

MOTIVATION AND PERFORMANCE RELATED PAY IN THE PUBLIC SECTOR: A CASE STUDY OF THE INLAND REVENUE

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Abstract.

Performance related pay has been extended to practically the whole of the Civil Service over the last few years, and the Chancellor of the Exchequer recently announced the Government's intention to enlarge its role even further. Almost no serious work on seems to have been published on whether the existing systems have succeeded. The present study, directed solely at the Inland Revenue, begins to fill the gap.

Performance Pay was introduced for the majority of staff at the Inland Revenue in 1988. The reason for doing this is not completely clear but the central justification for performance related pay must surely be that it acts as a motivator. We therefore wish to establish whether Revenue staff have been motivated to improve the quality and quantity of their work in response to Performance Pay. We surveyed the views of nearly 2,500 staff on the impact of the Performance Pay system on their own behaviour and that of others.

Our first finding is that the majority of Revenue staff support the principle of performance related pay but that a significant minority feels hostile to it. Our second finding is that any positive motivational effects of Performance Pay have been, at most, very modest among Revenue staff. Even worse, there is clear evidence of some demotivation among staff. It is by no means implausible that the net motivational effect has been negative.

The main reason for this failure to motivate looks to be that the allocation of performance payments is seen by very many staff to be unfair. Awards are given only to those who have received good appraisal ratings, but many of our respondents feel that the appraisal system has been corrupted. A second reason is that staff feel the amount of money involved in performance pay awards is simply not large enough to justify a change in behaviour. A third reason is that very many staff feel that they are already working to the right standard and that they cannot improve.

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MOTIVATION AND PERFORMANCE RELATED PAY IN THE PUBLIC SECTOR: A CASE STUDY OF THE INLAND REVENUE

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1. Introduction.

Systems of performance related pay have been extended to practically the whole of the Civil Service over the last few years, and are now widespread within the public sector at large. It is still the case that for virtually all staff, the importance of the performance related elements is small in relation to total pay but the direction of change is unambiguous. Performance related pay in the public sector is likely to become more extensive over time and to comprise a growing part of the typical public sector worker's pay packet.

The Chancellor of the Exchequer recently underlined this, and gave an insight into some of the accompanying reasoning of the present Government on this issue, in his reply to a Parliamentary question (24.7.91). He noted that:-

"It is important that pay systems in the public sector should make a regular and direct link between a person's contribution to the standards of service provided and his or her reward.....Pay has an important part to play in raising the quality and improving the responsiveness of public services - a key theme in the Citizens' Charter..... The Government now wants to introduce more flexible pay regimes for the Civil Service, both nationally and locally.....The new pay systems must.....be demonstrably beneficial to the citizen, fair to the employee and linked to the delivery of high quality public services.....This means developing pay structures which reward good performance and penalise bad.....the Government has concluded that the [existing pay] agreements as they stand do not provide a framework that is fully capable of meeting the needs of the Nineties..... I therefore propose to put in place a range of forms of performance related pay in order to achieve a closer link between performance and reward both for individuals and for groups of staff. This will be an important means of securing the objective of improving the quality of public services, which is at the heart of the Citizens' Charter Programme. Over time, performance will come to determine a larger proportion of the paybill without performance pay becoming a disguised way of providing unacceptably high increases in the pay bill"

These views are not new. When reviewing the experience of performance related pay for the senior grades of the Civil Service, the 1990 Review Body of Top Salaries stressed management's goal of encouraging and rewarding good performance as the purpose behind relating pay to performance. But before Governments commit themselves to enlarge the role for performance related pay in the Civil Service, it would seem only prudent to consider whether its application to the Civil Service so far has been a success. Only as a result of careful empirical analysis can the authorities be confident that performance

related pay in general, and specific schemes in particular, work in the Civil Service. In fact, almost no serious work on this question seems to have been published, although much may have been done behind the scenes. The present study begins to fill that gap.

Performance Related Pay in the Inland Revenue.

The precise form of performance related pay varies significantly amongst the different parts of the Civil Service, but the objectives behind its growth seem to be fairly common to the different parts. The current system in operation in the Inland Revenue ('Performance Pay') was introduced in the 1988 Pay Agreement¹, which had a number of objectives laid down in its preamble, as follows:-

- i) to secure the confidence of the public in the system for determining the pay of the staff covered by this Agreement by providing that their pay shall be such as, taking one year with another, to recruit, retain and motivate civil servants of appropriate calibre to perform efficiently the duties required of them;
- ii) to secure the confidence of the civil servants in the Inland Revenue at all levels covered by this Agreement that their pay will be determined fairly;
- iii) to enable the Government to reconcile its responsibilities for the control of public expenditure with its responsibilities as an employer;
- iv) to provide greater flexibility in the management and use of the staff concerned and better opportunities for career development;
- v) to provide for equity of treatment while also providing for flexibility to deal with particular pay problems;
- vi) to link the pay and the associated personnel management arrangements;
- vii) to provide incentives for improving and maintaining efficiency in the Inland Revenue;
- viii) to reward sustained high performance;
- ix) to maintain the openness of all the rules and provisions of the pay, promotion and career development arrangements.

These objectives refer to the Agreement as a whole and are not confined to Performance Pay, nor are they very explicit about the nature of the link between pay and performance. The relationship is indeed a complex one, and is hotly debated in the scientific literature. This is partly because of conflicting views among researchers as to the nature and determinants of employee motivation, but also because of the difficulty of measuring performance, and indeed, of deciding which of its dimensions are the critical ones.

Yet despite these problems, introducing any scheme of performance related pay makes little sense unless it motivates staff to work better in some respect or other. It is implausible, for example, that its objective should be simply to reward past performance unless this were also thought to encourage good performance in the future. The central justification for performance related pay must surely be that

it acts as a motivator.

The form of the Inland Revenue's system of Performance Pay is that staff who are judged to have performed sufficiently well in their work can be awarded additional pay increments. The judgments about staff performance are made through a system of staff appraisal, the current version of which dates from the mid-1980s and leads to individual staff being rated annually on a scale of one to five, the so-called "Box markings".

The appraisal system involves a number of stages. First there is an annual discussion of individual work objectives (the 'job plan') for the coming year between each member of staff and his or her immediate supervisor, the 'Reporting Officer'. Secondly, there is supposed to be frequent review of achievements in relation to this job plan, which may in turn lead to the plan being revised. Finally, the Reporting Officer is asked to rate the performance of the staff member at the end of the year according to thirteen different criteria:

- | | |
|-----------------------|---|
| Standard of work | a) quality |
| | b) quantity |
| Personal skills | c) planning |
| | d) problem solving |
| | e) negotiation (if applicable) |
| | f) decision making |
| Management | g) of staff (if applicable) |
| | h) of other resources |
| Communication | i) oral |
| | j) written |
| Working relationships | k) with colleagues |
| | l) with the public |
| Knowledge | m) professional and technical knowledge |

(Source: Inland Revenue Staff Report Form E1A (C&T)).

These ratings, plus impressions from the preceding discussions concerning the job plan, then provide a basis for the overall Box marking each member of staff receives.

An important check on the whole process is provided by the "Counter-signing Officer" who has to vet the reports of each Reporting Officer, and who may ask for justification of particular Box markings given. Clearly, this makes it possible to achieve consistency in appraisal standards among Reporting Officers, but staff may also feel that it enables management to overrule the award of good Box markings for reasons that have nothing to do with individual performance.

The outcome of this process is illustrated by the results for 1988 in Table 1. A Box 1 marking is awarded for outstanding performance "well above the requirements of the grade and consistently maintained"; a Box 2 is awarded for performance "significantly above requirements"; a Box 3 is given for performance which "fully meets the normal requirements of the grade", a Box 4 for performance which is "not fully up to requirements", and a Box 5 for "unacceptable" performance.

Table 1. Appraisal Box Markings by Grade: 1988, percentages.

	Box 1	Box 2	Box 3	Box 4	Box 5
Inspector (S)	11.5	61.0	27.0	0.5	-
Inspector	6.0	49.0	43.5	1.5	-
RE	5.0	45.0	48.0	2.0	-
RO	4.5	37.5	55.5	2.5	-
RA	14.0	42.5	41.5	1.5	-
Total	7.0	43.0	48.0	2.0	-
RO Male	5.0	34.9	57.5	2.1	0.5
RO Female	4.7	37.7	56.3	1.1	0.2

Note: the following abbreviations are used in this and subsequent tables: RE, Revenue Executive; RO, Revenue Officer; RA, Revenue Assistant.

Source: IRSF Assessment Dec. 1990, based on data provided by the Inland Revenue.

It should be stressed that, since 1988 and for all grades, the proportions of Revenue staff awarded Box 1s or Box 2s have significantly declined. Thus, the proportion of staff on grade Inspector (S) who were given a Box 1 fell from 12% in 1988 to 5% in 1991; the corresponding figures for Box 2s were 63% and 43%². The reasons for this decline are not clear but it seems most unlikely that it reflects a widespread decline in staff performance. It is true that Revenue staff had been paid somewhat more than comparable Civil Servants for a number of years; it is also true that Civil Service staff outside the Revenue seem often to qualify more easily for Performance Pay Awards, reflecting perhaps the different rules on performance related pay in their particular Pay Agreements. It is possible that the Revenue has been using its system of Performance Pay to deny high Box markings and control its wage bill more aggressively than have other Civil Service employers.

According to the Revenue Pay Agreement, staff at the maximum of the incremental pay scale for their grade qualify for a Performance Pay Award if they achieve either a Box 1 marking, or two consecutive Box 2s. Those not on their

scale maximum may be made a Performance Pay Award only if they gain a Box 1.

