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Jone L. Pearce

Rewarding Successful Performance

Is it particularly difficult to reward employees' performance in public organizations? Here it will forcefully be suggested that this assumption is false, that managers in or out of government have powerful informal rewards at their command. Certainly, there are important differences in the formal personnel and pay policies between government and smaller businesses. Clearly, most employees in businesses are not subject to the variety of goals and constituents that often occur in public organizations; yet it will be suggested here that dwelling on the limitations of normal procedures and external links is the leading contributor to the neglect of rewarding good performance in government. In public organizations, the expectation that performance in itself cannot be rewarded leads to few rewards for good performance, a classic self-fulfilling hypothesis.

The chapter begins with an analysis of the limitations of formal policies for effectively rewarding performance. This is followed by an argument for the use of informal systems to reward performance, with special attention to the strengths and limitations of this approach. Finally, the chapter concludes with specific steps that individual managers and policymakers alike can take to implement effective informal procedures to reward good performance.

The Attraction of Formal Reward Systems

Formal systems to reward performance have a long history in public administration. For example, the civil service tradition of competitive examinations rewards educational attainments. Nevertheless, these traditional public sector definitions of *merit* as knowledge or intelligence have been supplanted in recent years by policies designed to formally reward current job

performance, today's concept of merit. Formal pay-for-performance programs, such as merit pay and performance-based bonuses, have become increasingly popular among U.S. managers in both the private and public sectors. For example, a study by the American Productivity Center and American Compensation Association reported that bonuses are an increasing proportion of take-home pay for all ranks in private business (Yoshihara, 1987). Similarly, the Federal Civil Service Reform Act of 1978 had several provisions for the mandatory rewarding of performance: bonuses for the highest-level executives, and merit pay tied to individual goal achievement for middle-level managers (Pearce and Perry, 1983).

Despite the intuitive appeal of such efforts to formally reward performance, their effectiveness in both sectors has always been limited. These formal programs simply have not been effective in consistently and equitably rewarding good performance for any but the simplest jobs. The difficulties in the private sector have long been noted (Meyer, 1975; Thompson and Dalton, 1970; Whyte, 1955). More recently, this author reported the results of a longitudinal study of the merit pay provisions of the Federal Civil Service Reform Act, suggesting that these formal systems were not effectively rewarding performance. For example, Pearce and Perry (1983) found that managers in five federal agencies believed that their pay was less merit-based under the new formal system; Pearce, Stevenson, and Perry (1985) reported that tying pay to goals did not result in increased measured performance (despite the fact that pay was now directly tied to these measures); and Pearce and Porter (1986) discovered that these formal performance measurement systems had a significant and sustained negative impact on the attitudes of scientists and engineers formally rated as "average" in NASA and in a U.S. Department of Defense agency, with no concomitant increase in the attitudes of those formally labeled "above average." That formal programs to reward performance rarely work as intended is a virtual truism among compensation professionals in both the private and public sectors, and there are several reasons why formal programs cannot be relied on to reward performance effectively.

Most important, formal systems are constrained. Whenever formal rewards are disbursed, care must be taken to develop procedures that safeguard employees, managers, the organization, and equity itself. Particularly with pay, the need to pay the market wage for each job and various requirements to maintain internal equity across departments and hierarchical levels result in proportionately small amounts retained for merit raises and bonuses. Employees depend on their incomes, and anything affecting such an important area of their lives receives intense scrutiny. For example, when performance-contingent pay was mandated for the Social Security Administration's managers, its executives decided to tie pay raises to the performance measures they had been using for years to evaluate the quality and quantity of work performed by these managers' offices. The executives felt fortunate that they did not have to develop new, untested measures; they had been

evaluating managers on these statistics for decades. Yet once pay was tied to them, the numerous inequities in this measurement system were raised. Certain offices would always rate poorly, simply because their clientele had more complex problems (for example, document translations). Further, one manager produced a list of how each measure could be "cooked," which he distributed so that all managers would at least have access to the same "expertise" (and, incidentally, to embarrass the executives into changing the merit pay measurement system). This imperfect measurement system had been accepted, even serving as a source of pride, until formal rewards were directly tied to it.

