

Examining the implementation of PBB scheme in the public sector

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In 2012, through Executive Order 80, s. 2012, the government adopted a Performance-Based Incentive System (PBIS) for employees in the public sector to reward exemplary performance, align individual personnel and departmental efforts with organizational targets, and improve service delivery. The PBIS is composed of the productivity enhancement incentive, an across-the-board bonus given to all government employees, and the performance-based bonus (PBB) given to qualified employees. Provision of the PBB is also associated with the organization-wide compliance with different eligibility requirements (e.g., citizens charter, transparency seal, ISO certification), which have been constantly changing over the years. Compliance with these requirements has, de facto, become part of the roll-out objectives of the PBB.

This *Policy Note* examines how the PBB scheme is implemented in the public sector, particularly in three sectors/groups, namely, the national government agencies (NGAs), government-owned or controlled corporations, constitutional commissions, and other executive offices; the Department of Education (DepEd); and the Commission on Higher Education including

state universities and colleges (SUCs).¹ Information was obtained from documents provided by the PBB Secretariat, as well as key informant interviews (KIIs) and focus group discussions (FGDs). A total of 304 study respondents participated in KIIs and FGDs across Metro Manila, balance Luzon,² Visayas, and Mindanao.

Measuring performance in the public sector

The PBB is a form of incentive that is meant to improve the performance and productivity of workers, and in turn, improve those of their organizations. It is premised on both the theories of motivation and known conventional wisdom. According to Maslow's theory of hierarchical needs, incentives motivate employees (Maslow 1943), while the more complex expectancy theory of motivation claims that employees tend to work toward a certain action when they learn that it leads to certain rewards (Montana and Charnov 2008). Conventional wisdom

¹ This is an integrative study of three separate process evaluations conducted to assess the PBB implementation in the Philippine bureaucracy. Three separate process evaluations were conducted in view of the differences in the PBB implementation owing to the flexibility given to the agencies to suit the PBB system to the nature of their operations.

² Balance Luzon refers to the main northern region of the Philippines excluding the capital.

asserts that high-performing employees should be better rewarded than satisfactory- or low-performing employees. Performance incentives therefore favor individuals or teams with higher productivity. Performance improvement through the use of rewards has long been practiced, particularly in the private sector, and such practice is anchored on a rarely examined belief that people do a better job when given incentives (Kohn 1993).

Performance-based incentive tools have been introduced in the public sector notably during the period of reforms in the 1980s and 1990s, popularizing the “new public management”. This period saw many private sector practices introduced into the public sector, including performance-based incentive schemes.

Nevertheless, measuring public sector performance is much more difficult compared to measuring private sector performance given the complexity of some types of public sector output (Dixit 2002; Festre 2008). Given this complexity, performance-based incentives could be ineffective or could even backfire.

In the public goods literature (e.g., Olson 1971), outcomes like national defense, quality and inclusive education, and rule of law are among the broad areas whose amalgamation of inputs and outputs are too complex for private sector alone to produce. More recently, for example, it has become common practice to call for a “whole-of-government approach” to such broad goals as national security or inclusive development.

Further, unlike the private sector whose price mechanism can shape various levels—quality and quantity—of production of the good or service, in the public sector, there is no price mechanism that regulates these features. Determining the adequate provision of public goods and services involves myriad challenges such that what is adequate is not merely a technical question but also often a political one. Measuring and evaluating performance in the public sector has spurred an extensive literature addressing these practical challenges.

Impact of performance incentives

Performance-related pay (PRP) is a financial incentive given to employees following an assessment of their performance and accomplishment of objectives. It is a concrete mechanism for recognizing individual achievements and retaining key staff. However, critics of PRP say that it can be biased and demotivating for majority of the employees at the expense of few high-performing employees. PRP presupposes that incentives can cultivate the right behavior and money is a potentially powerful reward that can act as a goal in itself, such that it can influence the amount of effort employees are willing to exert for the goals of the organization. Some theorists also argue that early proponents of PRP did not recognize the complexity of the wider employment relationship and the extent in which financial reward can act as a long-term satisfier (Suff et al. 2007; Ganster et al. 2011).

Various studies assessed the impact of public sector performance-based incentives using rigorous evaluation methods. In health services (Olken et al. 2014), there was evidence that the incentives primarily accelerated the accomplishment of the target objectives but the effect eventually dissipates over time. In addition, Muralidharan and Sundararaman examined the impact of a program that gave teachers bonus payments linked to improvements in students’ test scores based on independent learning tests. They found evidence that “at the end of two years of the program, students in incentive schools performed significantly better than those in control schools by 0.28 and 0.16 standard deviations in math and language tests, respectively” (Muralidharan and Sundararaman 2009, p. 41).

Other studies simply featured “before and after” analyses, which do not attempt to correct for the possible influence of other factors affecting the target results. These qualitative studies also revealed interesting insights on the potential drivers and organizational context of higher performance. For instance, Rusa et al. (2009) evaluated the impact of



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the pay for performance approach that the government of Rwanda implemented to break free from mediocre results in standard civil service rates for health services. Evaluations revealed that the performance-based approach in Rwanda strengthened the results-oriented culture among health providers, empowering them to find solutions to service provision challenges.

Issues and concerns

Results painted a mixed picture of the PBB, even as there was general strong support for its continuation. Compliance by different agencies and offices varied, with instances of different coping strategies that have potentially perverse outcomes just to qualify for the PBB. A clear example is the goal for schools to have zero school dropouts. Because of this, some teachers tend to have students repeat a certain grade level rather than tarnish the school's dropout indicators and subsequently, also affect their PBBs (Monje 2019).

