JPART 20:577–600

Explaining Cross-Country Differences in Performance-Related Pay in the Public Sector

Carl Dahlström
Victor Lapuente
University of Gothenburg

ABSTRACT

This article aims to explain cross-country variations in a paradigmatic element of the new public management reforms: the shift from low-powered incentives (i.e., flat salaries) to high-powered ones (i.e., performance-related pay [PRP] systems). It presents a theoretical model based on insights developed for understanding the success of performance-related incentives in the private sector. Economic literature has underlined the need for a system of separation of interests within firms to make promises on incentives credible. The interests of those who benefit from the incentives (e.g., owners) must be relatively different from the interests of those who manage the incentive system (e.g., managers). Similarly, this article argues that incentives in the public sector are more likely to be implemented in those administrations in which there is a relative separation between those who benefit from the incentives (e.g., politicians) and those who manage the incentive system (e.g., senior civil servants). Where the interests of both groups overlap (e.g., the careers of senior officials and politicians are intertwined), incentives will be less credible and thus less likely. A quantitative analysis for 25 Organization for Economic Co-operation and Development countries confirms that PRP is significantly more used in contexts with clear separation of interests between politicians and senior civil servants.

INTRODUCTION

Since the mid-1970s there have been numerous reforms of public administrations, many of which have been in line with what is generally known as new public management (NPM). Two influential observers conclude that with the exception of war times ‘‘there never has been the extent of administrative reform and reorganization that has been occurring during the period from approximately 1975 onward’’ (Peters and Pierre 2001, 1).

We thank Mikael Gilljam; Johannes Lindvall; Tove Lund; Per Lægreid; Johan Martinsson; Naghmeh Nasiritousi; Petra Olsson; Maria Pettersson; B. Guy Peters; Jon Pierre; Colin Provost; Bo Rothstein; Marcus Samanni; Lena Wägnerud; the editor of *JPART*; four anonymous reviewers; the participants of the European Consortium for Political Research workshop on Administrative Reform, Democratic Governance, and the Quality of Government; and many others for their help and comments on earlier drafts of the manuscript. We also owe special thanks to the Quality of Government Institute at the Department of Political Science, University of Gothenburg. Address correspondence to the author at victor.lapuente@pol.gu.se.

doi:10.1093/jopart/mup021
Advance Access publication on August 18, 2009

Today one may find NPM reforms worldwide—although in very different shapes, degrees, and depths (for overviews, see Christensen and Lægreid 2001; Peters and Pierre 2001; Pollitt and Bouckaert 2004). However, despite the large scholarly interest in NPM, existing theories fall short in explaining cross-country variations. This might be related to the problem comparativists face on how to tackle a concept as broad as NPM. We often lack reliable comparative measures and, more fundamentally, there is no clear consensus on what constitutes an NPM reform. The aim of this article is to address these questions by proposing a theoretical model focusing on one particular but paradigmatic NPM reform—the introduction of performance-related incentives in the public sector—and by subjecting it to a comparative empirical test using cross-country data for 25 countries.

Roughly, general explanations of the adoption of NPM reforms search for causes of cross-country variations in three spheres: administrative tradition, politics, and economics. According to these theories, NPM would be the result of the Anglo-Saxon administrative tradition (Castles and Merrill 1989, 181; Pollit 1990), the rule of right-wing governments (Bach 1999; Barlow et al. 1996), or economic globalization (Keller 1999; Thompson 2007). It can convincingly be argued that many countries associated with comprehensive NPM reforms are culturally Anglo-Saxon and/or have had long tenures of right governments. Nevertheless, one may also find an increasing number of counter-examples, such as the implementation of NPM programs in culturally non-Anglo-Saxon contexts—such as Korea—or by social democratic governments—such as in Sweden and New Zealand (Hood 1996, 275). Regarding economic globalization, despite perhaps constituting a reason for the general development of NPM over time, it is harder to see how it may explain the large variations in NPM across countries with similar economic structure—such as small, open, corporative countries like Austria, Denmark, and Sweden (Organization for Economic Co-operation and Development [OECD] 2005, 36).