The form taken by Performance Pay is that of additional increments. Box 1s who are not on the scale maximum for their grade move up their scale more quickly with an accelerated increment; those who are on the scale maximum get "range points" beyond the maximum of the pay scale for a particular grade. Staff may earn up to three such range points. If they gain a Box 1 marking they move up a whole increment on their pay spine. If they gain two consecutive Box 2s, they move up the equivalent of half an increment³. The absolute size of increments varies by grade. For Typists and Revenue Assistants, the maximum reward for sustained outstanding performance under Performance Pay would be three whole increments over their scale maximum, a pay rise over time of up to 22% for a succession of Box 1s. For Inspectors, the corresponding increase would be 12%. The intermediate grades of Revenue Officers and Revenue Executives respectively could earn an extra 20% and 15%. A succession of six Box 2s would qualify for roughly half these amounts⁴.

This form of reward means that the performance related pay element is virtually permanent, i.e. they are analogous to normal service-related increments. They could in principle be withdrawn after a period of unsatisfactory performance but this is, apparently, almost unknown⁵. They are however 'clawed back' on promotion to a higher grade as an officer's range point is translated into a higher initial point on the scale for the new grade.

Apart from recognising the need to manage staff effectively, the 1988 Pay Agreement also recognised the Government's need to reconcile its responsibilities for the control of public expenditure. The Agreement therefore set a ceiling on the total amount which the Revenue could award each year for Performance Pay. In the Parliamentary Answer quoted above, the Chancellor of the Exchequer stated his intention that Performance Pay should not become a disguised way of providing "unacceptably high increases in the pay bill". The 1988 Pay Agreement states that "it is expected that if reporting and marking criteria are properly observed the cost" of Performance Pay "will not exceed (nor fall substantially short of) the cost of giving 25 per cent of the staff in the grades covered a range increase on the spine which they are on.." (para 13 vi). A cost ceiling of similar magnitude was applied in a number of other Civil Service performance related pay schemes in force at that time.

The effect of such a "quota" on the amounts paid out has evidently given rise to problems with performance related pay schemes in other parts of the Civil Service. For example, the Review Body of Top Salaries looked at the arguments for increasing the eligibility limit from 25% to 35% for senior grades in the Civil Service (Grades 3 to 5), pointing out in particular the need to motivate the

majority of staff who are "fully satisfactory performers" (RBTS 1990) but who would not be awarded performance pay.

Currently, between about 15% and 30% of staff in the grades organised by the Inland Revenue Staff Federation (IRSF) are in receipt of Performance Pay depending on grade: about 15% of Revenue Assistants, and about 30% of Revenue Executives are getting it, with Inspectors and Revenue Officers in an intermediate position.

The present enquiry.

It was noted above that the central justification for performance related pay must be that it acts as a motivator. This study seeks to establish whether this has been the case for Performance Pay in the Inland Revenue. Specifically it seeks to establish whether the staff there in the grades represented by the IRSF have been motivated to improve the quality and quantity of their work in response to Performance Pay. It cannot be claimed that this represents a complete evaluation of Performance Pay. That would be a formidable undertaking, and would require, at a minimum, unambiguous and 'objective' measures of performance, such as changes in the amount of post dealt with, or the number of pages typed. These could be calculated for individual members of staff or for groups, and comparisons might be made cross-sectionally or over time. The measures would also have to be a complete rather than a partial statement of performance, which implies different measures for different grades and tasks, and they would each have to be properly weighted according to their importance. All this would pose especially difficult problems given that the quality of performance is assuming so much importance but is so variable and hard to define.

We have not been so ambitious as this. Instead, we seek to probe a more limited question concerning the views of Revenue staff, from Revenue Typist to Senior Inspector, about how they believe Performance Pay has affected various aspects of their work, and that of their colleagues. This, we hope, will allow us to address two principal questions: (i) has Performance Pay succeeded in motivating Revenue staff, and (ii) why or why not?

Our work was initially stimulated by an approach from the IRSF. We subsequently approached the Inland Revenue official side to ask whether they wished to make it a jointly sponsored union-management study. The official side chose not to participate, but they did provide a great deal of valuable help with background information, and they cooperated fully with the research. In particular, they agreed to draw the sample to our specifications from their personnel records, and they distributed the questionnaires through their internal mailing service. The authors would like to express their very sincere thanks to the official side for all their assistance.

A draft questionnaire was piloted on, and small group discussions were held with, about 40 Revenue staff at one of their offices. The piloting and the group discussions had a significant impact on the final form of the questionnaire, which, together with frequency responses, is displayed in full in Appendix 1. In the summer of 1991 the questionnaire was sent to 4,000 Revenue staff in the grades represented by the IRSF. The method of drawing the sample meant that both members and non-members of the IRSF were surveyed. It is therefore very unlikely to be the case that the views reported below are those of union members alone. The returns were anonymous and confidential, and were returned in sealed envelopes via the Revenue's internal postal system but addressed to us at the LSE. All the returned questionnaires that reached us did so in unopened envelopes and have been seen only by the researchers and those who punched the data into the computer. There is no reason to believe that the replies were influenced by the possibility of favourable or unfavourable judgments from either management or the IRSF.

Of the 4,000 questionnaires sent out, 2,423 usable questionnaires were returned, giving a sample response rate of slightly above 60%. This is a very satisfactory response rate, especially as it was not in practice possible to send out reminders, and it may well reflect the interest which staff have in the issues being explored. Two sampling decisions were made prior to drawing the sample. First, the survey was confined to those in the Taxes and Collection Sections of the Revenue. The remaining Sections are relatively small, which is why they had to be omitted from the survey, but in what follows their omission could conceivably be important. It must be noted, however, that our results very strongly suggest that staff views on the impact of Performance Pay are not different as between Taxes and Collection. We therefore feel more confident that the omission of the other Sections does not lead to any significant overall distortion. The second sampling decision was to sample the different job grades disproportionately, taking a higher fraction of staff in the smaller grades. This was done in order to maximise the chance of obtaining statistically significant results with respect to job grade within our overall sample size. It also turned out to be the case that response rates to the survey varied by job grade, with significantly higher response rates coming from more senior staff. In order to obtain a representative picture of all staff in the population, therefore, the results were subsequently re-weighted to compensate both for the oversampling and for the differential response rates. All the results reported below use the re-weighted data.

Overall, the sample provides a good fit of the population values according to a number of characteristics of the Revenue's staff that could be checked independently; here we looked at grade, gender, length of service, region and section (Taxes and Collection). Also, and most importantly, there seems to be a good fit by Box marking, which suggests that the staff who replied had neither done particularly well nor particularly badly in comparison with staff as a whole.

There seems to be no reason to doubt the representativeness of our data, whether by employment characteristics or by experience of the Performance Pay mechanics. Detailed figures on 'fit' are shown in Appendix 2.

2. What do Revenue staff think about the principle of performance related pay?

Many workers are suspicious of, or hostile to, the principle of relating some part of their pay to performance. Others see nothing wrong with it or are actively in favour. Our first task was to gauge the views of the Inland Revenue staff on this prior issue of principle. Table 2 highlights some of our results.

Table 2. Inland Revenue staff views on the principle of performance related pay

6
2

	percentages	
	Yes	No
Performance Pay is good in principle (Q1)	57	40
On balance, for all its faults, it is better to have Performance Pay than not (Q7)	49	44
The idea of Performance Pay is fundamentally unfair (Q2)	36	58

These results are not far out of line with those in the Next Steps report (Efficiency Unit 1988), which reported that 70% of Civil Servants supported the general principle of rewarding good performance with better pay (Next Steps, para 17). Inland Revenue staff look to be somewhat less favourably inclined than this but, on balance, are clearly in favour of the principle of some linking of pay to performance. As is documented below, however, many of them have deep reservations about the operation of these links in the existing Revenue scheme. It may well be that these reservations have caused some people to be more hostile to the principle than they would have been if the operation of the Revenue scheme was seen to be more satisfactory. This interpretation is supported by the different response to the first two statements in Table 2. The second statement effectively asks respondents to take both principle and practice into account, and generates less support for Performance Pay.

It is also worth emphasising that a significant minority of Revenue staff have very strong objections to the principle of performance related pay. Those who expressed strong disagreement with the principle of performance related pay in the above statements were always more numerous than those who expressed strong agreement.

Our conclusion is that a majority of Revenue staff supports the principle of performance related pay but that a significant minority feels hostile to it.

3. Has Performance Pay motivated staff at the Inland Revenue?

This is a central focus of our research, but it is not a straightforward question to answer. We must first consider what 'motivation' means, and then consider where motivational change might be looked for.

Motivation does not automatically translate into performance. People can be highly motivated but still perform badly because of a range of impediments, e.g. poor management, inadequate training or obsolete equipment. Equally, people can be poorly motivated but perform well, for example if there is very tight management. Motivation, then, is something that can lead to better performance, but only when other conditions are met. We treat it as a willingness or preparedness to do something, which means that it is a state of mind. Sometimes, researchers make inferences about levels of motivation purely by observing performance. This can be legitimate but, equally, can lead to difficulties when other things are changing at the same time and are independently affecting performance. We have chosen a different approach and have measured motivation as the responses of staff to a variety of statements about themselves and their fellow employees.

The second problem is motivation to do what? The ultimate issue is whether performance at work will change because of a prior change in motivation. But performance covers a wide variety of behaviour, in the Revenue as elsewhere. In the case of the Inland Revenue, Performance Pay can be awarded only when staff receive a sufficiently high overall score in an appraisal process which formally takes into account up to thirteen aspects of behaviour (see above) ⁷. It was therefore felt appropriate to ask staff about most of these aspects of performance when trying to discover the motivational effects of performance related pay.

Some of the thirteen are seen to be more important than others. Discussions with a variety of people in the Revenue led us to the view that the two most important dimensions of performance for appraisal purposes were usually thought to be the quantity and the quality of the work done, but we explored a number of the others too. We also looked for motivational change with respect to some aspects of performance not located in the appraisal form. Table 3 shows some results. The form of all the statements was, has performance pay raised your motivation to....., or given you an incentive to.....?

Table 3. Staff assessment of their own motivational responses to performance pay.

