

What are the effects of the Performance-Based Bonus on government workers and agencies?

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In 2012, through Executive Order 80, series of 2012, the government established the Performance-Based Bonus (PBB) for employees in the executive branch of government. It was intended to reward exemplary performance, align individual personnel and departmental efforts with organizational targets, and improve service delivery. The PBB, together with the Productivity Enhancement Incentive (PEI), constitutes the Performance-Based Incentive System. Unlike the PEI, an across-the-board bonus, the PBB is awarded in compliance with several requirements, spanning organization, team, and individual levels.

The Department of Budget and Management (DBM) releases guidelines on criteria and conditions related to physical targets, good governance conditions, and performance management for the annual grant of the PBB. It chairs the Administrative Order (AO) 25 Interagency Task Force (IATF), which evaluates the eligibility of an agency (and its employees) to receive the PBB. Validating agencies, which are the members of the IATF Technical Working Groups (TWGs), together with the IATF Secretariat (the Development Academy of the Philippines), assess the documents submitted by agencies to quality for the PBB.

This *Policy Note* reviews the evidence on the possible effects of PBB on employees' performance in the

Salient Points:

- *Since 2012, the Performance-Based Bonus (PBB) has been administered by the government based on annual guidelines as an incentive scheme to motivate public sector workers to enhance their performance.*
- *While there have been allegations of some dysfunctional behavior in the PBB, the study found evidence of generally positive outcomes resulting from it, such as increased compliance on conditions for PBB access and a shared perception among over 1,200 sampled government bureaucrats that the PBB helps improve public service.*
- *It is reasonable to continue implementing the PBB scheme but with improvements to its design and implementation, including a moratorium on changes in PBB requirements, especially in light of the COVID-19 pandemic, provision of capacity-building support for lagging agencies, and experimentation with incentives to support sectoral development outcomes.*

Philippine public sector. Given the complex design and implementation of the PBB (Albert et al. 2020), the study uses mixed methods, drawing on (a) findings from a survey of government bureaucrats, (b) a review of administrative documents, and (c) results of focus group discussions (FGDs).

Improving public sector performance

Public sector performance is ideally assessed through improvements in development outcomes. The “results chain” between the PBB and improvements in development outcomes is a long and complicated process. Likewise, the “theory of change” that outlines causal linkages between the PBB and stronger public services delivery is rather complex, with many intervening factors. Many of these factors are beyond government control. Quantifying whether the PBB resulted in public goods improvements or not is also contentious, given methodological issues in attribution.

Conceptually, incentives system reform, however, could be used to trigger changes in policies and behavior at the individual, team, and agency levels. The underlying assumption is that when agency-, team-, and individual-level changes cohere and reinforce each other toward agency objectives, public sector services and, ultimately, development outcomes, can be enhanced. This can be interpreted as a form of vertical coherence in agency, team, and individual reforms and actions toward enhanced productivity. This theory of change is based on a framework that performance is essentially a function of motivation, ability, aptitude level, skill level, understanding of the task, choice to expend effort, choice of degree of effort, and choice to persist—facilitating and inhibiting conditions beyond the control of the individual. The same framework also assumes that job performance is improved through a motivational scheme, with motivation, whether intrinsic or extrinsic, being a primary cause of behavior (Maslow 1943; Mitchell 1982). Establishing identification is challenging, given the multiplicity of policy interventions involved (and at different levels) and the likelihood that those most ready to comply with the PBB are also some of the stronger performing government agencies and public sector workers.

The PBB protocols can be interpreted as vertical coherence in incentivizing and promoting reforms and actions in support of better performance. This builds on the evidence in the management literature that the conditions

for individual and team performance are linked to broader organizational systems of governance; and that team- and individual-level incentives need to be balanced against each other, particularly for work where collective action and teamwork are necessary for optimal performance results (Gibbons 1998; Garbers and Konradt 2014; Bayo-Moriones et al. 2015; Ladley et al. 2015; Burgess et al. 2017).

There have only been a few studies that looked into this incentive scheme. In 2014, the World Bank conducted a perception survey of 4,500 officials from eight government departments. The study suggested that the PBB yielded a positive impact on government performance. It also found evidence of improvements in management practices. Recently, World Bank (2020) released an updated study that suggested that while the PBB is not fully effective, it has improved. About three in five respondents (57%) reported in 2019 that the PBB processes identify ‘bad’ performers (compared to 39% in the 2013 survey). Meanwhile, 67 percent of respondents feel that the PBB process is transparent (compared to 38% in 2013).

Meanwhile, Torneo et al. (2017) indicated that the PBB improved on previous incentive systems in terms of framework, comprehensiveness, details required, and financial rewards. They noted high compliance with the PBB but found evidence of transparency and fairness issues and allegations of staff “gaming” the system to get higher PBB—similar issues exposed by Albert et al. (2020).

