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## The Normative Model in Decline? Public Service Motivation in the Age of Governance

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## Introduction

At a time when the public sector is to operate as markets or quasi-markets, is there still room for public service motivation? The past quarter century has seen the validation of the concept of public service motivation. At the same time reforms based on assumptions of self-interest were being widely adopted. These reforms represent a market approach to management and characterize the governance framework that has come to displace traditional public administration (Frederickson, 2005). The market model relies on financial incentives and performance measures to control behavior, and has been applied both within the traditional public sector, and in contracting out public services to third-party government. Perry (2007, p.8) notes that “the rules embedded in new governance structures, which are tied to market forces, are likely the most compelling influences on behavior in the new public service because of their scope and power.” It is not an exaggeration to say that the market model poses the greatest threat to public service motivation.

This chapter presents two basic arguments:

- Market models that emphasize extrinsic incentives crowd out intrinsic incentives such as public service motivation.
- The limitations of market-inspired reforms in a public context are such that public service motivation provides a necessary corrective.

Two key assumptions underlie this chapter. The first is that public service motivation represents not just a form of organizational behavior, but provides the basis for what Mintzberg (1996) has described as a normative model of managing. A second assumption that follows is

that it is possible to design control systems that cultivate or degrade intrinsic motivations. Throughout this chapter I point to empirical evidence that supports these assumptions.

Political theorists have tied the emergence of the market model to a broader neoliberal movement that aims to inculcate market values to all forms of social action (Brown 2003). While the public sector has previously experimented with performance-pay and performance measurement, the market model adds a behavioral framework from economic theory explicitly based on assumptions of self-interest. It proposes that self-interest can be exploited for greater public performance only if bureaucratic monopolies were converted to a market (via privatization or contracting out), or, for services that continued to be provided by government, into a quasi-market (using incentive pay and performance measures).

The empirical scholarship documented in this book shows how assumptions of self-interest display an incomplete understanding of motivation. But the market model represents more than an inadequate assumption. These assumptions also damage public service motivation in two ways: a) through a selection effect, by attracting and retaining those with primarily extrinsic motivations, and b) through an incentive effect, by crowding out intrinsic motivations. In the first section of this chapter, we provide empirical evidence of these effects from psychology and economics, and from case studies of public exemplars of the market model, the New Zealand public service, and contracted-out welfare services in the US.

While one might regret the passing of an era that treated public service as a noble calling, does it really matter if the market model provides better performance? The second section of this chapter explains why it does matter. As the market model is applied to complex public services, the flaws of this approach become apparent. Incomplete contracts provide the opportunity and

performance pay provides the incentive for moral hazard. Strong intrinsic motivations provide the best hope that employees will resist behaving opportunistically under a market model.

There is, of course, an irony here. The market model weakens public service motivation even as it needs such norms to work in a public setting. The irony begets a policy conundrum. While it is tempting to call for replacing the market model with the normative model, the market model or the critique of government that compelled it is unlikely to disappear. A more realistic hope is for some form of marriage between the market model and the normative model. Such a union should be designed so that the normative model limits the excesses of the market model. The third section of this chapter offers some suggestions for how such a marriage might work. Eliminating some of the extreme aspects of the market model (such as high-powered incentives), while using what remains of this model to reinforce intrinsic norms (by using measures to celebrate public achievement) offers a potential path for public management. In addition, building organizational cultures that celebrate public service values, and selecting individuals who hold those values will help to strengthen the normative model.

### **From Knights to Knaves: The Rise of the Market Model**

Le Grand (1997) argues that control systems can be built on the assumption that individuals are knights (altruists) or knaves (self-interested). The logic of the market model is to avoid the dangers of trusting knaves to be knights: even if only a small number are knaves, the safest route is to treat all actors as self-interested. Knaves will adjust their behavior, and knights will continue as before. But this logic is flawed. Knights will not continue as before. Instead, they respond to systems designed to harness self-interest by becoming more likely to act

knavishly. In this fashion assumptions of self-interest, when made the basis for control systems, become self-fulfilling prophecies.