Performance Pay has led you to:	Percentages	
	Yes	No
improve the quality of your work (Q31)	12	80
increase the quantity of your work (Q32)	14	78
work harder (Q28)	9	71
work beyond the job requirements (Q17)	21	70
give sustained high performance (Q20)	27	63
improve your priorities at work (Q22)	22	64

show more initiative (Q19)	27	61
express yourself with greater clarity (Q25)	13	67
be more effective in dealing with the public (Q27)	9	68
improve your sensitivity towards colleagues (Q23)	14	63

We also asked a general question about whether people thought that Performance Pay had raised their motivation at work. 12% said that it had, while 76% said that it had not.

It is clear from these results that, on their own assessment, relatively few Inland Revenue staff members feel that Performance Pay has provided them with an incentive, or motivation, to change their behaviour at work at all significantly. The results are especially disappointing for the crucial areas of motivating staff to improve the quality and quantity of their work, with fewer than 15% perceiving any positive change. It is also notable that staff feel that Performance Pay has had a negligible effect in motivating them to become more effective in their dealings with the public, with only 9% seeing a change. This last result is potentially of great importance because of the Government's hopes recently laid out in the Citizens' Charter.

It is possible that individuals are not always the best judges of their own behaviour, or indeed of their motivation. An alternative source of evidence is the judgment of those Inland Revenue staff who have to carry out staff appraisals, i.e. the Reporting Officers. We asked these, about 20% of our total sample, to respond to a number of statements on how they thought Performance Pay had affected staff. The results are highlighted in Table 4.

Table 4. The views of Reporting Officers on the impact of performance pay on their staff.

	percentages	
	Yes	No
Performance Pay has caused many staff to work beyond the requirements of their job (Q67)	15	79
Performance Pay has led many staff to give sustained high performance at work (Q69)	14	77
Performance Pay has helped to increase the quality of the work of many staff (Q70)	10	82

Performance Pay has led to an increase in the quantity of the work of many staff (Q71)	22	71
Performance Pay has made many staff more committed to their work (Q72)	12	79

These results certainly give no comfort to those who feel that staff might have understated motivational change. They fully confirm the earlier results that Performance Pay has had a very limited effect on positively motivating Inland Revenue staff. Indeed, the Reporting Officers were, if anything, even more sceptical of the system's success in this respect. Only on the impact of Performance Pay on the quantity of work done were Reporting Officers even a little more sanguine than staff as a whole.

So far we have been looking for the existence of positive motivational effects. There must, however, be the possibility that at least some Revenue staff have found the new arrangements demotivating. This might happen because some think the whole principle is unfair or because they feel, rightly or wrongly, that they have been cheated out of an award to which they feel entitled. One pointer in this direction is the element of strong disagreement with the principle of performance related pay, noted above in the discussion of Table 2. Another might be inferred from the detailed results lying behind that Table. If someone disagrees with a statement that Performance Pay has had a positive motivational effect, he or she might believe either that it has had no effect at all or that it has had a negative, demotivating one. Those who just express disagreement might feel that it has had no effect. Those who express strong disagreement may well be indicating the stronger negative effect of demotivation. It is notable that for many of the statements in Table 2, the number of people who expressed strong disagreement exceeded the total of those who expressed any measure of agreement at all. We would not wish to push this inferential line of reasoning too far but neither do we think that it is entirely without force.

The likelihood of an element of demotivation is also indicated by the responses to some of the statements in the first section of the questionnaire. There we asked staff to respond to a series of statements about the effect of Performance Pay not on themselves but on staff as a whole. Some highlights are given in Table 5.

Table 5. Staff views on some effects of Performance Pay of staff as a whole.
percentages

	Yes	No
Performance Pay has helped to undermine staff morale (Q16)	55	25
Performance Pay has caused jealousies between staff (Q14)	62	21
Performance Pay has made staff less willing to assist colleagues (Q4)	26	53

With a majority agreeing that the scheme had undermined morale or caused jealousies between staff, and a quarter agreeing that Performance Pay had made staff less willing to assist one another, the likelihood of some counter-productive demotivation is evident.

Our overall conclusion is that the positive motivational effects of Performance Pay, as it has been practised in the Revenue, have been at most very modest. It is hard to see that they have been felt to any degree by more than a small minority of staff. Further, the number who felt motivated to a powerful degree, as shown by the number who expressed strong agreement with any of the relevant statements, was always negligible. Even worse, there is clear evidence of some demotivation. Although we cannot be sure of this, it is by no means implausible that the net motivational effect so far has been negative.

4. How motivation was affected for different categories of staff.

The survey enables us to explore how different categories of staff judge the effects of Performance Pay. To do this, we report results for staff differentiated by their gender, their grade, their length of service in the Inland Revenue, by whether they have received a Performance Pay award, by whether they are on the maximum of their pay scale, by their latest overall Box marking and by their latest promotability rating. We also looked at whether their views varied by their area of work, and by whether they worked in Taxes or Collection, but a preliminary analysis revealed no differences in staff evaluation of performance pay between these characteristics.

Gender. Staff of both sexes showed very little positive motivational response as a result of Performance Pay, but female staff were slightly more positive, or slightly less negative, than their male colleagues. Table 6 shows some results on

the percentages agreeing with our questions ⁸.

Women were a little more likely to believe that performance pay had caused jealousies among the staff, but both sexes thought equally that it had helped to undermine staff morale. The differences on how Performance Pay had affected them personally were small, but where they existed, women had a slightly more favourable (slightly less unfavourable) response. These results may be less to do with gender as such than with other factors like grade.

Table 6. Staff judgements on the motivational effects of Performance Pay, by gender.

Question:		Percentages agreeing	
		Female	Male
16	Made morale decline	55	56
14	Has caused jealousies	64	59
32	More willing to raise quantity	14	14
31	More willing to raise quality	13	11
30	Raised my motivation	14	9
28	More willing to work harder	20	15
27	More effective with the public	9	7
25	Express myself more clearly	15	11
23	Made more sensitive to workmates	16	10
22	Get my priorities right	23	19
20	Sustained high performance	29	21
19	Encouraged my initiative	29	24

Grade. We found clear differences by grade in the impact of Performance Pay on motivation. Table 7 shows some results. More than half of the staff in all job grades think that Performance Pay has caused jealousies in the workplace, and, with the exception of RAs, the same is true concerning the effects on staff morale. There is no very clear tendency for adverse judgements about the effect of work relations to increase or decrease with grade, except for the somewhat lower figure for RAs.

Table 7. Staff judgements on motivational effects of Performance Pay by job grade.

Question		Percentages of staff agreeing					
		Job Grade		RE	RO	RA	RT
		Insp (S)	Insp				
19	Encouraged my initiative	20	18	18	25	40	37
20	Sustained high performance		22	17	19	25	34
	41						
22	Get my priorities right	20	16	15	20	29	29
23	Made more sensitive to workmates			11	10	13	12
	16			20			
25	Express myself more clearly		9	9	9	11	20
	22						
27	More effective with the public			3	5	4	10
	13			1			
28	More willing to work harder		14	12	11	15	29
	28						
30	Raised my motivation	10	9	6	11	18	22
31	More willing to raise quality		11	11	8	13	17
	13						
32	More willing to raise quantity			13	13	10	14
	18			17			
14	Has caused jealousies	58	63	65	63	55	66
16	Made morale decline	56	55	62	58	46	55

Turning to judgements about personal motivation effect of Performance Pay, staff in the less senior grades report a more positive motivational response towards Performance Pay. This is never expressed as outright enthusiasm, but Performance Pay does seem to have had a bigger impact on staff in the less senior grades. There appears to be something of a divide between Revenue Executives and above, and Revenue Officers and below in terms of its effects on personal motivation. Revenue Typists and Revenue Assistants showed the strongest positive motivational effects, although even on the question for which their agreement was highest ("has encouraged me to show more initiative") the "disagrees" outnumbered the "agrees" by about ten percentage points.

We cannot be sure why this relationship exists. One possibility is that, as a percentage of salary, a Performance Pay award is more valuable for staff on the lower grades. As we noted above, Revenue Typists can in theory eventually earn as much as 22% more through Performance Pay, as compared with only 12% for

senior Inspectors. This argument, however, must be heavily qualified by the fact that Box 1 and 2 markings are not given evenly across grades. The monetary incentive is clearly a product of both its size and the likelihood of getting it.

Another possible reason for the differential motivational response by grade is that many in senior grades have a somewhat different view of their work than those in the junior grades. They may, for example, already have somewhat higher levels of motivation, making the impact of Performance Pay more marginal.

Length of service. Length of service too is correlated with the motivational response to Performance Pay, with those who have been with the Revenue for a relatively long time being less likely to report a positive motivational response. Table 8 shows some results.

Table 8. Staff judgements on motivational effects of Performance Pay by length of service.

Percentages of staff agreeing		Length of Service in IR (years)				
		<5	5- 9	10- 14	15- 19	>=20
19	Encouraged my initiative	42	23	27	18	21
20	Sustained high performance	34	26	26	21	21
22	Get my priorities right	29	19	22	17	19
23	Made more sensitive to workmates		15	11	12	1 3
16						
25	Express myself more clearly	20	13	10	8	14
27	More effective with the public		13	8	6	5
7						
28	More willing to work harder	30	16	17	10	15
30	Raised my motivation	19	11	11	6	11
31	More willing to raise quality		19	11	12	8
10						
32	More willing to raise quantity		19	15	14	1 0
12						
14	Has caused jealousies	48	58	67	69	72
16	Made morale decline	41	52	61	62	64

As can be seen, the longer staff have been with the Revenue, the more likely they are to feel that Performance Pay has caused jealousies among the staff, and has led to a decline in morale. Likewise, the less time staff have been with the Revenue, the more likely they are to believe that Performance Pay has increased

their own motivation. But once again, although the differences by length of service are quite strong, even short service staff are more likely to judge that it has had no substantial effect.

The three characteristics discussed so far interact to some extent, as there are fewer women employed in the higher grades; also, because of the importance of internal promotion, there are more short service staff among the lower grades. Multiple regression analysis (not reported here) suggests that job grade continues to exert a distinct effect on motivation, and that for some measures of motivation, but by no means all, so too does gender. However, length of service seems not to have a reliable effect once other factors are taken into account.

Performance Pay awards, and being on the top of the pay scale. It might be expected that staff who have received a Performance Pay award might be more favourably inclined to the system and report a greater motivational change. The same might also be expected from those who are at the top of their pay scale, because for them Box 2 markings will bring an award. As Table 9 shows, these expectations are borne out.

Whether or not staff have received a Performance Pay award, and whether or not they are on the maximum of their scale, more than half of our respondents normally believe that Performance Pay has caused jealousies, and contributed to a decline in morale. Even on the one exception, the percentage of "agrees" still considerably outnumbers the "disagrees". Turning to the effects on personal motivation, having received an award does seem to be associated with heightened motivation as compared with the others. Again, however, even among those who have received an award, the majority believe that it has had little effect.

Table 9. Staff judgements on the motivational effects of Performance Pay by whether they have received an award and whether they are on the maximum for their scale.

		Percentages of staff agreeing			
		Performance Pay award		On pay max	
		Yes	No	Yes	No
19	Encouraged my initiative	31	25	35	24
20	Sustained high performance	34	22	30	24
22	Get my priorities right	27	19	26	19
23	Made more sensitive to workmates	17	12	15	13
25	Express myself more clearly	16	12	18	12
27	More effective with the public	9	7	12	6
28	More willing to work harder	21	17	25	15
30	Raised my motivation	15	10	16	10
31	More willing to raise quality	14	11	18	10
32	More willing to raise quantity	17	13	18	13
14	Has caused jealousies	66	60	54	66
16	Made morale decline	50	59	47	60

Note: some caution should be attached to the Pay Max question owing to the possibility that some respondents may have misreported.

Box markings and promotability markings. In line with these results, it would be expected that those with higher Box markings would report more motivational change in response to Performance Pay. Most of the respondents knew their latest Box Marking, although a greater proportion did not know their promotability marking, probably because they were new staff, or in junior grades and not interested.

Table 10. Staff judgements on motivational effects of Performance Pay by latest Box Marking

Percentages of staff agreeing		Boxmark		
		1	2	3
19	Encouraged my initiative	43	31	21
20	Sustained high performance	50	31	19
22	Get my priorities right	32	25	17
23	Made more sensitive to workmates	20	16	12
25	Express myself more clearly	21	15	11
27	More effective with the public	14	8	7
28	More willing to work harder	27	21	14
30	Raised my motivation	23	15	8
31	More willing to raise quality	21	14	10
32	More willing to raise quantity	18	16	12
14	Has caused jealousies	62	64	63
16	Made morale decline	40	51	63

Note: the numbers obtaining Box Markings of four and below were too small for reliable analysis.

Although reports of jealousies did not vary with box marking, those who had received a high box marking were much less likely to judge that Performance Pay had caused a decline in morale. This may reflect the judgements of a large number of the Revenue Assistants and Typists and of shorter service staff who obtained Box 1s. Among Box 1s, this was the only question of those analysed here for which positive judgements were neck and neck with negative ones.

As concerns individual motivation, receiving a Box 1 or 2 has a powerful effect as compared with a Box 3: receiving a Box 1 makes it twice as likely that staff will report increased motivation. Half of those getting a Box 1 report that it encouraged them to give "sustained high performance at work". However, it must be disappointing for management in the Revenue that even on this question, nearly half of the staff with Box 1s (44%) disagreed that Performance Pay had had any effect of this kind.

Table 11. Staff judgements on motivational effects of Performance Pay by their latest Promotability Marking

Percentages of staff agreeing		Promotability rating				
		1	2	3	4	5
19	Encouraged my initiative	30	32	27	22	25
20	Sustained high performance	36	31	24	18	25
22	Get my priorities right	27	25	19	19	20
23	Made more sensitive to workmates		15	19	12	10
	13					
25	Express myself more clearly	16	16	12	10	13
27	More effective with the public		11	8	9	5
	8					
28	More willing to work harder	20	22	19	14	17
30	Raised my motivation	19	16	13	8	10
31	More willing to raise quality		16	14	13	12
	11					
32	More willing to raise quantity		12	16	16	14
	12					
14	Has caused jealousies	63	63	62	61	62
16	Made morale decline	47	54	56	60	56

Staff's promotability marking bears a similar relationship with judgments about motivation to that found for box marking except that it is less striking. One reason may be because fewer staff in the junior grades reported their promotability marking, and it is these who seem to have been most motivated by Performance Pay.

The overall picture is that, on our measures, Performance Pay has succeeded in motivating a small percentage of the staff, particularly among the most junior grades, and among those with the shortest service. However, even among these groups, the majority of staff replied that there had been no motivational effect to most of the questions. Among the more senior grades and the longer serving staff, the effects on motivation were generally the weakest, and the reports of jealousy and lower morale associated with Performance Pay were the most frequent.

5. Why does the Inland Revenue system of Performance Pay fail to motivate staff?

There are many theories purporting to explain motivation, or the lack of it. Our data allow us to use two of these to shed light on why Performance Pay in the Revenue seems to be having so small a motivational impact.

One theory, expectancy theory, stresses the importance of a series of links between behaviour and the rewards accruing to that behaviour. For there to be a heightened motivation to perform, someone:-

- (a) has to feel able to change his or her behaviour,
- (b) has to feel confident that a change in the behaviour would reliably produce the rewards, and
- (c) has to value the rewards sufficiently to justify the change in behaviour.

Our results suggest that these three conditions are not all met for a large number of Revenue staff. Expectancy theory would therefore point to only modest motivational change.

Do staff feel that they can change their behaviour? We asked (Question 41) whether people felt capable of doing what is necessary to get an overall Box 1 or 2 marking in the future. This, it will be recalled, is a necessary condition if a Performance Pay Award is to be made. Only 6% felt that they were not capable of such a performance level, as against 81% who believed that they were. The first condition of expectancy theory was, therefore, clearly met.

Are staff confident that a change in behaviour will reliably produce the rewards? No fewer than 45% of our respondents were of the view that, even if their performance was good enough to merit a Box 1 or 2, it was doubtful that one would be awarded; only 40% believed that a good enough performance would produce the correct Box Marking (Question 44). This belief, whether justified or not, substantially reduces staff motivation to change their behaviour.

Do staff value the rewards sufficiently? Obviously, most staff want the money that a Performance Pay award brings. The key question is whether the amounts involved justify, in their minds, the extra effort involved. This condition cannot be entirely divorced from the preceding one because the expected value of the award depends partly on its size and partly on the likelihood of getting it. The responses to Question 42 give some idea of staff views on the size of the awards. Only 17% of our respondents felt that the financial reward from Performance Pay was a sufficient inducement for them to change their behaviour; 71% felt that it was insufficient.

Thus, two of expectancy theory's three conditions seem not to be met for the Revenue's system of Performance Pay, which provides a strong reason for its

failure to motivate staff. Other findings from the survey reinforce this conclusion and point to possible reforms that should be contemplated if motivational change is to be secured. Perhaps the single most important issue here is not so much the amount of money involved but the way it is allocated via the appraisal system.

The first Part of our questionnaire asked a number of questions about the appraisal system in the Revenue. Table 12 highlights some results.

Table 12. Staff views on the Revenue's appraisal system.

	percentages	
	Yes	No
Performance Pay has made staff question the fairness of the appraisal system (Q12)	87	5
Staff are frequently denied the Box Marking they deserve because of a quota system (Q11)	74	10
A good appraisal is too often overruled by someone higher up (Q5)	63	16
People get a good Box Marking not so much because of their performance but because managers want to reward their favourites (Q9)	35	45

There is obviously a consistency of response between these answers and those referring to individual feelings as to whether they would get the Box marking they felt they deserved if they were produce the appropriate performance. There is a widespread doubt about the fairness of the appraisal system. Worse, there is manifestly a view that the system of Performance Pay has undermined the integrity of the long-standing and well-established appraisal system. As we noted above, the mechanics of Performance Pay were bolted on to the existing appraisal system. It is clear that very many staff feel that the system has been abused and that they are now less likely to get the appropriate Box Marking. This belief is obviously reinforced by the fact that the frequency of Box 1 and 2s has been falling in recent years and is all the more damaging given the psychological importance staff see their Box marking as having. 63% of our respondents agreed that the personal satisfaction they derived from work was a sufficient incentive for them to do what was necessary to get a Box 1 or 2; only 26% disagreed (Question 43). The right Box marking is for many an important signal, confirming them in their self-esteem and in their belief that they are doing their work to the right level. For this to be jeopardised by a particular method of awarding

performance related pay is potentially serious for management.

We are not suggesting that the appraisal system necessarily is unfair, does operate a quota or is characterised by undue overruling from above. Our information does not permit us to make an authoritative judgment on these issues. But for staff motivation, what is important is what people think, and their thoughts are heavily in a negative, cynical direction.

It is interesting that some of these worries find an echo in the final section of the questionnaire, which was answered only by Reporting Officers, i.e. those who carry out staff appraisals. Table 13 gives some results.

Reporting Officers obviously see the need for review by their superiors in order to secure consistency between Officers. However, they also uneasy at the extent of overruling; evidently they feel that more than mere consistency is involved here. There is also a recognition that the financial link now raises problems; fully 33% expressed strong agreement with this viewpoint, which implies that the increased difficulties are by no means trivial for the Officers concerned.

Table 13. Reporting Officer views on the appraisal system.

	percentages	
	Yes	No
The vetting of reports higher up is necessary to ensure consistency between Reporting Officers (Q74)	77	16
Performance Pay has made Reporting Officers feel uneasy because their assessments are overruled by someone higher up (Q73)	60	28
Performance Pay has made the appraisal system harder to operate because it is now tied to money (Q75)	72	23

Our conclusion on this point is that the links between the appraisal system and the Revenue's system of Performance Pay have alienated many staff. They may well have helped to degrade a system which, for other purposes, was entirely suitable. Further, the scepticism which staff are acquiring about the integrity of the appraisal system provides a rational basis for the very limited motivational

improvement that Performance Pay has induced.

Expectancy theory provides one framework to assist in understanding why the positive motivational response to performance related pay in the Inland Revenue has been so muted. A second theory is Goal Setting Theory, which stresses the importance of management setting clear, acceptable and achievable work goals. Table 14 sets out some of our results.

Table 14. Staff views on work goals.

	percentages	
	Yes	No
Performance Pay has made supervisors set work targets more clearly (Q13)	27	43
Performance Pay has raised staff awareness of the appraisal system's objectives (Q10)	57	30
Performance Pay has had no effect on the quality of my work because it was already at the appropriate standard (Q24)	82	8
Communications between staff and management have improved as a result of Performance Pay (Q3)	9	72

These are rather mixed results. Goal setting theory predicts improved motivation if goals are set more clearly, as long as the goals are agreed and achievable. The responses to the first statement in Table 14 suggest only a modest improvement in this respect; those to the second statement suggest a more widespread improvement. Those to the other two statements, however, strongly imply no change. Goals may be clearer but the vast majority of workers seem to feel that they were already working to the appropriate standard. This may or not be true in objective terms but even if it is not true, our results strongly imply that management has not been able to convince their staff to the contrary. Without a commitment to new and more appropriate goals, goal setting theory would suggest a zero or very modest motivational impact.

Two further pieces of evidence which suggest the limitations on Performance Pay to motivate staff are relevant for goal theory. The first comes from the responses to Question 45, which indicate that 31% of staff believe that the nature of their job makes it very hard for them to be awarded a Box Marking of 1 or 2. The second

comes from the very last question on the survey (No. 77), which finds that no fewer than 46% of the Reporting Officers agree that staff do not have sufficient control over their work to make performance related pay a sensible idea.

6. Conclusions and Policy Implications.

Our findings in this Report are based on the views of a large and representative survey of Inland Revenue staff. To our knowledge, it is the first study of performance related pay of its kind for public sector white collar workers in the UK. For this reason alone, it deserves to be taken seriously. It is given added importance by the Government's declared intention of making performance related pay a more important feature of public sector pay arrangements in the future. Our conclusions deal first with the problems of performance pay at the Inland Revenue, and then look more widely at the implications of this experience for the Citizens' Charter.

Although the principle of relating pay to performance is widely accepted among Inland Revenue staff, our results strongly suggest that the system as it has been operated has had, at most, only a small positive motivational effect on staff. The small effect is found both in staff replies on general motivation, and from detailed questions relating to aspects of work that are assessed in the appraisal system. Moreover, the small motivational effect is recorded both in the replies of individual members of staff, and in the judgments of Reporting Officers concerning the behaviour of staff. Finally, these small improvements have to be set against certain negative consequences. The net effect on staff motivation could well be negative.

The positive motivational effects, such as they are, look to be somewhat greater among short service staff and those in the lowest grades, and weaker amongst longer service and more senior staff. We can only speculate on the reasons for this finding, but three possibilities deserve consideration. First, the potential rewards obtained from earning range points above the scale maximum are greater, as a percentage of salary, for the junior grades than for Revenue Executives and Inspectors. Secondly, the motivation of more junior staff may benefit disproportionately from the greater clarity with which work objectives are seen to have been set. Thirdly, it is possible that more senior workers are more accustomed to, and accepting of, the Revenue's organisational norms, and so perceive Performance Pay as a much more marginal influence on their own work practices. Although we asked no question on this directly, we did ask people to write in the main reason why Performance Pay had, or had not, made them willing to improve the quantity and quality of their work. A very large number of respondents volunteered that they always gave of their best, or always did quality work. This suggests that there is a strong sense of what good work is in the organisation, and that members of staff feel that they already conform to that

norm. This is borne out by the very large number of the staff who replied that their work was "already at the appropriate standard".

Why should Performance Pay have had so little general effect on motivation when 57% the staff reported being favour of the principle? First, and most importantly, it is widely judged to be unfair in its operation. Many staff believed that there was a quota applied to the Box markings awarded, and that even if their work were good enough, they would not be awarded a Box 1 or 2. Indeed, among the latter, 80% believed that there was a quota in operation on Box markings. About a third of the staff also believed that favouritism influenced Box markings. Objective evidence to support staff views on this matter is provided by the data on the incidence of Box 1 and 2 markings over the last four years. In this context, it is not surprising that staff perceive that the appraisal system has been twisted for purposes that have nothing to do with actual performance.

Another cause cited for the feeling of unfairness of operation was that the Box marking takes insufficient account of job allocations, i.e. of the detailed tasks that different staff are required to do. Further, about a third thought that their job gave them little opportunity to achieve a Box 1 or 2. The latter view was given support by the replies of reporting officers.

A possible line of argument from the Revenue's official side is that, in spite of this reaction, Performance Pay has been successful. True, only a small fraction of the staff seems to have been stimulated to perform better, but the cost of Performance Pay in terms of the fraction of the overall pay bill paid out is also fairly small. In net financial terms, it might have 'worked'. This may be correct, and certainly we do not have the data to disprove it⁹. However, one should also consider possible hidden costs in terms of loss of motivation elsewhere, and in the damage to established management systems. Three main potential costs stand out: possible damage to the work atmosphere; reduced staff confidence in the reporting system; and reduced motivation among more senior and longer service staff.

Many of the staff believe that Performance Pay has caused some deterioration in the atmosphere at work, reporting that it had caused staff jealousies and contributed to a decline in morale. From our survey it is not possible to evaluate the scale of such losses. Erosion of staff confidence in the reporting system is attested by the widespread belief that a quota is in operation of Box markings so that no matter how well people work, many would not be able to get Performance Pay. As the reporting system has other important uses, including clarifying staff's work objectives, and as high Box markings bring intrinsic rewards, its discredit among the staff could be quite serious in the longer run. Finally, it was observed earlier that longer service and staff in higher grades were less likely to be motivated by Performance Pay than more junior staff. Although our questions on motivation mainly asked whether Performance Pay had

increased motivation, and strictly speaking even a strong "no" answer does not imply actual loss of motivation, the possibility seems quite serious.

The Chancellor of the Exchequer has presented the extension of performance related pay in the public sector as an important step in achieving the Government's proposed Citizen's Charter, it being designed to make public services more responsive to individual citizens. The experience of the Inland Revenue's current scheme offers some indicators as to where Performance Pay should be improved if it is to meet the Government's expectations. The scheme in operation at the IRSF has a number of positive features in the eyes of staff. Many accept its principle; it has led to greater clarity in setting job targets for some staff; and it has motivated some of the staff. However, it has a number of serious drawbacks in its present form that will need to be attended to if it is to meet the Government's hopes.

The most important of these is that if increased use of Performance Pay is to succeed in making staff more motivated then it will be important both to increase the amount of money involved and to overcome its perceived unfairness of operation among staff. If this is not done, there is a clear danger that the scheme could become steadily more counter-productive.

Performance Pay and the Citizens' Charter.

The central role attributed to performance related pay within the Citizens' Charter as a means of improving public services and administration leads us to look at the Inland Revenue experience in a wider context. The scheme at the Revenue has many good characteristics, at least in principle: it is based on systematic performance appraisal; markings are vetted for consistency by senior managers; appraisals are open so that staff know how they have been evaluated. There is also a degree of union involvement and information: there is provision for appeals, and although a management initiative, it was introduced as part of a collective agreement. Many other public services involve a similar mixture of administrative and clerical duties and contact with the public, have broadly similar types of salary systems, and types of performance pay. In common with many parts of the public services, many staff at the Inland Revenue are committed to their part of the service, and believe they are providing an important public service. It is therefore reasonable to seek to draw a number of more general lessons concerning the use of merit pay in the public sector.

Should individual payments be greater ?

Many of the staff felt that the amount of money an individual receives in merit pay should be substantially increased. The same point was also raised in many of the written replies. It will be recalled that three successive box one

appraisals enable merit increases of between 12% and 22% of the scale maximum depending upon grade. However, the amount in any one year could be as little as one sixth of this as two successive box twos give rise to the equivalent of half an increment. Instead of the maximum of 12% or 22% obtained over three years, the box two path would amount to only 6% or 11% over six years¹⁰. Since obtaining two box twos is the most common way in which merit increments may be earned, the majority of individual awards tend to be quite small (2%-4% over two years).

The small size of most merit increments does not appear to be greatly at variance with similar schemes elsewhere. Surveys of private sector schemes in France reveal widespread use of merit pay (individualised pay increases) in recent years, but similarly low levels of annual payment (Bangoura 1987 and MinistPre du Travail, 1989). In Britain similarly low levels prevail for most non-managerial employees (IRRR 398). Hence, if it is true that these schemes are working in the private sector, then the size of merit payments to individual staff by the Revenue may not necessarily be the cause of poor results.

Although the rationale for increasing the size of merit payments may seem straightforward, it should be remembered that a large minority of the Revenue's staff thought that it should not be increased. In addition, many of the staff had found the scheme divisive, and many reporting officers said that it had made operating the appraisal system more difficult. These problems, and there is no reason to believe that they are confined to the Inland Revenue scheme, would presumably become more acute if the amounts paid to individuals were to be increased.

Should there be more beneficiaries?

An alternative to greater individual payments is to extend payments to more staff. At present, under the Inland Revenue scheme, a little less than a half of staff get box one or box two markings, and about four fifths of these would need to get the same box marking or better in the next year if they were to qualify. These four fifths would also need to be at the top of the scale for their grade. There are therefore a substantial number of staff who work at the required standard for merit pay, but are not eligible to receive it. This factor seems to have coloured the perceptions of some staff, but the difference of judgement between those on their scale maximum (and therefore eligible) and those not was too small to account for more than a small part of the perceived unfairness of the scheme.

Apart from the increasing the number eligible by removing the restriction on eligibility, merit pay could be extended to a larger number of staff, notably to those who "fully meet the normal requirements of the grade". It was noted by the

Top Salaries Review Body 1985 report that one of the dangers facing merit pay for senior civil servants was that imposing a quota on payments could demotivate the 'fully satisfactory performers who represent a large proportion of the employees in any organisation' ¹¹.

Under the present Inland Revenue appraisal scheme, under 3% of staff are rated as less than 'fully meeting the normal requirements' of their grade, so there is a clear danger that simply extending merit pay to those obtaining box threes would come very close to what the Chancellor described as disguised general pay increases. Some other branches of the British public service have indeed agreed to extend merit pay to those getting a succession of box threes. Effectively, such merit pay schemes are a hybrid of a reward for above normal performance, and one for length of service in the grade. Revenue staff were fairly evenly divided on whether or not merit awards should be open to all satisfactory performers. Extending performance pay in this way need not reward average and above average performers equally.

Should there be more information sharing?

There is a severe problem of asymmetric information in performance appraisal in many merit pay schemes both as concerns its distribution among staff, and the overall amounts paid out. Management controls and applies the information leading to appraisals. Although there is a limited appeals procedure, individual staff agree each year a set of targets with their respective reporting officers, and there are a number of specific criteria on which performance is appraised, the process depends essentially upon judgements by managers, vetted by more senior managers. In the Revenue, this has contributed to a significant number of the staff complaining of favouritism by managers, and that management manipulated appraisal markings by applying a quota.

Such problems are not peculiar to the Inland Revenue. Indeed, it has been argued that the slowing of the spread of merit pay in France in the late 1980s was due to union and worker attachment to existing pay systems (MinistPre du Travail 1989, and Sandoval 1991). In Italy unions have been leery of merit pay systems because, in their view, their operation gave management too much discretion (Della Rocca 1991).

The problem frequently lies less in the actual criteria for remuneration than in how they are applied and monitored. Indeed, our study indicated that a majority of the staff at the Revenue accepted the criteria implied by performance pay. In most countries, unions and employers have long experience of agreeing the criteria for remuneration, for example in job evaluation and job classification systems. The problem with merit pay, unlike these other systems, lies in the

informational asymmetry in favour of the employer that characterises most merit pay systems.

Pay bargaining is an adversarial process, but its purpose is to establish an agreement as to the area in which both parties can work together in good faith. That cooperation can be jeopardised if it appears that one side is taking advantage of its control of information to revise the terms of the agreement unilaterally, thus violating that good faith. The simplest way of reassuring employees and their representatives that the scheme is being operated in good faith is to provide for joint monitoring of the allocation of merit increases, and to have a strong appeals procedure so that individual employees feel they are being fairly assessed.

Should there be a quota on payments?

There are clear budgetary reasons why an employer might choose to introduce a quota on total merit payments under a new scheme. There is no way of knowing in advance how the behaviour of even a long established appraisal scheme onto which it is grafted might change. Even though senior managers might have a firm view of the purposes of performance pay, local managers who are responsible for motivating their staff could easily be tempted to award extra increments in exchange for more cooperation. Indeed, senior managers could fear that staff would threaten to reduce cooperation unless they were awarded better markings. There are numerous instances of such small group bargaining pressures on junior management, leading to an upward drift of payments, under piecework and similar output incentive systems (eg. Brown 1973).

On the union side too, it is easy to imagine why a quota might be necessary. It would be very difficult for a union negotiator to agree to a merit pay system in which management had complete discretion over the size of the kitty. Thus, in the 1988 agreement, the IRSF, the Inland Revenue, and the Treasury agreed an overall guideline concerning the amounts that could be expected to be paid out under merit pay. For the union it represented a minimum amount, and for management, a ceiling¹².

However desirable a quota may be for organisational reasons, there is a conflict of ethic between performance appraisal and a budgetary limit on merit pay as practised in the tax service. The logic of performance appraisal is tied to the inherent quality and quantity of individual staff acts. There is no logical reason, and no external limit preventing all of the staff getting excellent ratings simultaneously, although it might be improbable. Yet the logic of a fixed quota on merit payments is that even if all the staff work well above the requirements of their grade, most would not get performance pay awards. Since the awards

among those eligible are tied to their annual box markings, management could only prevent the quota on merit pay being exceeded if there were a corresponding quota on box markings.

Given the adversarial nature of bargaining relationships, the clear financial pressures on public sector pay bills, and the asymmetry of information, it is not surprising that many of the staff should suspect or fear that management manipulates the appraisal system. Thus, many of our respondents believed that staff were frequently denied the appraisal score they deserved because there was a quota on box markings, and that good box markings were too frequently overruled by more senior management.

Hence, although there are many good reasons for instituting a quota on payments, the way it has been tied to the performance appraisal system in the Inland Revenue, as in much of the rest of the Civil Service, threatens to undermine trust in appraisal.

Should performance pay be self-financing?

The main argument on the management side for a quota on payments is caution, even though with hindsight it would appear from much of the preceding discussion that such caution has jeopardised the success of the scheme. Yet, success in raising motivation and output raises the possibility that it could be self-financing. In recent years, it appears that a number of private sector manufacturing flexibility deals have contributed to higher productivity (Marsden and Thompson 1990) and some more recent deals over working time reduction in engineering appear to have given especially large productivity gains (Richardson and Rubin 1991). Could not the public sector follow this example?

Doing away with a fixed quota, and insisting that merit pay be self-financing might be another solution, using merit pay as a means of sharing the gains¹³. The beneficiaries might be determined as currently, but the size of the kitty would be variable. In this way, management would have no incentive to manipulate the appraisal scores downwards, so the perceived unfairness might be less.

The main problems with this approach lie in the difficulty of measuring the gains accruing to the Revenue in a manner that inspires the confidence of both staff and higher management. Although some quantitative targets are used, they are not the only ones set for the Revenue (eg. quality of service in the Citizens' Charter), and the latter are not easily measured. In addition, the direct impact of performance pay is harder to identify than that of changing a specified set of working practices, such as ending particular job demarcations.

However, it is possible that these objections are overstated. Much of the administrative work of the Inland Revenue, as of other branches of Public Administration, lends itself to quantitative indicators. Indeed, managers within the Revenue already work to a number of quantitative targets such as post to be cleared by their office. Some elements of quality of service are also amenable to quantification, such as the number of errors in dealing with tax returns, the length of time tax payers are kept waiting for replies, and the amount of advice available. Secondly, measuring the impact of performance pay on output is probably easier in a large bureaucracy with a relatively constant flow of work than in an engineering firm with a highly volatile market.

For management then, it might have been better to avoid fixing a quota, which gives the appearance of setting a corresponding quota on appraisals, and to concentrate more on measuring whatever dimensions of output, quantitative or qualitative, that it felt were more important.

Separate performance appraisal from merit pay?

The case for a separate merit pay appraisal system rests on three observations: the need for systematic appraisal; the potential damage to established appraisal systems; and their inadequacy for merit pay purposes.

To have a merit pay system without a systematic appraisal system has many dangers. Simple, uncontrolled supervisory ratings are notoriously unreliable (Bishop 1987). The experience of the Italian public service with group performance pay suggests that they can easily degenerate into length of service payments (Dell'Aringa 1992). There are strong day-to-day pressures on management simply to reward all staff equally as they otherwise have to justify differential rewards to those on whose daily cooperation they depend.

Given the need therefore for systematic appraisal, in many organisations it must be tempting to reduce costs by using an established system of performance appraisal for merit pay rather than setting up wholly new, additional, procedures for performance assessment. Hence, one can understand the attraction of using the Revenue's existing system of appraisal. However, the discussion so far illustrates a number of respects in which a new merit pay system can damage an established appraisal system.

We do not know what staff thought of the performance appraisal system before merit pay was introduced at the Revenue, but the spirit of the replies to our questionnaire suggests that staff confidence in its fairness has been reduced by the introduction of performance pay. The most telling questions were those on whether staff thought there was a quota on good appraisals, and the doubt in the

minds of many staff that they would get performance pay even if their work were sufficient to merit the qualifying appraisal score.

Thirdly, it is likely that the current appraisal system is ill-suited to merit pay. That most staff should be appraised in the good or very good categories is not uncommon in appraisal systems. The system used in the French public administration has been widely characterised by 'over-marking' producing, in a number of services, an average appraisal score of 18/20 (Verrier 1989 quoted in Meurs 1992), which implies at most two grades for above average performers, and also that the number of bad scores was very low. The restricted number of grades of performance effectively used means that either many staff who are working up to the requirements of their job get no merit pay, or the merit pay scheme risks collapsing into a general length of service award.

An appraisal scheme for managerial purposes has rather different objectives from one designed for merit pay. The way the scheme works in the Inland Revenue, as in much of British Public Administration, it serves to clarify the work targets of individual members of staff, and to enable management to give staff informative feedback on how well they have achieved their objectives, to discuss any weaknesses, and how they might be resolved, and to assist in staff development and promotion. Such personal communication between managers and those they manage is extremely important, but does not require detailed scoring. The critical task is to ensure that staff know whether they are doing their job properly, and are encouraged to do better. This requires provision of detailed information rather than allocation of a large number of grades. Moreover, if management is competent there should be very few staff working below the requirements of their job.

For pay purposes, the earlier discussion suggests that the three grades effectively used within the Revenue's current performance appraisal scheme are too broad to give much opportunity for merit pay to the majority of fully satisfactory performers. If it is not to contain a strong seniority element, merit pay would seem to require, at the very least, greater differentiation among staff in this category. This may not suit the other managerial purposes of appraisal.

Thus, there seems to be a case for having a separate appraisal system for merit pay from that used for general management purposes. There is in any case, in the Revenue as in many other organisations, a separate review system for promotion. It would of course require more management time which has to be considered against the other demands on management.

A separate merit pay appraisal system would also avoid the conflict of logic between having a fixed kitty for disbursement and the possibility that the performance of the great majority could improve. For this to work, the size of

individual payments as well as the number of recipients could vary.

Concentrate on fewer objectives for improved performance?

The current appraisal system at the Revenue evaluates thirteen specific items, and additionally demands an overall assessment that is related to, but is not derived from them by any mechanical formula. Thus, it would seem that merit pay is meant to improve every, but not any particular, aspect of performance. This could well explain the perplexity felt by many staff, that they had not enough scope to improve their performance, and also that they felt that merit pay was really concerned about quantity only: getting post cleared. From the replies to our survey, if management had been aiming at encouraging other objectives than quantity, the message had not got through to the staff.