These constraints exist for all organizations; but in the public sector, pay has the additional burden of being awarded in the "political fishbowl," which tends to place a low ceiling on the amount of overall pay, as well as on the size of a bonus or raise given at any one time (see Pearce, 1987, for an extended discussion of the limitations of formal pay-for-performance systems).

Additional complexities result from the difficulty of developing comprehensive measures of desired performance for any but the simplest jobs. Further, even when reasonable measures of job performance are developed (usually at great effort and expense), they are vulnerable to any significant change, such as a change in the environment or in political leadership. For example, the government of Orange County, California, has a department responsible for the production of the economic and demographic statistics and forecasts that are used by business and municipal planners. Therefore, a formal measurement system for them would include the timely and accurate production of these reports. Yet this department must also respond to requests for special analyses from the elected board of supervisors. Sometimes these special projects are so large and important (very recently, the department had to produce an analysis of the fiscal impact of a ballot initiative to slow the growth of development in the county) that they result in the delayed production of routine reports. A formal reward system that would lead the department's analysts to neglect important work simply because it was unexpected (or, more likely, would punish them for being responsive to the organization's needs) would clearly be dysfunctional.

Finally, one of the attractions of pay as a reward has always been its power of appeal to so many (after all, that is why people are working). Yet this attraction is in practice a false one. Certainly, one could get behavior change if one removed an employee's entire salary, but that is not what is really at stake in pay-for-performance plans. The amount of money at stake is often painfully small, particularly in public organizations operating in the "political fishbowl." For many employees, it is insulting to consider that others think that they, respected professionals, could be expected to jump for such small sums. Merit pay plans in industry, as well as in public organizations, are frequently interpreted by employees as reflecting a lack of respect for them and their work, and this perception can be considerably more powerful as a punishment than the few hundred dollars offered as the

reward (Thompson and Dalton, 1970; Pearce and Perry, 1983). It is not that these employees, as an expression of some sort of personality trait, do not value money so much as that the structure of these formal programs leads the programs to be interpreted as a slap in the face, rather than as an opportunity to obtain something of value. This interpretation of merit pay plans influences whether formal programs will be effective, short of the massive infusion of money that is virtually impossible in public settings. The inability to control employees' interpretations drives formal policymakers to distraction.

Thus, the power of formal systems to reward individual employees' performance is limited in all but the simplest organizational settings. It is not that the systems could not work if they were adequately funded, based on a comprehensive measurement of performance, and implemented in organizations that experienced no significant changes; it is just that these conditions virtually never occur for the kinds of complex tasks and shifting political environments characteristic of most governmental organizations. Hence, one encounters the typical pessimism about rewarding performance in public organizations.

This pessimism is misplaced, however. What has been ignored is the fact that such formal systems have always had a limited role in organizations. Even in a business with much greater freedom to implement such performance reward systems, they often play only a modest role in rewarding performance (Meyer, 1975). The conversion of merit pay to seniority pay by practicing managers is certainly not confined to government (Medoff and Abraham, 1981). In fact, effective managers in any sector have always recognized that the formal rewards at their command are never sufficient. Effective managers have discovered how to build a system of informal rewards that extends their influence beyond the meager resources provided by their formal systems.

This need for managers to build and cultivate a store of informal means for influencing subordinates' (or peers' or supervisors') actions has long been recognized, if not clearly articulated. Barnard ([1938] 1968) reminded supervisors that they were dependent on the "cooperation" of their subordinates and provided specific suggestions for ensuring that cooperation: for example, clear and compatible orders that are consistent both with the goals of the organization and with the recipients' personal goals.

After the experience of World War II, this reliance on informal rewards was called *leadership,* with massive resources dedicated to research seeking to distinguish effective from ineffective supervisors in a single organization (who therefore worked with identical access to formal rewards). This work has culminated in a store of knowledge about how supervisors can be more effective in influencing the actions of others, which forms the basis of the practical suggestions offered at the end of this chapter.