### *Characteristics of the Market Model*

The market model attempts not to curb knavish behavior, but to harness it for public performance. Actors are, spurred by competition, expected to deliver enhanced performance for the promise of financial reward. The market model has been promoted under the banner of the New Public Management, and under this flag many public services have been turned over to the market, or governed by quasi-market tools that tie financial incentives to measured performance. Theories based on market interactions, such as agency theory, portray performance measures as the best alternative to a price mechanism for political actors or “purchasers” of services seeking to reduce information asymmetry on the actions of bureaucrats, the “sellers” of services.

There is significant evidence of the adoption of such quasi-market tools. In the US, for example, the 1990s saw the adoption of performance measurement requirements at the federal level and across state governments (Moynihan, 2006). Performance-pay systems, despite a record of continued failure (Ingraham, 1993; Perry, 1986), remain a favored policy tool because elected officials and political appointees believe that bureaucrats cannot be effective without private sector incentives. Recent changes to personnel systems in the US Department of Defense and the Department of Homeland Security seek to increase the size of rewards and to tie them more directly to measured performance (Thompson, 2006). These personnel reforms have been part of a broader administrative agenda to make public employees more subject to market pressures by eliminating traditional public employee protections. Some state governments, such as Georgia, Florida and Texas, have done away with civil service systems. Other states,

reluctant to blatantly eliminate civil service laws, use alternate means: decentralizing personnel functions, declassifying employees from civil service to at-will status, reducing employee grievance procedures, weakening unions and increasing outsourcing (Hays & Sowa, 2006). The result, according to Hays and Sowa (2006) is that public employees in many state governments have much the same standing as private employees. The cumulative effect of such changes is to convert the public servant into a market actor.

### *The Crowding-Out Effect*

Social psychologists and economists who draw on psychology have documented how control systems designed to reward self-interest crowd out intrinsic motivations. Deci, Koestner and Ryan's (1999) meta-analysis of experimental data show that various forms of financial incentives, including performance incentives, reduce intrinsic motivation. Frey (1997) and Gneezy and Rustichini (2000) find crowding-out effects on forms of civic duty.

One drawback of such research is that it relies primarily on experimental data from non-work settings, and fails to examine the effects of crowding-out on performance. But some limited literature in actual work settings seems to confirm experimental findings. Deckop and Cirka (2000) find that the introduction of a performance-pay system in a non-profit university reduced intrinsic motivation for employees who had high initial endowments of intrinsic motivation. Other evidence supports the idea that crowding-out effects will have a negative impact on performance. Weibel, Rost, Osterloh (1997) attempt to model work situations using contextual vignettes in order to understand how crowding-out matters to effort. They find that intrinsic motivation matters strongly as a direct predictor of effort (more so than extrinsic motivation). Their results also confirm that performance-pay has two effects on effort. There is

the price effect, when individuals with strong extrinsic motivations exert more effort in response to a financial incentive. But there is also the crowding-out effect, when intrinsically-motivated individuals reduce effort in the face of financial incentives. For performance-pay to be worthwhile, the price effect must justify both the financial costs of the incentives, but also the negative impact of the crowding-out effect on effort and ultimately performance.

In addition to documenting the crowding-out effect, social psychologists and economists have offered explanations for the cognitive processes that underlie this effect. One explanation is sometimes referred to as self-determination theory (Weibel et al., 2007). This suggests that people have a need to exert responsibility over actions. If actors perceive that they have limited autonomy to determine actions because of the presence of extrinsic rewards, they view the locus of control for their actions as being external, reducing their sense of self determination and intrinsic motivation. In arguing against the removal of employee protections, Thompson (2006) provides a parallel insight, arguing that ethical behavior requires discretion. As actors lose this discretion, they also lose the ability to consider how their decisions affect the public interest, weakening public service behaviors.

Frey (1997, p.1045) suggests two supplementary mechanisms behind the crowding-out effect. The first is that actors accept the premise of the market model. Provided incentives that reward self-interest, they accept and pursue these incentives. As a form of behavior becomes increasingly valued in financial terms by those establishing extrinsic rewards, actors behave rationally by also viewing the behavior as a commodity, and only offering it in the presence of financial incentives. The second supplementary psychological process is simple disillusionment with the extrinsic values. Some actors do not become believers in the market model, but become

unhappy that employers feel that such a model is appropriate, as it devalues their own intrinsic motivations and the sense of inherent value of the work they and their colleagues undertake.