Survey findings

Like those of World Bank (2014, 2020), this study involved a survey of government employees. The PIDS Survey of the Effects of the PBB (PSEPBB) was designed to collect data through face-to-face (FTF) interviews of 2,000 government employees from 60 institutions composed of national government agencies, government-owned and controlled corporations, state universities and colleges, and Department of Education schools and offices. Data collection was scheduled for March 2020, but the



According to the FGD participants, the term “PBB” is most associated with the employees’ performance, achievement of targets, and receiving of incentives. For them, the PBB is more than just a financial incentive because it has conditions on performance for availing it. Photo: DSWD Facebook.

coronavirus disease 2019 (COVID-19) pandemic and the enforcement of mobility restrictions in various parts of the country forced the study team to revise its survey plans. In lieu of FTF interviews, virtual interviews through mobile phone and video and a self-administered online survey were conducted.

By November 2020, the survey had collected data from 1,259 respondents, aged 45 years on average. Two-thirds (65.6%) of respondents were female. Respondents served, on average, 10 years in their current positions. They are fairly well educated: only 3 percent did not complete any college. About 70 percent are from agencies that were PBB-compliant in fiscal year (FY) 2016/17.

PBB implementation

There is considerable agreement among PSEPBB respondents that the PBB meets its objectives: about four-fifths (79%) agreed that the PBB measures actual individual performance. A similar proportion (84%) agreed that the PBB measures the agency/delivery unit’s actual performance. The majority found the PBB requirements fair (67%) and the basis of qualification objective (75%), but most (85%) also opined that the PBB could still be refined.

Among those who did not receive PBB at least once, the most common reason for ineligibility reported was that their agencies (as a whole) did not meet the PBB requirements. About half strongly agreed that complying with good governance conditions increased their agency’s efficiency in service delivery.

Effects of PBB on individual performance

The respondents were also asked to identify their level of agreement on 12 statements on the PBB’s effect on individual performances. About 60 percent, whether from eligible or ineligible agencies, strongly agreed that they have become more conscious of accountability requirements because of the PBB. Around half of the respondents from eligible agencies, compared to about 40 percent from ineligible agencies, strongly agreed that:

- They are more conscious of their work.
- Their individual performance targets are fair, objective, and measured with up-to-date data.
- They have been able to submit quality outputs and deliverables within deadlines.

Meanwhile, only 10 percent strongly agreed that they will not be performing as well as they have now without any reward system. To perform a counterfactual analysis

Administrative data on PBB participation and compliance rates

Despite issues on the PBB’s design and implementation (Albert et al. 2020), administrative data show that the PBB has been effective over the years. Participation rates across the years have been close to 100 percent. Further, there is increasing compliance among agencies as regards conditions for PBB access, except for FY 2017, when A025 IATF adopted a stricter validation process (Figure 2). Regarding transparency seal requirements, compliance rates increased from less than 90 percent before 2014 to 98 percent from 2014 to 2016 (though rates decreased in 2017 with the tightening of PBB validations). PhilGEPS posting was also less than 90 percent before 2014 (with only 32% of awards posted against total notices in 2011 before the PBB rollout). The postings were at over 90 percent from 2014 to 2016 (but dropped to 78% in 2017).

Ways forward








This study revealed evidence of positive outcomes from the PBB reform. Aside from increasing compliance regarding conditions for PBB access, there is a shared perception among survey respondents (especially among staff of compliant agencies) that PBB enhances public services. Nevertheless, there is evidence of some dysfunctional

behavior, including allegations that some staff are gaming the incentives.

It is reasonable to continue to implement the PBB but improvements are recommended, which include the following:

- Implement a moratorium on changes in the agency-level conditions, especially in light of the COVID-19 pandemic.
- Create agency-level redress mechanisms for complaints, such as alleged issues of unfairness and gaming of the incentives.
- Provide support mechanisms for lagging agencies on access conditions (e.g., leadership and strategy reviews, technical assistance on change management).
- Explore enhancing nonfinancial incentives in light of the pandemic. Flexibility on assignment location and work from home options, to name a few, could be powerful incentives. However, consider a rigorous impact evaluation framework for nonfinancial incentives.
- Experiment on a small scale the provision of incentives to agencies based on the contribution to sectoral targets.

Figure 2. Agency compliance to good governance conditions (FY 2011–2017)

	2011	2012	2013	2014	2015	2016	2017
 Transparency Seal	Initial year of implementation	87%	89%	98%	98%	98%	77%
 PhilGEPS Posting	32% awards posted vs. total notices	80%	89%	95%	92%	93%	78%
 Citizen's Charter	79.8%	90%	96%	99%	98%	99%	89%
 SALN Submission	-NA-	-NA-	96%	98%	99%	99%	99%* <small>*for validation</small>
 Report on Ageing of CA	-NA-	97%	98%	100%	99%	97%	90%
 QMS certified to ISO	-NA-	-NA-	-NA-	-NA-	97%	83%	55%
 Annual Procurement Plan	-NA-	-NA-	-NA-	-NA-	88%	93%	83%
Annual Procurement Compliance Performance	-NA-	-NA-	-NA-	-NA-	94%	96%	83%

Indicator

Source: A025 Secretariat (2019)

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