The Strengths and Limitations of Informal Rewards

Informal rewards are simply those that are not formally mandated by an organization. All of us have access to rewards for those with whom we work in organizations. Most employees and, certainly, all managers are interdependent; we depend on the cooperation and willing assistance of dozens of others to accomplish our jobs. The manager of a department may ask a compensation analyst how to make a case for a higher salary for a needed civil engineer who has another job offer, at a considerably larger salary. That analyst can do the minimum, or he or she can make a genuine, creative effort to help this department manager. A clerical worker may look over and see that a new co-worker is struggling to do a task that she does not yet understand. She can ignore the novice, considering her to be the supervisor's problem, or she can go over, assist her, and show her the effective way to do that particular task. We all benefit from colleagues who make an effort to be considerate and pleasant, and we suffer from working closely with someone who is cold or abusive. All of us in organizations depend on thousands of small acts by others that cannot be dictated from above.

Thus, we all have available to us numerous informal means of rewarding performance or any other actions on which we depend. Supervisors, in particular, can and do use subordinates' dependence on them for the myriad little things that can make work easier.

Supervisors assign work or special projects. They can closely monitor a subordinate, or they can grant considerable autonomy. Dansereau, Graen, and Haga (1975, p. 46) report that supervisors do not treat all subordinates identically; rather, they establish ''leadership exchanges'' (influence without authority) with a select subset of subordinates.

Informal rewards are not solely the province of supervisors; they arise wherever interdependence does. Equally, they cannot be mandated by the hierarchy. Supervisors, however, often have a broader array of informal resources at their command. Supervisors act as intermediaries for their subordinates. They often control access to other individuals and information inside the organization, and they have responsibilities for task assignments, as well as the (often informal) ability to recommend or not recommend a subordinate for promotion or transfer. They can provide expense-paid attendance at conferences, assist in preparing professional publications, or provide public recognition (for example, through a city council resolution for meritorious employees).

Although these potential informal rewards are numerous, the rest of this discussion will analyze one powerful reward that is particularly well suited to use in public organizations: bestowal of esteem and respect. This reward is particularly useful with a professional and highly skilled work force and in the constrained legal environments that are characteristic of public organizations. Many public managers supervise employees who have strong

professional or craft loyalties—for example, employees in urban planning, social welfare, civil engineering, forestry, specialized ship mechanics, aeronautics, teaching, soil chemistry, economic development, and so on. In these circumstances, supervisors are expected to be experts in these specialties and often represent the specialties to others, both inside and outside the group. They are in a position to build on professionals' own self-respect by embodying specialty-based characteristics for their colleagues and subordinates. Thus, professional respect is an appropriate reward for good performance of professional duties. It is a reward that seems to fit naturally with the desired behavior of good job performance.

Even in circumstances where they do not represent particular professions, supervisors usually can and do represent the mission of a department or an agency. Public organizations are all engaged in a form of public service, and managers are particularly well placed to represent these ideals. If private sector managers believe that they can rally their employees behind the value of producing consumer electronic appliances (as Matshushita Corporation does), it seems that public managers should be able to do so with inherently more attractive missions.

Further, most public managers operate in a very constrained legal environment. It would be both inappropriate and inadvisable for them to make concrete entitlements contingent on job performance. Nevertheless, one's respect for others is not owned by elected officials or by the taxpayers, nor is it covered in any labor-management agreement. No one is entitled to it; it is bestowed or withheld on the basis of one's own judgment. No one was ever sued or ever became the object of a grievance because he or she did not bestow respect equally or on the basis of objective criteria.

In addition, there is no upper limit on the amount of respect that can be bestowed. It is not something that must be hoarded and handed out only sparingly. Further, since it is not perceived as a punishment, it does not have negative reactivity; it is not divisive and demotivating. Rather, it can contribute to collegial solidarity and enhance self-esteem.

Thus, respect has several advantages as an informal reward for performance. First, it is appropriate and flows as a natural consequence from behavior (good performance) and from the supervisor's role as representative of the profession or department. It is not artificially attached. Second, like all informal rewards, it is flexible—there is no upper limit on the amount to be distributed, and there are no legal requirements to be met in its bestowal. The supervisor has complete autonomy in its use. Finally, it builds rather than destroys departmental esteem and morale.

There are, however, certain limitations to this particular informal reward, shared by most informal rewards. First, respect must be earned; it cannot be mandated. No one can say, "You must value my respect." Individuals want the esteem and respect of those whose standards and personal characteristics they themselves value. As a practical matter, the actions that deserve respect in each profession or craft are particular to each

one and cannot be suggested here. Thoughtful reflection by any member of a guild, however, would probably lead to a clearer understanding of such actions and characteristics. What can be provided in this chapter is a brief description (in the next section) of concrete actions that can help managers earn respect as managers.