*The Other Lessons from New Zealand: How Quasi-Markets Weakened the Public Ethic*

The most extreme examples of quasi-markets within the core public sector can be found in countries such as New Zealand and the United Kingdom. These countries pioneered the market model by fundamentally renegotiating traditional relationships between civil servants and politicians. Hood (2000) warned that such “public service bargains” would increasingly be characterized by self-interest in the form mutual distrust and blame-shifting in times of crisis.

New Zealand won praise as the most rigorous implementer of quasi-markets, and therefore offers a good venue to look for crowding-out effects. The influence of the market model was apparent in the language of the reformed sector. Civil service protections were eliminated; employees worked on contracts; department secretaries became chief executives (and often came from the private sector); agencies became sellers, preferably in competition with each other or the private sector, and budgets became the purchase price; Ministers negotiated contracts with performance standards, achievement of which was tied to financial bonuses.

Throughout the 1990s, reformers in other countries tried to emulate the New Zealand model. Allen Schick’s (1996) masterful analysis of the reforms was frequently cited, although little attention was given his concern that the market model would displace the sense of personal responsibility that existed under the old system: “When culture is purged, there is some risk that positive features will be lost. It is essential to keep in mind that culture fosters a sense of common purpose, a professional ethic, and public-regarding values. I wonder whether in the rush

to change, departments have been sufficiently sensitive to established values” (Schick, 1996, p.52).

Subsequent analyses suggest that Schick’s concerns were well-placed. Gregory (1999) warned that the strong tradition of public service in New Zealand was being replaced by “a new careerist culture characterized by opportunistic job-hopping and inflated pecuniary rewards” (Gregory, 1999, p.67). Gregory (1999, p.67) warned of the self-fulfilling nature of a system built on assumptions of self-interest: “Public servants may become subtly conditioned to think of themselves as self-interested utility maximizers, whose opportunism has to be curtailed by legalistic contract arrangements. Systems based on the predominant assumption of distrust tend to breed distrust.”

Richard Norman (2003) provided empirical evidence of such changes based on interviews of 91 public servants, as well as his own experiences working in and reporting on the New Zealand public sector. Norman found that measured goals came to replace traditional norms: “‘Do this and you’ll get that’ makes people focus on the ‘that’ and not the ‘this.’ The recipient of the reward will calculate ‘if they have to bribe me to do this, it must be something I wouldn’t want to do’, and the intrinsic motivation to think and work creatively will be undermined” (Norman, 2003, p.102). Interviewees reported that trust had declined, and employees became more likely to view themselves as individuals rather than part of a team engaged in mutual endeavor. As it displaced traditional ideals of public service, Norman laments that the market model “may have provided a compelling motivation for an elite group of reformers, but also constituted a challenge to public servants whose role was changed from being stewards of the national interest to sub-contractors of specified services...As a lever of control,

belief systems based on market mechanisms have been an inadequate alternative to beliefs based on service delivery” (Norman, 2003, p.224)

### *The Welfare Market*

Welfare contracting provides another setting that illustrates the negative effects of the market model. Welfare reform in the US has allowed state governments to contract out to third parties, including for-profit organizations, to deliver services. In such settings, managers face intense pressure to meet performance targets, win financial incentives and retain contracts. The dynamics of the welfare market are explored by Fording, Schram and Soss (2006) and Dias and Maynard-Moody (2007), who offer the views of managers and front-line operators in the area of job-training. Though not intended to be direct tests of the effect of the market model on public service motivation, these studies provide a detailed understanding of an organizational context at odds with the ideals of public service.

Both studies document the adoption of market vernacular as a means to distinguish the market model from traditional welfare. Managers denigrated traditional social work as overly-slow, and described themselves as working in the “welfare industry” (Dias & Maynard-Moody, (2007). Caseworkers became called “career counselors,” clients became “candidates” or “customers” (Fording et al. 2006). “Officials at all levels distinguish between those who ‘get’ the business model and those who have failed to overcome the ‘old school’ social services mentality” (Fording et al. 2006, p6).

