant\Warrant]	A Homo Economicus will be motivated to work towards a predefined target, if the employer's and servant's interest are aligned.
[Data\Warrant\Claim]	If the interests of public servants are aligned with the interests of their employer, they are motivated to work towards a predefined target.

In the evaluation part, this part of the argument will be criticized. The main ground for criticism is that according to recent research, there is no such thing as a Homo Economicus.

In the following paragraphs the argument behind the Warrant that public servants should be motivated to work towards a predefined target, is reconstructed. In the political discourse this Warrant is sustained by the argument that it creates a high performance culture in the public service. If there are predefined targets, public servants would be more aware of the organizational goals²⁶. So, according to these debates and reports, the argument is that if public servants are motivated to work towards a predefined target, a high performance culture is established in the public service. The following argument results:

[Warrant\Data]	If public servants are motivated to work towards a predefined target, a high performance culture is created in the public service.
[Warrant\Warrant]	A high performance culture should be established in the public service.
[Warrant\Claim]	Public servants should be motivated to work towards a predefined target.

This argument would perfectly fulfill the fidelity constraint, but the content of both the Backing Data and Backing Warrant are hard to back up. How to support these two premises depends on the definition of a high-performance culture. However, this concept

26 House of Commons, *Executive Pay in the Public Sector*; OECD, *Performance-Related Pay* (Paris, 2006); World Bank, *Senior Public Service: High Performing Managers of Government* (Washington: World Bank, 2004).

is not defined in the discourse. If we take a high-performance culture to be a culture in which public servants make every effort to reach their predefined targets, we can accept the Backing Data. In this case, the Backing Data is true by virtue of logic or a priori.

Yet, if we accept the definition of a high-performance culture mentioned above, the Warrant is tricky. Is it true that the government wants to create a culture in which employees do their upper best to reach their predefined target? Maybe this is indeed the case for several departments of the public service. These would mainly be the department with non-complex aims, such as a road maintenance service. However, mainly the employees in the higher levels of the public service receive the bonuses.²⁷ It can be argued that a high-performance culture for the higher levels of the public service entails more than a culture in which the Senior Executive Service, ministers and other higher public servants simply try to reach a predefined target.

It is not easy to define what this high performance culture in the managerial layers of the public service should be. It has to be decided what kind of people should work in the public service. Most likely, citizens want their public servants to do more than the minimum required to receive their bonus. They may want them to solve any new problems that come on their path, be innovative and increase the overall quality of their department. They should have a heart for their work and they are supposed to work for the common good rather than for their own wealth. Hence, maybe it is not sufficient to define a public service high-performance culture as an environment in which civil servants merely strive to reach targets. It can be argued that especially in the higher levels of the public service, a high-performance culture includes a certain feeling of duty, dedication and creativity. These two features can hardly be molded into measurable targets.

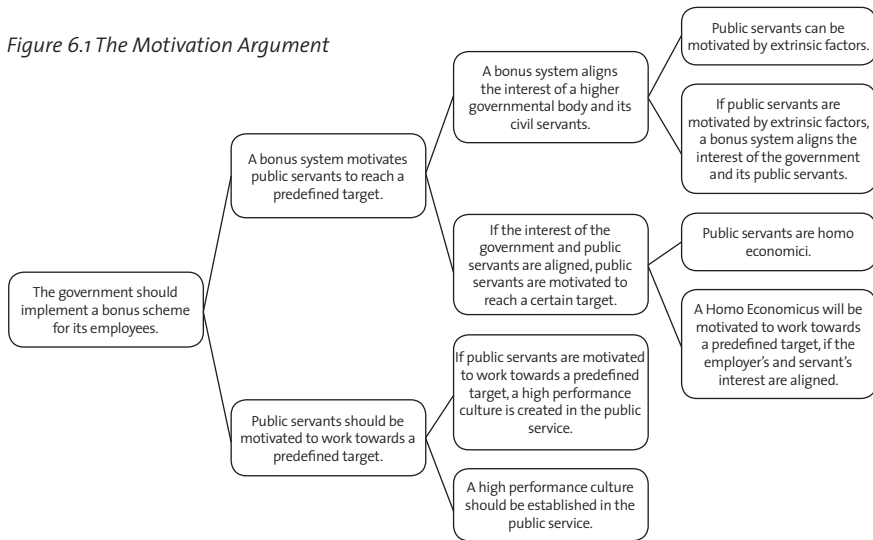
Therefore, the first definition of a high-performance culture will be put aside. Instead a high performing public service should most likely involve people that show a high level of commitment towards their job and the public good. They should be motivated to serve the public. If a high-performance culture is defined as a culture in which public servants are committed, the Warrant seems to be acceptable. It is needless to say beneficial for the functioning of the public service if its servants are concerned with serving the public. However, if we accept the commitment definition of a high-performance culture, the Backing Data becomes problematic. It is not per se the case that public servants who are motivated to work towards a predefined target are committed to the public interest. Maybe, they merely desire to receive their bonus and do not care about the overall effects on society. The following example from Chicago will exemplify this.

27 See OECD, *Performance-Related Pay* (Paris, 2005); Guusje ter Horst, *Brief aan de Tweede Kamer over bijzondere beloningen Rijk* (Den Haag, 2009). World Bank, *Senior Public Service*.

In 2002 the public schools in Chicago implemented a bonus system in order to motivate their teachers. They promised teachers a bonus if the capabilities of their students improved significantly. The schools let their students make one test at the beginning of the school year and one at the end of the school year. They compared the results and if the student's scores increased considerable, the teachers could expect a bonus. Dubner and Jacob showed that the teachers who already performed well without the bonus system were barely influenced by the new pay system.²⁸ However, the results of classes taught by mediocre teachers improved significantly. This sounds great, but soon it became clear that a great number of these teachers committed fraud; they rigged the answers on the tests of their students.

Considering the above it becomes clear that the Warrant of the motivation argument is dubious. The attitude desired in the public service, does not seem to be achieved by the implementation of a bonus system.

Figure 6.1 The Motivation Argument



The complete reconstruction of the motivation argument is depicted in the figure above. When the OECD or any politicians in OECD countries try to support the implementation of a bonus system by stating that such a system motivates employees, they explicitly use the argument that is shown above.

28 Brian A. Jacob and Steven D. Levitt, "Rotten Apples: An Investigation of the Prevalence and Predictors of Teachers Cheating," *Quarterly Journal of Economics* 118, No. 3 (2003): 843-877.

3 Evaluating the Motivation Argument

After the motivation argument is reconstructed by means of the Toulmin model, the argument can be thoroughly evaluated. Politicians using the motivation argument make several assumptions about the public service and its employees. Firstly, they suppose that public servants are homo-economici. Government employees would be able to make rational decisions in order to maximize their welfare. However, several researches have shown that humans do simply not act like homo-economici.²⁹ The new fields of neuro-economics and behavioral economics have demonstrated that we are surprisingly irrational.

Secondly, the motivation argument includes another doubtful characteristic of public servants. The final Verifier Data states that public servants can be motivated by extrinsic factors. However, several scholars found that public servants attach a higher value to intrinsic than extrinsic rewards.³⁰ Houston's research showed public servants are motivated by a certain concern for the community. Working in the public service is considered to be a calling, instead of a job, and public servants would be motivated by a desire to make policies and a commitment to the public interest. In academic literature this urge is called public service motivation. According to this field of research, it is unreasonable to state that public servants are motivated by extrinsic rewards.

Furthermore, research showed that extrinsic rewards can decrease someone's engagement in an activity.³¹ For example, the parents of a little girl that loves to read promise her additional spending money, if she reads a book for thirty minutes per day. Research shows that when the parents stop rewarding the child for reading, she will probably be less interested in picking up a book than before the introduction of the reward system. It is quite likely that the overjustification effect is also applicable to public

29 See for example: M. Shermer, "The Prospects for Homo Economicus," *Scientific American* (2007), <http://www.scientificamerican.com/article.cfm?id=the-prospects-for-homo-economicus>; Amos Tversky and Daniel Kahneman, "Judgment under uncertainty: Heuristics and biases," *Science* 185, No. 4157 (1974): 1124-1131.

30 See: Philip E. Crewson, "Public-Service Motivation: Building Empirical Evidence of Incidence and Effect," *Journal of Public Administration Research and Theory* 7, No. 4 (1997): 499-518; Hal G. Rainey, "Reward Preferences Among Public and Private Managers: In Search of the Service Ethic," *American Review of Public Administration* 16, No. 1 (1982): 288-302; James L. Perry, "Measuring Public Service Motivation: an Assessment of Construct Reliability and Validity," *Journal of Public Administration, Research & Theory* 6, No. 1 (1996): 5-22. Patricia W. Ingraham, "Of Pigs in Pokes and Policy Diffusion: Another Look at Pay-for-Performance," *Public Administration Review* 53, No. 4 (1993): 348-355; David J. Houston, "Public Service Motivation: A Multivariate Test," *Journal of Public Administration Research and Theory* 10, No 4 (2000): 713-728.

31 Bruce W. Williams, "Reinforcement, Behavior Constraint, and the Overjustification Effect," *Journal of Personality and Social Psychology* 39, No. 4 (1980): 599-614.

servants. If public servants are promised an extrinsic reward, in this case a bonus, for the work they previously did out of commitment to the public cause, their intrinsic motivation may decrease. However, henceforth there is no research confirming this effect.

Would it be a negative thing if public servants were extrinsically instead of intrinsically motivated? This question leads to the third doubtful assumption of the motivation argument. The Backing Warrant of the argument states that a high performance culture should be created in the public service. In addition, the Backing Warrant claims that this high performance culture is established, when public servants work towards a predefined target. In the reconstruction of the motivation argument it was already established that it is doubtful that these Data and Warrant lead to a cogent argument. It is uncertain if predefined targets can capture the complexity of the jobs of public service managers and policy makers. It is very hard to include all the tasks the public expects them to do in a target that it is objectively measurable. The target for a policy maker cannot be how many policies he made during one year, as we do not only expect him to make a lot of policies. We also expect that these policies are of a certain quality. However, how do you include that level of quality in a predefined measurable target? How can it objectively be decided if this level of quality is indeed reached?

These are interesting questions. Nevertheless, these same questions can be asked about private sector bonus systems concerning managers. It could be argued that their jobs are just as complex as the activities of public sector managers. The decision whether someone should receive his or her bonus includes the evaluation of the work done in a certain period. Generally, his evaluation is not entirely unbiased, because it is hard to objectively decide upon the quality of the work done, especially if the job includes a high level of complexity. Hence, targets are set that allow for some subjectivity. However, one can argue that some level of subjectivity is not such a bad thing after all. If there is a higher body that evaluates the work done by an employee, it is likely that this body is perfectly able to decide if employees reached their targets, even if this target is not objectively measurable. If the public believes that a higher governmental body is able to decide effectively if a public servant reached its target, the setting of these targets is justifiable and may indeed help creating a public service high performance culture.

4 Reconstructing the Attract Staff Argument

Besides the motivation argument, the attract-staff argument is widely used in order to support the implementation of a bonus system to reward public servants. This argument reads that by means of a bonus system the public sector can attract employees.³² Most politicians refer to the fact that a bonus system would allow the public sector to draw talented employees now working in the private sector. The OECD report of 2005 reads: “introducing performance-related pay policies, especially at managerial level, is seen as necessary to compete with the private sector”.³³ If this line of reasoning is put into the Toulmin model, the following argument results:

[Data]	A bonus system allows the public sector to attract staff from the private sector.
[Warrant]	The public sector should attract people now working in the private sector.
[Claim]	The public sector should make use of a bonus system as to reward its employees.

How would a bonus system allow the public sector to compete with the private sector? The most apparent Verifier Data found in the political discourse is that by means of a bonus system, the wages in the public sector can match those in the private sector.³⁴ As the wages in the private sector and public sector become more alike, the public sector should be able to attract people from the private sector. In this case, the bonus is simply used to increase wages and create greater private-sector parity. The following argument results:

[Data\Data]	A bonus system can create greater pay parity between the public and the private sector.
[Data\Warrant]	By means of creating greater pay parity, the public sector can attract staff from the private sector.
[Data\Claim]	A bonus system allows the public sector to attract staff from the private sector.

32 Horst, *Brief aan de Tweede Kamer*; House of Commons, *Executive Pay in the public sector*; OECD, *Performance-Related Pay* (Paris, 2005, 2006).

33 OECD, *Performance-related Pay* (Paris, 2005), 34.

34 OECD, *Performance-Related Pay* (Paris, 2005).

When considering this argument, one could ask why not simply increase the wages in order to create pay parity instead of going through the hassle of implementing a bonus system. One reason for choosing for a bonus system is that wages can be raised without increasing pension payments. Another reason could be to avoid a disturbing public debate. In many of OECD countries, including Belgium, the Netherlands, Germany, the United Kingdom and Australia, the issue of raising public service wages is a sensitive topic.³⁵ By phrasing the wage increase as a bonus, an emotional debate could be avoided.

However, a bonus system rarely increases wages to such an extent that they match the wages for approximately the same functions in the private sector. The wages of managers in the senior civil service were in the nineties around thirty to fifty percent lower than those of managers in the private sector.³⁶ Hence, the bonus payment should be a considerable percentage of the public servants base pay in order to equalize private and public sector remuneration. However, the OECD reports that bonus payments – although the size varies across countries – have a overall maximum of approximately twenty percent of the base salary. A twenty percent bonus is not high enough to gap the thirty to fifty percent difference in pay between the private and public sector. Therefore, the Verifier Data for this argument can easily be rejected. The argumentation scheme above, meets the fidelity constraint, but is insufficient with regards to the quality constraint. Therefore, it is rejected.

There is another manner to back up the Claim that a bonus system allows the public sector to attract staff from the private sector. The implementation of a public service bonus system makes the incentive systems of the public sector more similar to those of the private sector. The OECD report of 2005 literally states:

To attract people from the private sector with the right kind of expertise, it is seen as necessary not only to match pay levels, but to adopt similar kinds of incentive systems.³⁷

35 See OECD, *Performance-Related Pay* (Paris, 2005). Martin Painter, “Rots, Perks and Fat Cats: Rewards for High Public Office in Australia,” in *Reward for High Public office: Asia and Pacific Rim States*, ed. Christopher Hood, and B. Guy Peters, (London: Routledge, 2002).

36 OECD, *Pay Flexibility in the Public Sector* (Paris, 1993).

37 OECD, *Performance-Related pay* (Paris, 2005), 34.

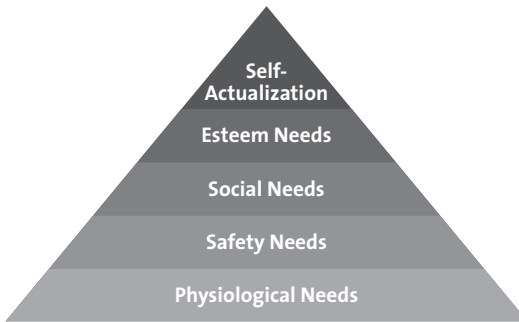
The following argument can be reconstructed:

[Data\Data]	A public service bonus system resembles the incentive systems of the private sector.
[Data\Warrant]	By matching the incentive systems of the private sector, the public sector can attract staff from this sector.
[Data\Claim]	A bonus system allows the public sector to attract staff from the private sector.

The Verifier Data of this argument is quite straightforward. However, the same cannot be said of the Warrant. The 2005 OECD report does not elaborate on why the incentive systems of the public and the private sector should match. Neither can this information be found in any political debate. If it is the case that employees are easier attracted to the public sector, if the private and public sector incentive systems are somewhat equivalent, it must be true that at the moment the unequal incentive systems are an obstacle for switching from the private to the public sector. Employees currently working in the private sector may be used to receiving rewards by means of a bonus system. Receiving a bonus can be considered to be a way of being recognized for the contribution they made to the company. Some private sector employees may feel that receiving this recognition is an essential part of their job.

[Data\Warrant\Data]	Employees in the private sector look for recognition by their employers.
[Data\Warrant\Warrant]	In order to attract people from the private sector, the public sector should implement incentive systems that, just like the private sector incentive systems, provide for recognition.
[Data\Warrant\Claim]	By matching the incentive systems of the private sector, the public sector can attract staff from the private sector.

Figure 6.2 Maslow's Hierarchy of Needs Pyramid



It could be argued that the longing for recognition is a typical characteristic of a human being. In 1943 Abraham Maslow introduced his now widely accepted hierarchy of needs³⁸, arguing that there are different levels of needs. The way these are ranked is depicted in the pyramid to the left. The need for recognition is part of the self-esteem need, the fourth need from the bottom. According to Maslow the esteem needs have to be fulfilled in order for one to feel confident, worthwhile, strong, capable, and useful. After these needs are satisfied one can move up to the highest level of the pyramid, the level of self-actualization. The self-actualization level is defined as the need for self-fulfillment. It concerns the maximum use of one's talents and capabilities. Self-actualization would be the chief goal of human beings.

A bonus can, like any other extrinsic reward, cause a feeling of recognition within an employee. It is as the Australian minister of treasury once said: "a bit like getting a star or a smiley on your homework".³⁹ If we accept Maslow's theory, this feeling of recognition is needed to get to the higher level of self-actualization. It could very well be that private sector employees get their required amount of recognition from the reward of bonuses. Only if they receive this recognition by their employers, they can self-actualize. Therefore, the argument can be made that these employees find it difficult to work for an employer that does not recognize their work in the same manner. In this case, they will feel less confident, strong or worthwhile.

By means of the implementation of a bonus system, the public sector can play a greater part in the fulfillment of the esteem needs. As a result, it could be that those

38 Abraham H. Maslow, "A Theory of Human Motivation," *Psychological Review* 50, No. 4 (1943), 370-96.

39 Dick, "A little extra on the Side."

employees that need that certain level of recognition by their employer are attracted to the public sector. However, the question remains if these people should work in the public sector. This question will be revisited in the evaluation part of this argument.

The Warrant of the Claim is that the public sector should attract people now working in the private sector. The Warrant of the attract staff argument implies that there is at the moment a need for new workers and those workers should come from the private sector. There are two options for the Backing Data of this Warrant. One the one hand, it could be that there is simply a lack of employees that are willing to work for the private sector. One the other hand, it is possible that at the moment the public sector does not attract the right kind of people. With regards to the fidelity constraint, the option that fits best in the argument is the latter one. Several politicians make reference to the fact that it is hard to find the right people for some very specific functions, frequently technical or managerial functions.⁴⁰ The following argument results:

[Warrant\Data]	Some positions in the public sector are hard to fill.
[Warrant\Warrant]	In order to fill all public sector positions, the public sector should attract people now working in the private sector.
[Warrant\Claim]	The public sector should attract people now working in the private sector.

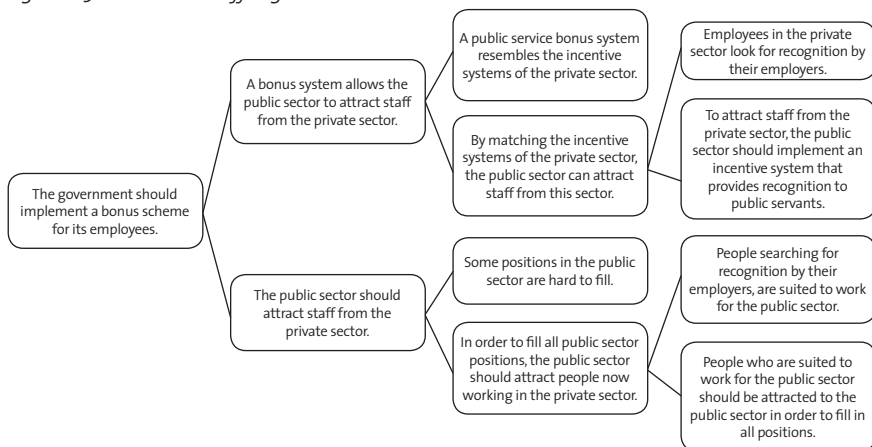
Apparently, politicians believe that current private sector employees are the right persons to fill in public sector positions. While verifying the Data, we found that in order to make the motivation argument complete, it must be true that employees in the private sector look for recognition by their employers. Hence, the argument implies that the public sector needs employees that look for recognition. People looking for recognition were after all the only ones that would be attracted to the public service by means of the implementation of a bonus system.

[Warrant\Warrant\Data]	People searching for recognition by their employer, are suited to work in the public sector.
[Warrant\Warrant\Warrant]	People who are suited to work for the public sector should be attracted to the public sector in order to fill in all positions.
[Warrant\Warrant\Claim]	In order to fill in all public sector positions, the public sector should attract people now working in the private sector.

40 See Dijkstal committee, *Over dienen en verdienen*; OECD, *Performance-Related Pay* (Paris, 2005).

Maslow's hierarchy of needs can help to understand what kind of people look for recognition in their job (1987). Maslow argued that every human feels the need to be acknowledged. According to the motivation argument, the public sector should employ those people that seek for recognition by their employers in particular. However, would the public sector not benefit more from people that have already fulfilled the recognition level of the pyramid? These people would strive for self-actualization, meaning that they try to do the maximum that is in their abilities. Maslow described self-actualized people as spontaneous, focused on problems outside themselves and independent. They would also have: "an unusual ability to detect the spurious, the fake, and the dishonest in personality, and in general to judge the people correctly and efficiently".⁴¹ These characteristics seem to be quite useful for someone working in the public sector.

Figure 6.3 The Attract-staff Argument



5 Evaluating the Attract Staff Argument

In the attract staff argument there is one premise that raises doubts, specifically the Backing Data that people looking for recognition by their employer are suited to work for the public sector. During the reconstruction, it was already mentioned that these people may not be the people the public sector should be searching for. There may be some positions in the public sector that are hard to fill in. It is not in the scope of this paper

41 Maslow, "Human Motivation", 31.

to execute empirical research to verify that. Nevertheless, it can be questioned whether the people that are attracted to the public service by means of a bonus system have the desired characteristics. Employees looking for recognition are by definition extrinsically motivated. In the evaluation of the motivation argument, it was already established that generally citizens want their public servants to act mainly out of a feeling of duty to serve the public. Hence, it is desired that public servants are to a certain extent intrinsically motivated. However, it is doubtful if these people are attracted to the public service by means of a bonus system.

One can wonder if the public sector should become more like the private sector. Maybe government would become more efficient if the differences between the private and the public sector are reduced. Nowadays, the differences between the private and the public sector are sometimes quite small already. For example, it can be argued that there is not that much of a difference between some managerial functions at the police and a those at a private security company. However, research showed that private sector employees still attach a higher value to extrinsic factors than public servants.⁴² Maybe, this has got something to do with the role of the public service in society. Public servants are proud on the fact that they serve their country. This can be considered as beneficial for the performance of the public service. Therefore, it is questionable if the public service should try to attract private sector employees that attach a relatively high value to extrinsic factors. If we accept that the public service should employ intrinsically instead of extrinsically motivated employees, the attract employees argument is not convincing.

6 Conclusion

Two-third of all OECD countries has implemented a bonus system to reward their employees. The main arguments in favor of these bonus systems are that they would motivate public servants and that new talented staff is attracted to the public service. By means of Political Discourse Evaluation, it becomes clear that these two arguments are not completely cogent. Officials making these arguments appear not to take into account that there is something that makes public servants different from private sector employees. Working in the public sector can be considered to be a special calling and public servants often regard their job as vital for society at large.

42 Perry, "Measuring Public Service Motivation," 5-22.

The incentive systems that may work perfectly well in the private sector may not be that beneficial for the private sector, seeing that the motivation of public servants is of a different nature than the motivation of private sector employees. Therefore, the implementation of a bonus system, a scheme focusing on extrinsic rewards, may not motivate public servants. The fact that public servants are intrinsically motivated is supported by academic research.^{43,44} However, this research has been executed in either the United States or the United Kingdom. Therefore, there is no proof that public servants in all OECD countries are intrinsically motivated. Considering the fact that the public services of the OECD countries show significant resemblances, it may, however, well be the case. Nevertheless, more research in other OECD countries should be done to confirm that in all countries public servants are generally more intrinsically motivated than their private sector counterparts.

This paper only analyzed the argument in favor of bonus systems. The arguments against public service bonus system often attack the motivation argument.⁴⁵ Frequently, empirical research within public service departments that implemented a bonus system is quoted as evidence that there is no improvement in performance after the implementation of a bonus system. The evaluation of the motivation argument shows why a bonus system may indeed not increase the performance of the public service. Furthermore, it is argued that a public service bonus system would increase friction between those who receive a bonus and those who do not.⁴⁶ As a result, the performance of the public service would decrease. Finally, the argument is made that the public service should not pay bonuses out of the national treasury.⁴⁷ The fact that this paper argues that major arguments in favor of the bonus system are questionable, does not mean that the arguments against the bonus systems are convincing. These arguments should be subject to Analytical Discourse Evaluation in order to make assertions about their soundness. However, it is not in the scope of this paper to apply Analytical Discourse Evaluation to these counterarguments. Further research could investigate these arguments.

43 Ibid.

44 See: Crewson, "Public-Service Motivation," 499-518. Houston, "Public Service Motivation," 713-728. Ingraham, "Of Pigs in Pokes and Policy Diffusion," 348-355. Rainey, "Reward Preferences among Public and Private Managers," 288-302.

45 House of Commons, "Executive Pay in the public sector: Written evidence."

46 Micheal O'Donnell, "Creating a Performance Culture? Performance-based Pay in the Australian Public Service," *Australian Journal of Public Administration* 57, No. 3 (1998), 28-40.

47 Ronald van Raak, *Questions to the Dutch minister of internal affairs*, August 5, 2010, <http://www.rijksoverheid.nl/documenten-en-ublicaties/kamerstukken/2010/08/26/antwoorden-op-kamervragen-van-het-lid-van-raak-over-toepassing-van-de-wachtgeldregeling-in-enkele-gemeenten.html>.