Mostly, people improve performance by concentrating on a small number of features at a time, diverting effort from other items until particular objectives have been achieved. It would appear from our replies, that for many staff performance pay had not led to clearer objectives being set.

More attention to scope to earn PP?

A common complaint, noted both in the written in replies, and in answer to specific questions, is that many staff feel that their current jobs do not give them sufficient scope to earn performance pay. This is no doubt an important source of perceived exclusion and unfairness, and contributes to the demotivation experienced by some staff. In many administrative jobs, tight management and tight quantitative output targets leave little scope for individual variation. In the written in replies, many staff reported that they were already working as hard as they could.

Two contributors to perceived unfairness to be avoided.

After completion of our survey, it was reported that the merit pay scheme in operation at the Inland Revenue had recorded a considerable underspend compared with the ceiling set in the agreement. In addition, more evidence became available that the number of box one and box two appraisals awarded had declined since merit pay was introduced in 1988¹⁴.

At the time of our questionnaire, therefore, this underspend can have been felt by staff only in an impressionistic way. They could have felt that good appraisals had become less frequent, and that they seemed to have a less than one in four chance of getting merit pay, but the reality underlying such impressions was not confirmed. Although our survey could not probe the effect of publication of this

information, it is likely to prove very damaging for staff confidence in the fairness not just of this particular appraisal system, but of all those currently being developed within the British public sector. The shortfall on the 25% may have been unintended and unanticipated by management, but it is the perception of the staff and their representatives that is critical for any motivational effects of merit pay. As mentioned earlier, the adversarial nature of pay bargaining, the information asymmetry of appraisals, and the underlying feeling of unfairness and distrust vis-B-vis merit pay revealed in our survey, mean that such underpayment is almost bound to foster an atmosphere to suspicion and cynicism.

Two solutions can be suggested. The first is to ensure that the quota is fully used, and the second is to go further towards joint union-management supervision of the appraisal and merit pay systems.

Some arguments have already been put forward for doubting the efficacy of a quota system because of perceived effects upon the appraisal process. If some kind of guidepost for the amount to be dispersed is unavoidable, then great care is needed to ensure that it is actually used. Failure to do so will inevitably lead to suspicion of bad faith or at least incompetence¹⁵.

Another way in which greater confidence can be restored in appraisal is for there to be greater joint union-management supervision, especially of those parts connected with merit pay. The purpose of the joint supervision would not be to follow individual decisions, except in cases of appeal, but rather to ensure that the outcomes overall coincided with the spirit of the agreement. In other words, staff should be able to see that justice was being done. Currently, management share a good deal of information with the IRSF on the progress of the performance pay scheme and on appraisals. However, more detailed and systematic joint monitoring from an early date could have led to corrective action being taken at an early date, thus ensuring a higher degree of staff confidence in the scheme.

Unless staff confidence in the fairness of public service merit pay schemes can be assured, it is hard to imagine, on the basis of our evidence, that they will contribute much to staff motivation. Indeed, there is a real danger that they may prove counter-productive.

Endnotes.

- ¹. More precisely, the 1988 Agreement led to its introduction for the staff grades covered in our analysis; these refer to virtually all the Revenue staff but exclude the most senior staff.
- ². These figures were published in IRSF Assessment Pay Special, September, 1991; the data are very slightly at variance with those in Table 1.
- ³. Under the agreement with the IRSF, there are in fact two pay spines, A and B, which are staggered, so that the equivalent of a half increment in some other pay systems is achieved by movement to the next highest point of the other spine. Thus Box 1s are rewarded with a linear upward progression along their current pay spine, whereas Box 2s progress by zig-zagging between the two spines.
- ⁴. Over time, staff may combine performance awards for Box 1s and two consecutive Box 2s, but may obtain no more than three awards on each criterion, subject to the maximum additional reward under Performance Pay of three range points up the spine containing the member of staff's scale maximum.
- ⁵. According to the 1988 Pay Agreement, range points may be withdrawn on a mark-time basis if two Box 4 overall performance markings (or below) are received in a period of three years (Para 13 v).
- ⁶. In our questionnaire, we asked for responses on a five point scale, from strongly disagree, to disagree, to no view, to agree and to strongly agree. For convenience of presentation, we have combined strongly disagree with disagree, and strongly agree with agree. We have also ignored the no views, so that the percentages do not add up to 100. Finally, the statements in the Tables do not always correspond word for word with those in the questionnaire, again for convenience of expression; in each case we provide the number of the statement in the questionnaire for reference.
- ⁷. Even then it does not seem to be the case that Reporting Officers are required to give an overall Box marking that is a simple average of the individual elements. Not only may certain elements be given a higher weight than others, additional factors may be taken into account.
- ⁸. As before, to make the presentation clearer, we have combined those who agreed with those who strongly agreed.

⁹. Neither, we suspect, do management.

¹⁰. It is in fact possible for staff to obtain a combination of performance increments under both box ones and box twos, and someone obtaining six box twos could still obtain an additional performance increment should a box one marking be obtained. The absolute ceiling would however remain that of three range points above the scale maximum.

¹¹. Para 24..."we said we were keenly aware that if employers were to stay competitive, they needed to motivate not just the highest performers, for whom promotion prospects were normally a powerful incentive, but also the fully satisfactory performers who represent a large proportion of the employees in any organisation...we recommended that...the then existing 25 per cent 'quota' on the numbers of staff who could receive one or more discretionary increments at any one time should be increased to 35 per cent...."

Review Body of Top Salaries, Report no. 29, Thirteenth Report on Top Salaries. Cm 938, Feb. 1990. HMSO, London.

¹². The origin of the 25% figure in the quota remains obscure to the authors. It did not seem to have been based upon detailed estimates of the amounts that would be paid out for above average performance. Indeed, the similarity with the 25% figure then prevailing in some other public service schemes may be due more to imitation than to calculation. In fact, the quota actually fixed in the IRSF agreement is not a single number, but a range. The lowest figure would be if 25% of the staff got a second box 2, giving about half the total that would apply if 25% got box 1 awards. Equally, the 25% rule makes no explicit statement as to the distribution of awards across grades. Hence, the 25% figure leaves a good deal of latitude as to the actual monetary size of the quota.

¹³. A potential problem is that whereas many of the private sector examples of productivity deals have led to one-off increases in productivity, as a result of a reorganisation of work, the goals of merit pay in the Revenue appear to be more oriented towards encouraging more individuals to achieve above average performance on a continuous basis.

¹⁴. IRSF Assessment, Pay Special, 23 Sept. 1991, Vol. 12, no.9. Based on figures made available by management, the IRSF reported that the shortfall in 1980-90 had been about ,6m. and in 1990-91, about ,4m, respectively about 60% and about 45% of the amount that the union calculated should have been paid out.

¹⁵. The rules for attributing merit pay and the amounts concerned may have been too rigid. While all or part of the underspend may possibly have been caused by the decline in good box markings, it is also possible that it was due to getting the sums wrong. Once the rules for eligibility and size of payments were set,

management could do nothing to ensure the quota was met except to vary the box markings. Hence, if a quota is to be used, it would seem important to have more variable payment rules to ensure that it can be used up.

Appendix 1

The Questionnaire and the Basic Frequencies.

Part 1-- First, we would like your response to some arguments that are made about Performance Pay .

	Strongly Strongly Disagree Agree	Disagree	No View	Agree	
1) The principle of relating pay to performance in the Revenue is a good one	14	26	3	47	10
2) The idea of Performance Pay is fundamentally unfair	11	47	7	25	11
3) Communications between staff and management have been improved as a result of Performance Pay	22	50	20	8	1
4) Performance Pay has made staff less willing to assist colleagues experiencing work difficulties	7	46	19	22	6
5) The trouble with Performance Pay is that a good appraisal by the Reporting Officer is too often overruled by someone higher up	2	14	20	41	22
6) Part time staff lose out on Performance Pay	4	24	46	20	6
7) On balance, for all its faults, it's better to have Performance Pay than not	15	29	7	42	7
8) For all that's said about quality, Performance Pay is mostly a device to get more post cleared	4	27	13	38	17
9) People get a good Box Marking not so much because of their performance but because managers want to reward their favourites	12	33	20	23	12
10) Performance Pay has raised staff awareness of the Reporting System's objectives	4	24	15	51	6
11) Staff are frequently denied the Box Marking they deserve because there is a quota system in Box Markings	2	8	15	38	36
12) Performance Pay has made staff question the fairness of the Reporting System	1	4	9	52	35
13) Performance Pay has made supervisors set work targets more clearly	6	37	30	25	2
14) Performance Pay has caused jealousies between staff	2	19	17	41	21

15) Performance Pay has meant that good work is at last recognised and rewarded	14	36	8	32	9
16) Performance Pay has helped to undermine staff morale	3	22	18	35	20

Part 2. Now, we would like to know how the existence of the Performance Pay arrangements have affected you personally; a number of the following statements draw on the language of your Appraisal Form.

	Strongly Disagree	Disagree	No View	Agree	
17) The existence of Performance Pay has given me an incentive to work beyond the requirements of my job	17	53	9	18	3
18) Performance Pay has reduced my wish to co-operate with management	16	59	16	8	2
19) The system of Performance Pay has made me want to show more initiative in my job	10	51	11	24	3
20) The existence of Performance Pay has encouraged me to give sustained high performance at work	12	51	11	23	4
21) Performance Pay has made promotion seem more distant	3	29	25	28	15
22) Performance Pay has given me a greater incentive to get my work priorities right	12	52	15	20	2
23) The existence of Performance Pay has made me more aware of the importance of being sensitive to my workmates	13	50	23	13	1
24) The Performance Pay system has had no effect on the quality of my work because it was already at the appropriate standard	1	7	11	55	27
25) Performance Pay has given me an incentive to express myself at work with greater clarity	12	55	19	12	1
26) Performance Pay has made me more willing to voice criticisms of management's instructions	10	52	23	13	2
27) Performance Pay has given me an incentive to be more effective in my dealings with the public	13	55	25	8	1
28) The existence of Performance Pay has made me more willing to work harder	18	53	10	16	2
29) Performance Pay has made me more reluctant to change my job in the office	12	51	21	13	4
30) The system of Performance Pay has significantly raised my motivation at work	24	52	12	11	1
31) The existence of Performance Pay has made me willing to improve the <u>quality</u> of my work	25	55	8	11	1

32) The existence of Performance Pay has made me willing to increase the <u>quantity</u> of work I do	24	54	9	12	2
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Part 3 -- Now we would like your response to some new criteria that could be used when awarding Box Markings or Performance Pay .