The for-profit performance regime provided little discretion to operators, who felt they lacked the tools to do anything other than process service recipients. Incentives in contracts were at odds with how employees would act if able to use discretion to serve clients: “From the onset

of the program, the contract inducements competed with the frontline staff and client motivations and desires” (Dias & Maynard-Moody 2007, p.199). Fording et al. (2006, p.26) underline that while front-line operators always retain some measure of discretion “case manager discretion does not run all that deep if by “deep” one means an individual liberty to treat clients as one would like.”

Many operators were former social workers, and attracted to work in the welfare “industry” partly because of a desire to help others. But these employees found such civic caring to be at odds with the market model in which they found themselves. In both studies operators recognized that focus on measurable deliverables -- putting the client into any kind of job -- was often inconsistent with the needs of the clients in terms of education, skills, and finding a job that offered long-term prospects. Processing individuals was not the same as helping them. As a result, Dias and Maynard-Moody (2007, p.198) found that the initial optimism of employees quickly soured and Fording et al. (2006) observed a deep ambivalence among employees about their role.

Negative outcomes followed. Dias and Maynard-Moody (2007) report intense hostility as managers tried to clamp down on operator initiatives to provide extra help to clients. In both studies, pressures and frustration led to blaming the clients for their predicament – by classifying them as unmotivated – as a way to justify the limited aid being offered. Fording et al. (2006), also found that operators sanctioned clients (preventing them from receiving benefits) at a markedly higher rate after performance incentives were introduced. Such sanctioning occurred because “frontline workers are under stress, believe they have few tools at their disposal aside from threats, and become frustrated and angry when client behaviors risk putting their own performance at risk” (Fording et al., 2006, p.26)

### *The Effects of the Market Model on Public Service Motivation*

The literature on crowding-out and the empirical examples from New Zealand and US welfare markets offer some insights into how the market model undermines public service motivation. There are two distinct effects. First, the market model alters the selection of individuals who join and exit public service. Second, it changes wider organizational context, norms and incentives for those who stay.

*Selection Effects.* By establishing a control system built on self-interest, governments communicate to prospective and current employees that market values are the only ones that matter. There is strong empirical evidence from the person-organization fit literature that employees who do not share the values of their organization have higher turnover rates (Verquer, Beehr & Wagner, 2003). Those who find that their values of public service are not being met are more likely to exit. Dias and Maynard-Moody (2004, p.204) report in their case study how some of the most experienced employees left the organization in frustration, with one saying: “why am I working here? We are not helping anybody. It’s horrible I hate it...Now I am...almost embarrassed to work here.”

In Georgia, employees reported lower job satisfaction and increased turnover intention after the state eliminated its civil service system and introduced a performance pay system (Kellough & Nigro, 2002). Those who were hired after the market model was introduced were significantly less likely to believe, even after including demographic and job controls, that the new system placed “too much stress on money as an incentive and not enough on other sources of motivation.” This evidence provides further evidence of a selection effect in hiring,

suggesting that employees hired under the market model tend to be more attuned to financial motivators (Kellough & Nigro, 2006).

Individuals attracted to join and remain in a public sector built on notions of self-interest are more likely to be extrinsically motivated. As those with initial endowments of public service motivation consider where they wish to work, the benefits of being in a public environment are less clear. Paul Light (2003) finds that US college graduates continue to express a strong desire to engage in public service, but now see nonprofits as the most appealing venue. “Contrary to those who say that government must become more businesslike to compete, these seniors almost surely would recommend that government become more nonprofit-like, especially in reassuring potential recruits that they will be given a chance to help people” (Light, 2003, p.3). Even among graduates of public affairs Masters programs, Light (1999) finds a steady and marked decline in willingness to take a government job. Graduates from such programs in 1973-1974 joined government 76% of the time, while by 1993 only 49% went directly to government. In New Zealand, Norman (2003) reported a perception that only older employees were proud to call themselves public servants.

Such differences may be driven by cohort effects rather than the specific effects of market model on the public sector. Putnam (2000) has argued that older generations of Americans are more civically disposed. Others have questioned this claim (Rotolo & Wilson, 2004), and it is ultimately difficult to separate the different experiences of successive generations from wider neoliberal changes in society.

*Incentive Effects.* For those that remain in the public sector, the market model will exert an incentive effect. As already detailed, those with high initial intrinsic endowments will suffer a

crowding-out effect, likely to be reflected in less interest in the job, reduced effort, and ultimately lower performance (Deci et al. 1999; Wiebel et al 2007). Others will respond to these incentives as predicted by market models, focusing their attention on measured performance and financial bonuses. Initially, incentives may clash with existing institutional values, but if persisted with long enough and implemented diligently, the market model will become the dominant organizational culture in public organizations.

The New Zealand and welfare market examples provide a sense of the new cultural attributes. The language of the marketplace will become more prominent, as public servants come to see themselves and their colleagues as market actors. Employees will perceive that market control systems allow them less discretion to exercise moral judgment, and indeed may force them to act in a way they consider to be at odds with public good. Employers and employees may find ways to rationalize such behavior, by devaluing public service ideals or, in the case of welfare services, blaming the client for their predicament (see also, Pearce, 1987).

Conceivably, we may soon have a government and non-profit sector which looks like a market, populated by self-interested individuals. If such a neat match between incentives and motivations occurs, and as long as performance is strong, should we then mourn the passing of the normative model? The answer is yes, for two reasons. First, it is likely that there will always be some segment of the public and non-profit workforce animated by ideals of public service, and so a crowding-out effect will continue. Second, as detailed in the next section, the flawed nature of the market model require employees with public service motivation to make it actually work.

### **The Importance of Public Service Motivation to the Market Model**

This section outlines the performance case for maintaining public service motivation, even in the context of the market model. Performance models that incorporate crowding-out effects suggest that where employees hold high extrinsic motivations, the price effect will overwhelm any negative crowding-out effect and lead to a positive net impact on performance (Weibel et al., 2007). But this assumes that employees are offered a strong enough incentive to increase effort. Experimental evidence suggests that inadequate financial incentives will foster a crowding-out effect, but will not motivate a price effect (Gneezy & Rustichini, 2000). Unfortunately, the provision of inadequate financial incentives is a trademark of public sector performance-pay systems (Ingraham, 1993).

In situations where employees hold strong prior intrinsic motivations, the crowding-out effect may be so great as to actually reduce net performance. For this reason Frey and Oberholzer-Gee (1997, p.753) warn that the “use of price incentives needs to be reconsidered in all areas where intrinsic motivation can empirically be shown to be important.” Given that the public service motivation literature has shown that those entering the public and nonprofit sector have strong intrinsic motivations, this provides one clear rationale for expecting that the market model may actually reduce performance.

But there are other reasons for believing that public service motivation is conducive to higher performance, even in the context of the market model. One limitation of most research on crowding-out is the simplistic assumption that actual performance can be easily measured and tied to pay. The implications of more realistic assumptions of measurement and attribution complexity are explored below.

### *Incomplete Contracts*

Incomplete contracts occur for a number of reasons. For even moderately complex services it is difficult and costly to write a formal contract that dictates all desired actions on the part of the agent. The performance of an organization is the result of the interaction of many individuals and the contribution of each member is difficult to determine (Frey & Osterloh, 2005; Perry 1986). In addition, governments frequently have difficulty in finding measures that perfectly reflect the underlying mission they pursue (Heinrich, 1999). Most public services seek to achieve multiple goals, some of which may conflict with one another, and it is likely that not all of these goals will be adequately measured or rewarded. Incomplete contracts allow agents to engage in opportunistic behavior at the expense of the principal's goals (Brown, Potoski & Van Slyke, 2006). The most prominent forms of opportunistic behavior resulting from incomplete contracts may be a) goal displacement and gaming; b) ignoring due process, and c) ignoring management capacity.

*Goal Displacement and Gaming.* Opportunistic actors may focus on improving performance measures that they are rewarded for, while neglecting unmeasured aspects of performance. As a result, efficiency goals are often pursued at the expense of program quality, short-term goals over long-term measures of effectiveness, easy-to-measure goals over more ambiguous goals (Heinrich, 2003). To improve measured performance, actors may develop strategies that fall into the category of gaming, including cream-skimming of the most capable rather than most needy clients, selecting only favorable measures, dropping measures to limit comparisons across years, distorting performance measurement processes, and spinning results.