Thus, the empirical question remains as to which of these three factors—administrative tradition, party politics, and economic globalization—matters the most since they have not been subjected to empirical scrutiny against each other (for a rare exception, see Peters 1997). This article offers a joint test of these three hypotheses and, in addition, it tests an alternative hypothesis. In particular, this article contends that insights from transaction cost economics (TCE) used for explaining the introduction of NPM-like reforms in the private sector may help us understand variations in the adoption of NPM across public administrations better than the prevailing accounts in the literature. However, first we must narrow the scope of our analysis, identifying one aspect of NPM that can be measured and travel well across countries. NPM is a concept too broad to guide a cross-country comparison. NPM cannot even be considered as a general program or doctrine of reform but more likely as "shorthand for a group of administrative doctrines that have figured prominently in the agenda for bureaucratic reform in several OECD countries beginning in the late 1970s" (Hood 1996, 268).

NPM first involves a combination of several values in the management of public employees: Instead of the previous "egalitarianism," there is more "individualism"; and, instead of vague control, there is more "hierarchism" or active control. Secondly, NPM also entails several doctrinal components—professional management of public organizations, explicit and measurable standards of performance, greater emphasis on output controls, shift to disaggregating of units, change to greater competition in the public sector, stress on private sector styles of management practices, and emphasis on greater discipline in public sector resource use (Hood 1996, 268–69).

This article focuses on one specific element of NPM: the implementation of performance-related pay (PRP) systems in the public sector. PRP incentives represent both the main values of NPM and most of its doctrinal components (Thompson 2007, 50). PRP systems imply a more individual treatment of employees and more hierarchism since they aim at a closer control of public employees' output. In particular, PRP systems are a core element of NPM because they exemplify a new component in rewarding systems, the emphasis on on-the-job performance rather than rank and educational attainment, not present in traditional public administration (TPA; Hood 1996, 269). The introduction of PRP systems has not implied a total replacement of the traditional pay systems, but it is a way of "enhancing the individualization" of the existing human resources (HR) practices (OECD 2004b). PRP systems epitomize the change that, according to Naschold (1996), NPM implies in comparison to TPA, namely, a movement from *rule steering* to *results steering*. As the OECD remarks, "the adoption of performance-related pay in the public sector reflects the influence of the private sector culture of incentives and individual accountability on public administration" (OECD 2004a, 4). In addition, since there are reliable cross-country indicators on the implementation of incentive systems, we contend that PRP is a good proxy for assessing the advancement of NPM reforms in a country.

It is, however, important to note that the literature agrees that there is often a gap between the existence of a *formal* and a *real* PRP system in the public sector (Ingraham 1996, 260; Thompson 2007, 57). Almost all OECD countries have enacted systems that formally link pay to performance, but few can be qualified as "performance related" (OECD 2004a, 5) since they only measure inputs (e.g., number of subordinates in the unit) and not outputs or outcomes (e.g., assessment of individual performance). The theoretical model suggested in this article does not aim to explain whether a country has a formal PRP system or what its peculiar characteristics are on paper but up to which extent economic rewards are actually linked to individual performance appraisal. We call this the real implementation of a PRP system.

The remainder of the article is organized as follows. The section "Theory: When Do Incentives Work?" presents the theoretical argument of the article, taking as starting point developments in organizational economics. Similar to the theoretical insights generated for understanding the difficulties to implement incentives in many private firms, we define the problem of incentives as a problem of trust. We argue that the reason for the successful introduction of incentives in the public sector does not lie in the "good" or "bad" design of the incentives but in the credibility of those who impose them. It is not difficult to design good incentives. What is difficult is to convince others that you are trustworthy and that you will not manipulate ex post the management of incentives to your personal advantage. The main hypothesis of the theory is that PRP systems will be more likely in those administrations where there is a relative separation between those who benefit from the incentives (e.g., politicians) and those who manage the incentive system (e.g., senior civil servants).

In the section "Alternative Explanations," we discuss the three main alternative explanations from the literature—the cultural, political, and economic hypotheses. The section "Methods and Data" describes how we operationalize our variable on the separation of interests between politicians and senior civil servants. We argue that the separation of interests between politicians and senior civil servants will be more probable in those polities where the careers of cabinet members and senior officials are separated (e.g., the United Kingdom, Norway, Korea) than in those polities where their careers are intertwined (e.g., France, Belgium, Japan). We analyze cross section data for 25 OECD countries—obtained from the OECD, the Quality of Government database (Teorell, Holmberg, and Rothstein 2008), and Pollitt and Bouckaert (2004) and numerous scholarly studies. The section "Minister and Mandarin Relations and PRP: Evidence from 25 OECD Countries" tests our hypothesis together with the three main factors prevailing in the literature. Results show that, even after controlling for alternative hypotheses, countries with a clearer separation between the careers of politicians and senior civil servants are more likely to introduce PRP systems than countries where those careers are more integrated. