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OPI's research, meetings and papers reflect its central interest in public sector performance.

Institutions, incentives and public sector performance

Papers [online](#)

Do we need a theory of government before we measure government effectiveness?

Matt Andrews (Harvard Kennedy School of Government)

Comprehensive Performance Assessment: efficiency versus fairness?

Peter John (Institute for Political and Economic Governance, Manchester)

Presentations [online](#)

Presentations from the January symposium are available.

New papers

'Organisations are cakes not cars': getting the public sector incentive mix right

Fiona Murray

A classical problem for the state is how to ensure that public sector employees do not pursue individual interests that result in a lower volume or quality of public services. As a result, a large number of incentive schemes have been introduced to align employee and organisational objectives including performance-related pay, league tables and competition among providers.

IN THIS ISSUE

[January symposium](#) papers online

[Private sector contributions](#) meeting & papers online

[Regulation, motivations and the NHS reforms](#) webpage released

[New publications](#) article on social capital & health financing

Fiona Murray reviews the principles that form the basis of many public sector incentive strategies and considers the implications of each. The paper highlights several difficulties that create challenges for organisational incentive schemes generally and for the public sector in particular. The paper concludes by identifying factors that play a role in public sector productivity including leadership, the economic and social setting and intrinsic incentives.

Access the paper [here](#).

"OPI's mission is to contribute to public sector performance by providing international comparative evidence about what works best in different settings and why."



Adjusting to institutions: the politics of indigenous institutions

Cristopher Ballinas-Valdes (Hertford College, Oxford)

It is widely recognised that institutions, ‘the rules of the game’, matter for development outcomes. For instance, two commonly held principles upon which many institutional reforms are based are improving the degree to which political and economic commitments are credible and setting the ‘right’ bureaucratic incentives. Drawing on cases of institutional reforms in Kenya, Mexico, and India, Cristopher Ballinas-Valdes highlights the importance of ‘indigenous’ institutions such as local norms and customs governing property rights and the local systems for managing labour force agreements. He argues that if ‘indigenous’ institutions are overlooked, reformist policies have limited success, produce unwanted results and often lack legitimacy. Rather than ‘adjusting institutions’ he proposes that reformers should ‘adjust to institutions’.

Access the paper [here](#).

Local Government performance: maintaining the momentum

Clive Grace and Steve Martin (University of Cardiff Business School)

Local public services in England have been improving; partly as a result of central government strategic and funding reforms, partly from the support and assessment provided by national bodies and inspectorates and partly as a result of increasing local authority leadership.

Clive Grace and Steve Martin argue that maintaining this momentum will depend on changing the incentives in the local government sector. Citizens have become more demanding and service innovations will need to be driven increasingly by varied local user needs. Where improved service delivery means authorities acting in partnership with the private sector, this may mean shifting lines of accountability from traditional approaches to a shared basis. In all, this implies transforming the approach to local government management and service delivery. Local governments need to take the lead in promoting service delivery innovation and central agencies need to be less directive and more supportive. This paper highlights the need for a new ‘performance framework’ to take into account the new circumstances and challenges associated with innovation in local government.

Access the paper [here](#).

Papers in preparation

Dirk Haubrich, Roxana Gutierrez-Romero and Iain McLean (Department of Politics and International Relations, Oxford) on deprivation and local government performance.

Geeta Kingdon (Institute of Education, University of London) on a political economy of education in India: the case of Uttar Pradesh.
Manisha Singh (India Development Foundation) on the determinants of educational outcomes in India.

Ros Levacic (Institute of Education, University of London) on optimal teacher contracts.

Karen Bloor (Department of Health Sciences, York) on improving productivity in the medical labour market.

Adam Oliver (LSE Health & Social Care) on the role of leadership in organisational incentive performance.



Private sector contributions to public sector performance

Meeting on 31 March 2008: 'Managing incomplete contracts'

Rocco Macchiavello (Nuffield College, Oxford) and Linda Siegele (Foundation for International Environmental Law & Development) introduced the theory and evidence for why extractive industry corporations engage in contracts that are not full specified and the incentives they generate. The discussion focused on the recent surge of contract renegotiations in mineral-rich countries and how theory or evidence might inform strategies to manage them. A meeting note will be available shortly on the private contributions [webpage](#).

Presentations from the following speakers are also available [online](#):

- Tim Besley, London School of Economics and Political Science & Bank of England Monetary Policy Committee
- Adrian Henriques, University of Middlesex
- Graham Baxter, International Business Leaders Forum
- Rocco Macchiavello, Nuffield College, Oxford
- Roger Hay, Oxford Policy Institute

'A question of legitimacy'

Legitimacy is the widespread perception that an organisation's actions are appropriate. Cecilia Perla explores the importance of corporate legitimacy in relation to private contributions to public sector performance. She argues that a perceived lack of legitimacy may be a major impediment to public-private collaboration. The paper examines the notion of 'appropriate' or 'legitimate' corporate behaviour from the perspective of different stakeholders – shareholders, civil society and governments – and how businesses have to reconcile them before undertaking effective collaboration with public sector organisations. It considers how social expectations about the acceptable level of business involvement in public affairs differ across countries and how businesses need to be aware of the boundaries of business legitimacy in each context. Finally, it offers a set of conditions under which firms might be better equipped to maintain – and even increase – their legitimacy to help governments improve their performance.