*Ignoring Due Process.* Part of the appeal of the market model is that it promises to do away with traditional bureaucratic constraints. But among the constraints lost may be rules-based forms of accountability such as due process guarantees. Performance measures emphasize mission-based goals outcomes, leading them to overlook the outcomes that due process provides, such as equity (Radin, 2006), transparency (Piotrowski & Rosenbloom, 2002), state legitimacy (Tyler & Blader, 2003), or civic capacity (Wichowsky & Moynihan, 2006). The loss of due process rights is more pronounced in contract settings, where traditional rules may not apply to third-parties, and where the clutter of public and private actors makes accountability unclear (Rathgeb-Smith, 2003).

*Overlooking Management Values.* The market model emphasizes short-term results over management values, such as capacity and collaboration. In the New Zealand case, employees worried that incentives led to their organizations being “run down” in the search for efficiency gains (Norman, 2003). Since the market model rewards single organizations or individuals, it discourages collaboration within (Perry, 1986) and across agencies (Norman, 2003).

An example of how performance targets discourage collaboration comes from the manner by which the US Citizenship and Immigration Services (USCIS) reacted to a goal set by President George W. Bush to reduce the processing time for citizenship applications to less than six months. In counting valid applications, the USCIS excluded applicants awaiting FBI background checks. Such background checks were not high on the FBI agenda, and remain unresolved for years. The performance regime encouraged the USCIS to leave such candidates languishing, rather than work with the FBI to process such requests. As a result of this change and other manipulations of what counted as a valid application, the USCIS claimed to have met

President Bush's goal, even as it took responsibility for only 140,000 of 1.1 million applicants (Bernstein, 2006).

In markets where service delivery organizations compete for contracts, not only are there strong incentives not to collaborate and share innovations, there is active distrust and hostility between organizations. Managers surveyed by Fording et al. (2006, p.7) suggested that their competitors "are cheating as far as the day is long" and "they can't tell you their 'best practices' because their practice is cheating. So if this is going to be a competitive game, we need to start playing by the same game."

### *Selection as Solution*

The problem of incomplete contracts can be dealt with in two ways. The first is to develop more elaborate control systems in form of increasingly detailed contracts that specify a broader range of goals, behaviors and constraints, and employ closer monitoring of performance; (Brown, et al., 2006). For example, governments have adopted elaborate audit mechanisms (Hood, 2000), and invest considerable time in revising contracts as initial versions are exploited (Heinrich and Choi, forthcoming). But more elaborate control systems significantly increase transactions costs, thereby reducing whatever efficiency gains the market model has created. They are also unlikely to fully resolve moral hazard because incomplete contracts tend to arise more from difficulty in measurement rather than lack of effort among principals.

The second option is selection. By selecting actors who care about public service, the problems arising from incomplete contracts will decline (Miller & Whitford, 2007). Such actors are more likely to act virtuously, even when such behavior is unrewarded and at odds with incentives to act opportunistically (Frey & Osterloh, 2005). For example, the propensity of

individuals with high public service motivation to engage in whistleblowing illustrates a willingness to act in ways at odds with organizational norms when public values are at stake, usually at personal cost to the whistleblower (Brewer & Selden, 1998). Individuals with strong intrinsic motivations are likely to provide valuable but unrewarded behaviors that the market model discourages, such as cooperation (Scholz, 1991), organizational citizenship behavior (Pandey, Wright and Moynihan, 2007), greater commitment (Crewson, 1997), and, in situations where formal controls cannot perfectly track effort, greater productivity (Langbein, 2006).

Mintzberg (1996) argued that outdated bureaucratic models lasted for so long because managers infused with a public ethic were determined to make the machinery of public service work. The need for responsible public servants to make market model work is perhaps even greater. The irony, of course, is that the market model dampens the type of intrinsic motivations required to ameliorate its flaws. This seems to leave us in a catch-22 situation. How to square the circle? How to curb the negative impacts of the market model on intrinsic motivations in a way that allows such values to, in turn, limit the flaws of the market model? The final section of this chapter offers some suggestions.