	Strongly Strongly Disagree Agree	Disagree	No View	Agree	
33) It would be better to base Performance Pay on the performance of groups of staff rather than of individuals	27	44	10	15	4
34) It would be fair for management to award Performance Pay just to prevent a competent officer from leaving	36	48	6	9	2
35) It would be fair for management to award Performance Pay to someone who has been loyal and hardworking but has only met the requirements of the grade	11	32	12	37	8
36) The amount of money an individual gets from a Performance Pay award should be substantially increased	10	21	28	27	14
37) The Box Marking should take more account of the different job allocations	2	7	14	54	24

Part 4 -- Now we would like some reactions to your latest Report.

	Strongly Strongly Disagree Agree	Disagree	No View	Agree	
38) I understand why I was awarded my most recent Box Marking	4	10	7	69	10
39) My most recent Box Marking was a fair reflection of my performance	7	20	7	57	9
40) I know what I have to do to get a Box 1 or 2 in the future	6	18	11	57	9
41) I am personally capable of doing what is necessary to get a Box 1 or 2 in the future	1	5	13	59	22
42) The financial reward from a Performance Pay award is a sufficient incentive to make me do what is necessary to get a Box 1 or 2	21	50	12	14	3
43) The personal satisfaction I derive from my work is sufficient incentive for me to do what is needed to get a Box 1 or 2	7	19	11	45	18
44) Even if my performance is good enough to merit a Box 1 or 2, I doubt that I will be given one	6	34	14	27	18

45) The nature of my present job makes it very hard
for me to get a Box 1 or 2

8

45

16

21

10

Part 5-- Now we would like to know something about your general attitudes, first to the Inland Revenue as a whole and then to the office in which you presently work .

	Strongly Disagree	Disagree	No View	Agree	
46) I feel "part of the family" in my present office	6	20	13	54	8
47) I feel a strong sense of commitment to my present office	5	20	17	48	10
48) I do not feel "emotionally attached" to my present office	5	31	18	38	7
49) I would be very happy to spend the rest of my career with the Inland Revenue	10	18	20	43	10
50) I feel "part of the family" at the Inland Revenue	11	30	25	31	4
51) I think that I could easily become as attached to another organisation as I am to the Inland Revenue	2	14	26	50	8
52) I do not feel "emotionally attached" to the Inland Revenue	3	20	19	44	14
53) Being in the Inland Revenue means a great deal to me	9	27	33	26	4
54) By working in the Inland Revenue, I feel that I am contributing to an important public service	4	15	19	53	9
55) I feel a strong sense of commitment to the Inland Revenue	8	24	27	35	6

Part 6-- Finally, we would like some personal information .

- 56) Are you Male/Female? 36/64%
- 57) What is your current job grade? i) 2%
ii) 9%
iii) 24%
iv) 33%
v) 25%
vi) 7%
- 58) Do you work Full time/Part time? 88/12%
- 59) How long have you worked for the Inland Revenue? <5 years -- 24%
5 to 9 years --21%
10 to 14 years --19%
15 to 19 years -- 16%
20 or more --21%
- 60) How long have you been in your current job grade? < 2 years -- 29%
2 to 5 years --16%
more than 5 years --46%
- 61) What was your latest overall Performance Box Marking? 1 -- 6%
2 -- 36%
3 -- 50%
4 -- 0.3%
5 -- 0.1%
Not known -- 6%
- 62) Are you below the maximum of your pay scale? Yes/No 31/69%
- 63) Have you received a Performance Pay award? Yes/No 35/65%
- 64) What was your latest Promotability Marking? Exceptionally Fitted -- 6%
Fitted -- 21%
Likely to become Fitted-- 16%
Not Fitted --15%
Not Known --42%
- 65) Do you work in Taxes/Collection? 83/17%

66) In which of the following regions do you work?

Eastern Counties	-- 9%
Greater Manchester	--9%
London/London East/London North West/London South	--10%
Northern Ireland	--2%
North West	--9%
Scotland	--12%
South East	--11%
South West	--6%
South Yorkshire	--10%
Wales	-- 8%
West Midlands	--8%
North/North East	--4%
Head Office	--2%

<i>This extra section of the survey should be filled out <u>only</u> if you are also a Reporting Officer.</i>

	Strongly Disagree	Disagree	No View	Agree	
67) The existence of Performance Pay has caused many of the staff to work beyond the requirements of their job	11	68	6	13	2
68) It has reduced the wish of many of the staff to co-operate with management	8	57	15	18	2
69) It has led to many of the staff giving sustained high performance at work	11	66	9	12	2
70) It has helped to increase the <u>quality</u> of the work of many of the staff	13	69	7	10	0
71) It has led to an increase in the <u>quantity</u> of work many of the staff do	9	62	7	19	3
72) It has made many of the staff more committed to their work	14	65	9	12	0
73) It has made Reporting Officers feel uneasy because their assessments of staff are overruled by someone higher up	5	23	13	45	15
74) The vetting of reports higher up is necessary to ensure consistency between Reporting Officers	4	12	7	62	15
75) Performance Pay has made the Reporting System much harder to operate because the Box Marking is now tied to money	4	19	5	39	33
76) The system of Performance Pay has led to you to take more work home	21	54	8	11	7

77) Performance Pay is a bad idea because not enough staff have sufficient control over their work to change their ways

6 32 16 32 14

Appendix 2

Methodological checks on our responses.

4,000 questionnaires were sent out in June 1991, stratified by job grade, to staff in the Taxes and Collection sections of the Inland Revenue. 2,423 usable replies were returned. The questionnaires were sent and returned via the Revenue's internal mail system, though a handful of returns were received directly by us at the LSE.

The figures below show compare the population and sample values by a variety of characteristics, after re-weighting to correct for oversampling and differential response rates by grade.

a) Gender:

	Population
Sample	
Males	34.6
35.8	
Females	65.4
64.2	

b) Region.

	Population
Sample	
Eastern Counties	8.5
	8.8
Greater Manchester	8.4
	9.1
London/London East/London North West/London South	11.6
	9.6
Northern Ireland	2.0
	2.0
North West	6.3
	8.5
Scotland	8.8
	12.3
South East	9.9
	11.2
South West	5.6
	6.1
South Yorkshire	8.6
	10.3
Wales	7.8
	7.9
West Midlands	7.7
	8.2
North/North East	6.8
	4.3
Head Office	7.7
	1.5

c) Section.

Taxes	83
	83
Collection	17
	17

d) Length of service.

How long have you worked for the Inland Revenue?

	Population	Sample
<5 years	28	24
5 to 9 years	20	21
10 to 14 years	18	19
15 to 19 years	16	16
20 or more	18	21

We were also concerned by the possibility that we might have received an unrepresentative response by Box Marking. We cannot be sure on this because up to date figures on the distribution of Box Markings by grade were not available to us. One source refers to 1988, and is used in the comparison below. As noted in the text, some figures suggest that the incidence of Box 1 and 2s has fallen over the years, for all grades. This increases the representativeness of our sample.

Actual figures for 1988 in normal type, LSE 1991 sample in italics.

	Box 1	Box 2	Box 3	Box 4	Box 5	NK
Inspector (S)	11.5	61.0	27.0	0.5	-	
	<i>7.5</i>	<i>50.4</i>	<i>42.1</i>	<i>0.0</i>	<i>0.0</i>	<i>1.3</i>
Inspector	6.0	49.0	43.5	1.5	-	
	<i>5.4</i>	<i>41.7</i>	<i>53.0</i>	<i>0.0</i>	<i>0.0</i>	<i>2.9</i>
RE	5.0	45.0	48.0	2.0	-	
	<i>4.4</i>	<i>40.4</i>	<i>54.6</i>	<i>0.3</i>	<i>0.2</i>	<i>4.7</i>
RO	4.5	37.5	55.5	2.5	-	
	<i>8.1</i>	<i>36.9</i>	<i>54.7</i>	<i>0.4</i>	<i>0.0</i>	<i>3.8</i>
RA	14.0	42.5	41.5	1.5	-	
	<i>6.9</i>	<i>36.6</i>	<i>55.7</i>	<i>0.6</i>	<i>0.0</i>	<i>16.2</i>
Total	7.0	43.0	48.0	2.0	-	
	<i>6.8</i>	<i>38.5</i>	<i>54.2</i>	<i>0.4</i>	<i>0.1</i>	<i>7.3</i>
RO Male	5.0	34.9	57.5	2.1	0.5	
	<i>7.6</i>	<i>33.3</i>	<i>58.6</i>	<i>1.0</i>	<i>0.0</i>	<i>1.8</i>
RO Female	4.7	37.7	56.3	1.1	0.2	
	<i>8.4</i>	<i>38.0</i>	<i>53.4</i>	<i>0.2</i>	<i>0.0</i>	<i>4.7</i>

NK: box marking not known.

Source: IRSF Assessment Dec. 1990, based on data provided by the Inland Revenue (Table E1-4), and LSE sample survey.

On the whole, the sample box markings are not very distant from the figures for 1988. It is our understanding, however, that the proportion of staff given Box 1s or 2s fell somewhat

after 1988. If so, the fit between our sample data and the population values is likely to be even better.

Overall, we have no reason to doubt the representativeness of the sample data. For none of the characteristics against which we are able to make a check is there an appreciable gap.

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