Further limitations derive from the fact that informal rewards cannot be mandated from the top of the organization. This particular limitation seems to have symbolic implications that are particularly difficult for public organizations. First, it involves open acknowledgment of the incomplete control exercised in all large organizations by the top executives and their assistants. This lack of control has been acknowledged by economists and organization theorists as "control loss" (Williamson, 1967), yet public organizations, in particular, seem unwilling to acknowledge it. The moral and values-based nature of their missions no doubt makes it difficult to be cavalier about possible inequities and inconsistencies across their diverse operations. Nevertheless, the needs of employees and managers are too often sacrificed to dysfunctional general rules and procedures, which serve purposes more symbolic than practical. The Federal Civil Service Reform Act's provisions concerning pay for performance were one example of this unfortunate approach to management.

Thus, the recognition of the importance of informal rewards implies greater importance placed on the skills and abilities of managers. Rather than leaning on formal policies to shield and support incompetent managers, policymakers in public organizations can provide greater support for managerial training. Recognition of the importance of informal rewards in managing performance necessarily implies that those at the top of the hierarchy can no longer feel as if they have accomplished something simply by decreeing a new rule.

There is a final limitation, which is rather more a limiting condition. Informal rewards, like all rewards, must be valued by their recipient, or else they are not effective. One of the implicit attractions of formal rewards has been the assumption that they are powerful, yet this is a spurious advantage: The amount of money actually contingent on performance is rarely enough in public organizations to act as a powerful reward.

With informal rewards, everyone is forced to acknowledge that different rewards will be attractive to different individuals. Discretion in the use of informal rewards necessarily devolves to supervisors, who know their subordinates. The use of informal rewards requires greater managerial autonomy and responsibility. Supervisors always have been the ones with the best information about what would work with their own people, and the use of informal rewards openly acknowledges this reality.

Implementing Informal Rewards

It is one thing to state the obvious: that informal rewards can be attractive motivators in organizations. It is quite another to detail how they

can be harnessed. Introduced here are several concrete steps that managers can take to earn the respect of their subordinates for their abilities as managers. The following discussion is an adaptation of the excellent text by Sayles (1979), and the interested reader is advised to consult that work for additional practical guidance in the craft of managing.

Sayles was concerned with effective leadership, and not necessarily with informal rewards. Nevertheless, his insights into the limitations of "carrots and sticks" (threats and punishments) led him to provide a detailed discussion of how managers can become more influential, without relying on these formal tools. Several of his ideas are particularly appropriate to helping public managers earn respect for their managerial abilities. These ideas concern the importance of continuous interaction, the building of legitimacy by increments, and the necessity of representation and buffering.

Management researchers have long noted that managers spend their time in a string of continuous interaction, in encounters of very small duration. For example, Mintzberg (1973) reports an average interaction of nine minutes for his sample of chief executives. Sayles (1979) argues that these interactions are important, both for the information they provide about subordinates and their work and for their ability to spark motivation.

First, managers are respected if they have organizational knowledge (what Wilensky, 1967, called "organizational intelligence"), and managers who do not know what is going on will not merit respect as managers. Managers serve an informational role in organizations (Galbraith, 1977). They are freed from hands-on task performance, so that they are able to move around and gather information that improves decision quality. In addition to learning more about work, managers in continuous interaction with their subordinates will understand them better, understand what they do or do not value. With frequent, balanced contact, subordinates learn that their problems are understood, and they find it easier to discuss work-related isues. In addition, contact itself can be motivating. People seem to need contact with others, and contact with high-status individuals seems to be even more attractive (Hurwitz, Zander, and Hymovitch, 1960). Relationships depend on contact.

Second, managers need to build legitimacy for their leadership incrementally. When working with such subtle processes as respect, managers need to be sure that their respect is in fact valued before they can assume that it will be effective. Sayles (1979) suggests that managers never want to give a "command" that they think may not be obeyed, since insubordination is devastating to a manager's credibility. Shrewd managers learn to build authority through small, incremental requests. Similarly, it is important to understand how the bestowal of an informal (or formal) reward will be received or interpreted.

Symbolic rewards, like respect, are particularly vulnerable to interpretation. Individuals either individually or collectively decide whether certain symbolic rewards are valuable or ludicrous. This indeterminate quality

of symbolic rewards has led such theorists as Etzioni (1975) to argue that symbolic rewards are too weak and uncertain to be used as effective organizational controls. Here, it is suggested that managers are giving up a potentially valuable resource if they ignore the power of symbolic rewards. Rewards like respect are less subject to withering satire than are such symbols as badges and titles, since we all want to be respected. Certainly, however, care in preparing and understanding the social interpretive setting for symbolic rewards through incremental trials is critical.

Finally, one of Sayles's (1979) most important contributions has been his emphasis on the importance of representation and buffering, or upward and lateral influence, in subordinates' judgments of their managers. Pelz (1952) demonstrates that the best predictor of subordinates' satisfaction with supervision is the perceived "power" of their supervisors: Whether a supervisor can obtain resources for the department and protect subordinates from disruptive interference is more important than whether the supervisor is considerate. Managers are in the middle, mediating between levels; they are not photocopy machines for commands from on high. As Sayles (1979, p. 38) suggests, "Respected, admired leaders are those [who] deal profitably with outsiders and bring back benefits and protection."

Particularly in public organizations, managers seem prone to adopt a helpless, "cynical bureaucrat" pose: "Of course it is a stupid requirement, but the mayor's office wants us to do it." One of the most critical areas in which public managers can earn the respect of their employees is in successful management of the bureaucracy. Nothing is more demoralizing than to have a supervisor who passively acquiesces to any whim coming from outside the unit; yet, surprisingly, managers frequently fall into this trap. Often it is because they do not yet understand others outside the unit and how their requests can be modified. Sometimes it is because they do not want to be seen as ogres, and so responsibility is assigned elsewhere. It is usually easy to do this in public organizations, since responsibility is so fragmented by design. Nevertheless, this passive supervisor can create severe problems for subordinates and is actively creating an image of powerlessness and uselessness.

How can managers more effectively manage those above and lateral to them? According to Pfeffer and Salancik (1978), units that provide critical resources or services to the organization gain relative power. Thus, solving others' problems is a useful strategy. In any complex organization, there are other managers and professionals who have problems and needs of their own. Discovering these and then making oneself useful to others can help to earn respect for oneself and one's unit. Passive and cynical accommodation and surreptitious resistance are signs of powerlessness, which will scarcely engender respect.

Finally, there is a role for high-level policymakers in assisting their managers to reward performance with informal rewards. What is most important is that policymakers realize that they cannot mandate the effective

use of informal rewards; these depend on the skills and relationships of individual managers. With delegation, supported by strong training and audit programs, policymakers can replace policies that attempt to "micromanage" all features of their organizations. Effective training in the identification and implementation of effective informal rewards is both possible and desirable. Too often, what is labeled *management training* is no more than a survey of formal systemic requirements—the proper way to fill out forms—interlaced with warnings that are intended to prevent lawsuits. Managers also need to learn the craft of managing.

Since delegation must be accompanied by controls, audits can replace rulemaking as the primary vehicle to support effective organizations. Audits have the dual advantage of being cheaper, since fewer auditors than analysts are needed to design programs, review implementation, and give permission for exceptions. Further, auditing is also more effective, since local managers are not mired in elaborate rules but can experiment with ideas that meet their unique needs.

Summary

Effective managers, in both the public and the private sectors, have always supplemented their formal resources with informal ones. Why, then, is there the presumption that the weaknesses of formal reward systems in public organizations would necessarily lead to an inability to reward performance at all? Powerful informal systems are used in public organizations, yet they have not received the prominence they deserve in writings on public administration. This chapter is intended to restore some balance to this literature and to help practicing managers articulate what they have often observed and probably practiced. This rudimentary introduction to the practical implementation of informal rewards for performance could probably be embellished and enriched by effective managers in virtually every public jurisdiction. The most practical suggestion of all would be for readers to make copies of this chapter, give the copies to groups of managers, and ask them to use the chapter as a basis of sharing their own reactions, ideas, and practices. That is where the real knowledge is.

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