### **Marrying the Market and Normative Models**

Given the weaknesses of the market model, why not abandon it and make the normative model the primary basis for managing individuals in the public and non-profit sector? Some have called for rolling back the market model (Mintzberg 1996). Such a proposal is logical, but unrealistic. We cannot turn back the clock. The market model is already too deeply enmeshed in public services, and too popular to dismiss. We should also resist unjustified nostalgia for traditional bureaucracies. Bureaucracy can also crowd out intrinsic motives. For example, a

survey of state government officials found that perception of red tape and length of time in the organization (while controlling for age) was associated with lower public service motivation (Moynihan & Pandey, 2007).

How to maintain knights in a system designed for knaves? Thompson (2006) argues that protecting public service norms requires employee protections that allow the exercise of moral judgment. Denhardt and Denhardt (2000) identify basic principles for a new public service that sees public employees more focused on the public interest through a direct discourse with citizens. Le Grand (1997) proposed that we need control systems that can appeal to both knaves and knights at the same time. In effect, this means finding some balance between the market and normative model. This is no simple task. There are a number of possibilities that assume that the market model will continue, but that it can be modified in a way that would allow it to maintain public service motivation among employees:

- Disconnect high-powered incentives from measured performance.
- Link performance measures to intrinsic rewards.
- Build a public service culture.
- Place greater emphasis on public service motivation in selection.

### *Disconnecting Incentives from Measures*

The core elements of the market model are a reliance on financial incentives and performance measures. The most egregious examples of opportunistic behavior appear to occur when both are in place, with strong budget and/or individual incentives to improve measured performance (Heinrich and Choi, forthcoming; Hood, 2006; Fording et al., 2007). Of the two, performance measurement is more deeply embedded in government than financial incentives

(Moynihan, 2006). Pay for performance is somewhat less common, and often implemented halfheartedly within the core public sector (Ingraham, 1993). It is more feasible to block the adoption of high-powered incentives than it is to undo the performance measurement architecture already in place. In addition, performance measures do not appear to be inherently at odds with intrinsic motivation as financial incentives are.

### *Use Performance Measures to Appeal to Intrinsic Values*

With performance measurement as the key remaining element of the market model, organizations could explore using goals to appeal to non-extrinsic motivations. Elsewhere in this volume, Paarlberg, Perry and Hondeghem point to the possibility of goal-setting as a means to allow employees to connect to the broad public service goals. This suggests an approach to performance measurement that, rather than being centered around a logic of sanction and reward, would appeal to intrinsic values by using measures to foster participatory goal-setting (Burke & Costello, 2005), learn how to better achieve important goals (Moynihan, 2005) and celebrate achievement (Behn, 2003).

### *Build a Public Service Culture*

Institutionalist perspectives on bureaucracy emphasize the malleability of organizational norms (Olsen, 2006; Thompson, 2006). Leaders play a key role in establishing such norms, emphasizing the larger goals the organization is working toward and the collective nature of effort (Selznick, 1957). A rational choice updating of this insight comes from Miller (1990), who argues that when leaders create a sense that “we are all in this together” norms of cooperation overwhelm self-interested tit-for-tat strategies. DiIulio (1994) worries that agency

leaders are too focused on managing the external political environment to build the strong organizational culture that he argues is central to fostering principled behavior. He observed that agency leaders were able to build such cultures in the Bureau of Prison because they were career staff who cared deeply about the agency and knew it well, and because they enjoyed enough longevity in position to make meaningful changes.

Much of what we know about how to build public service cultures is explained in the Paarlberg et al. chapter in this volume, particularly on the importance of transformational leadership, interpersonal relationships and the use of formal and informal mechanisms to influence culture. Frey and Osterloh's (2005) offer some additional insights on institutions that can "crowd in" intrinsic motivations.

- Instructions from a legitimate authority: explicit direction tends to encourage prosocial behavior and encourage voluntary rule-following even when at odds with self-interest, especially when coming from a source perceived as legitimate.
- Framing of socially appropriate behavior: employees are sensitive to norms of appropriate organizational behavior (Olsen, 2006). Pearce (1993, p.1094) argues that social norms reinforced by interpersonal contact can even mute the opportunistic behavior of contractors. Cues from interpersonal contacts, myths, and symbols should therefore emphasize prosocial behavior.
- Personal contacts: interpersonal communication creates relational ties that foster extra-role behavior. Romzek and Johnston (2005) have documented the use of relational contracts between funders and providers in social services. Such arrangements supplement formal contracts with trust and long-term relationships, limiting competition and high-powered incentives.

- Open-ended contracts: Contracts which do not link behavior and rewards in great specificity provide greater potential for extra-role behavior.
- Procedural fairness: People are less likely to exploit an authority that they regard as having treated them fairly (Tyler & Blader, 2003). Procedural fairness incorporates participation, and respectful and neutral treatment.

Cumulatively, the above insights describe elements of a public service culture. Such a culture looks a good deal like a clan culture, which features a familial atmosphere and a high degree of interpersonal trust (Ban, 1995). Leaders earn legitimacy by representing the mission of the organization and other clan values, and are not shy about using a mixture of formal and informal mechanisms to communicate values, establish social norms, maintain a sense of procedural justice and ultimately crowd in intrinsic values.

### *Selection*

The message that one can serve the public good in government tends to be drowned out when elected officials make a fetish of denigrating bureaucrats and deifying the market. However, the chapter provided by Paarlberg et al in this volume offers a series of excellent suggestions for how to better select those with strong intrinsic motivations.

The importance of selection extends to contracting also. For the types of complex services that result in incomplete contracts, government should select service providers with a strong intrinsic interest in the mission of the program. Nonprofit vendors are less likely than for-profit counterparts to exploit incomplete contracts because of shared normative goals with the government. To some degree, governments already appear to make such a distinction. Brown

and Potoski (2003) find that government tends to contract with for-profit organizations for simple services and with nonprofits for more complex services.

However, the welfare market examples cited in this chapter illustrates governments contracting with extrinsically-motivated organizations to provide complex services. Another example is the collection of unpaid taxes. During the 1990s the Internal Revenue Service (IRS) introduced performance incentives designed to increase tax collection. Some IRS agents responded by overzealously harassing taxpayers, illustrating the potential for incentives to crowd out judgment. Public hearings led to Congress explicitly limiting performance incentives for collection (Thompson, 2006). However, the IRS appeared to learn exactly the wrong lessons from the episode. In 2006 the IRS started contracting with private debt collection companies, offering even stronger financial incentives to agents unlikely to have any public service motivation to moderate opportunistic behavior (Singletary, 2006). In such a function, where there is little potential for contracting with public service oriented organizations, the best selection strategy to avoid moral hazard is to not outsource but to rely on public employees while limiting the use of financial incentives.

### **Conclusion**

Because the market model and normative models are ideal-types, actual control systems will likely rely on some elements of the both as well as retaining the type of coercive control that typify traditional bureaucracies (Miller & Whitford, 2007). However, one control system is always likely to be more prominent than another and will represent the dominant institutional values. This chapter has made the case that public and non-profit control systems should be built on the normative values of those who wish to engage in public service. These values are

currently being undermined by the rise of the market model. Not only does the market model largely ignore the intrinsic motives of public and non-profit employees, it threatens to quash those motivations.

It is reasonable to argue that the market model is appropriate for certain services. Where there is little intrinsic motivation to crowd out and where performance can be accurately measured and tied to effort, the market model can increase productivity with few negative side-effects. Not surprisingly, such simple, easy-to-measure services have provided the market model with its clearest successes (Hodge, 1999). However, most public services are complex, as Mintzberg (1996, p79) points out: “Many activities are in the public sector precisely because of measurement problems: If everything was so crystal clear and every benefit so easily attributable, those activities would have been in the private sector long ago.”

Where services feature ambiguous and hard to measure goals, difficulty in attribution, and require probity and judgment, it is important that the actors involved are guided by a public ethic that limits moral hazard. Attaching the market model to such services may reflect a political inevitability, but governments have been too willing to pursue reforms without considering their full costs. Future applications of the market model should carefully consider how to maintain the public service motivation necessary to enable reforms to succeed.

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