On PBB impact, various public sector personnel expressed a wide array of views on whether and to what extent PBB actually improves public services. Many respondents viewed PBB as an effective means of incentivizing more work, though not necessarily better-quality services. However, they also noted that with or without PBB, government workers will still accomplish their tasks and goals. This reveals a disjointed view of performance incentives.

Despite these observations, one best practice that was identified is that PBB strengthened team work. Employees became more aware of their responsibilities and deadlines and exercised more accountability for each other.

On the other hand, at least one respondent reported the 'sharing of the monetary incentive' by those who qualified for the grant with those who did not, which



This study finds that most of the teachers view PBB as an entitlement for the amount of work that they have done rather than as an incentive for the quality of their work. With the implementation of PBB, teachers were given additional tasks not necessarily theirs, which inadvertently pulled them out of the classrooms and actual teaching, which is their main task. Photo: DepEd Facebook.

is against the real intention of the PBB. This practice seemed to strengthen the “team” but undermined individual efforts to excel.

National government agencies

Majority of study respondents affirmed that the PBB encouraged employees and the whole agency to meet their targets. However, all respondents lamented on the increasing number of PBB requirements over the years, which made eligibility to PBB more difficult for agencies. Some unintended consequences of the PBB scheme implementation, such as jealousy among employees, perception of arbitrary ratings, increased tendency to render overtime, and unnecessary competition among staff, are also notable.

Moreover, many respondents agreed that the PBB achieved its overall objectives and provided a strong motivation for agencies to comply. The PBB is considered by many as a solution to the common impression about government service that “government service is no service.” Respondents referred to the streamlining of procedures or the ease of doing business as the main goal of the government in implementing the PBB scheme.

State universities and colleges

Although compliance with the PBB requirements is a bit tedious, many respondents from SUCs pointed out that it has helped higher educational institutions (HEIs) in achieving targets connected with other accreditation

programs and quality assurance mechanisms. Streamlining is one of the various indicators used to measure the performance of SUCs. However, issues were also raised on the indicators and targets, as well as the prospects for their attainment. For instance, there were SUCs that already achieved 100 percent in previous years. This poses difficulty the following year since they should not deliver a performance below its previous target. In other words, they should be able to hit 100 percent again for the succeeding years. This challenges the PBB scheme's capability of increasing staff performance given that the faculty are already performing their regular functions.

Department of Education

Most of the teachers interviewed view the PBB as an entitlement for the amount of work that they have done rather than as an incentive for the quality of their work (Monje 2019). With the implementation of the PBB scheme, teachers were given additional tasks not necessarily theirs, which inadvertently pulled them out of the classrooms and actual teaching, which is their main task. The study also revealed the lack of proper dissemination of information on the PBB scheme at the school level, such that even school heads were unable to address teachers' queries regarding the PBB even if they are expected to relay PBB-related information to teachers.

Ways forward

In general, the PBB scheme has impacted in at least three main channels: (1) agency-wide incentive effects, (2) team-level collaboration effects, and (3) individual staff member incentive effects. Agency-wide incentive effects have different impacts across agencies, such that already well-performing agencies were able to respond better while less-performing agencies faced greater difficulty in responding to new requirements. Team-level collaboration effects vary, such that some teams cohere better to achieve team-based targets while other teams collude and veer from the recommended process of PBB implementation. Staff member-level effects also vary depending on perceptions, information about the reform, capabilities, and other factors. In this light, the

study deems it critical for government to revisit policy objectives at the macro-level (agency level), meso-level (team level), and micro-level (staff member level).

While the PBB scheme has mixed effects on agencies, teams, and individuals, the government may continue its implementation pending a more rigorous impact evaluation. Some immediate improvements are suggested, such as cascading of information about the rationale for the PBB as a reform measure. It must be made clear that rewards are not merely for quantity of tasks but also for quality of work. The frequent changes in the PBB guidelines during its early years of implementation resulted in confusion and documentary burden to agencies, thus the government could institute changes in the PBB requirements less frequently and only after ample preparation for cascading information.

Moreover, it is critical that the PBB scheme be understood within a broader reform context across agencies. It is critical that reform and capacity-building roadmaps in each agency be synced with the PBB targets given that some staff are "overwhelmed" with the requirements, which may discourage them to look at the PBB as a form of incentive.

To further calibrate the PBB scheme, the government may want to consider the following key policy questions in rethinking and revising the PBB policy design to enhance its potential effectiveness:

- Should PBB be juxtaposed against a broader state capacity-building agenda?
- Should government focus on using the PBB for agency-level objectives only?
- Should government consider supporting weaker agencies to avoid inequality in compliance capabilities and outcomes?
- Is PBB still effective given the salary standardization law and other public sector income-enhancing reforms?
- To address mixed perceptions, could information on the policy be more effectively cascaded from central agencies to frontline agencies?

- To address fairness issues, could metrics for performance be tweaked in consideration of agencies with much difficult front-line work?
- To help enhance agency-level compliance, should guidelines and documentary requirements be further streamlined as part of government's existing efforts to lessen red tape?
- To help motivate collaboration and enhance teamwork, as well as encourage individual-level motivation, should agencies be given more flexibility to use non-financial incentives to complement PBB? 📖

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