Access the paper [here](#).

Other papers from this series [online](#) include:

- 'Does disclosure improve behaviour?'
- 'The architecture of corruption'





Regulation, motivations and the NHS reforms

This study at a London teaching hospital explores the relationships between the introduction of stronger managerial and financial incentives during the NHS reforms and levels of clinical activity and service quality. Reviews of selected literature on 'public service motivation' have been completed, questionnaires have been designed and sources of secondary data are being explored. The main study involving present and past clinical staff (75 doctors and 75 nurses) will begin later in the year. The project [webpage](#) includes a description of the research, links to relevant data and a review of literature on public service motivation.

The role of 'public service motivation'

What is 'public service motivation'?

A widely cited definition is from Perry and Wise (1990: 368) 'an individual's predisposition to respond to motives grounded primarily or uniquely in public institutions'. In some analyses, it is theorized that when an organisation produces output that an employee deems socially valuable, the individual may obtain a degree of added utility by contributing to the organisation and its objectives.



What does it result in?

Public service motivation is claimed to promote 'pro-social' behaviour by increasing effort to further the wellbeing of others: pupils, patients, social welfare applicants. Commonly cited examples of 'pro-social' behaviour include workers who 'donate' labour by working in excess of contracted hours and the provision of additional support to co-workers that is not coerced or rewarded extrinsically. There is considerable and growing interest in the concept, partly as a reaction to recent public sector reforms that are based on increased managerial control and financial incentives and partly as many see such reforms contributing to a decline in 'the public (ethic)' (Marquand, 2004). Rebuilding public sector motivation is viewed as a way to improve public service quality and volume without incurring the transaction/monitoring costs associated with 'higher powered' incentives such as performance-related pay.

What are the sources of public service motivation?

Two primary sources of have been identified in the literature. It may be constructed through individual experiences including life events, family, religion, cultural norms and educational influences. Public service motivation may also be cultivated by organisational culture through job characteristics, organisational incentives and the work environment.

Is there a rate of substitution between the intrinsic incentives embodied in public service motivation and 'higher' powered extrinsic incentives?

There is an ongoing debate about the way financial incentives can affect intrinsic motivations such as public service motivation. Both the psychology and economics literature suggest the possibility that intrinsic incentives may be 'crowded-out' by higher-powered extrinsic incentives, and that there may be a tradeoff between these two types of motivations. However, a more recent development on this theory suggests that when extrinsic rewards are perceived as supporting rather than controlling, they will 'crowd in', that is increase, intrinsic motivations. In a study on the way financial remuneration affects research publications in Denmark, Andersen and Pallesen (2008) found evidence in support of this theory. This result is attributed to the belief that the affected individual views an additional (extrinsic) reward as recognition of her intrinsic values.

References

- Andersen, Lotte Bøgh and Pallesen, Thomas (2008) 'Not Just for the Money?' How Financial Incentives Affect the Number of Publications at Danish Research Institutions, *International Public Management Journal*, 11:1, 28-47
- Marquand, David (2004) *The Decline of the Public: The Hollowing Out of Citizenship*, Polity Press, Cambridge
- Perry, James and Wise, Lois. 1990. The motivational bases of public service, *Public Administration Review* 50: 367-373.



New publications

Sustainable health financing in low-income countries: does social capital offer any insights?

Matt Jowett (WHO Regional Office for Europe)

Given that communities with high levels of interpersonal trust are more willing to pool risks, can social capital (relationships that allow individuals to access resources controlled by their associates) enhance formal arrangements such as participation in a community health insurance scheme? Matt Jowett poses this question. He points out that encouraging academic progress has been made on several related areas including how information flows affect reputation and the importance of rates of substitution between formal and informal arrangements. Despite the proliferation of academic interest in social capital, it has not been widely used to inform policy debates surrounding health financing in low-income countries largely because of its weak theoretical framework.



To resolve this, theory needs to take more account of the 'vertical' dimension of social capital (the relationships among people and institutions with differing degrees of socio-economic status or power), for example how much trust individuals place in government health agencies or health insurance bodies to deliver services. Theory also needs to consider the negative consequences of social capital, for example, its effect on levels of organised crime. At a minimum, the concept of social capital allows us to incorporate thinking from sociology, political science and development economics into the construction of public policy.

The paper is available [here](#).

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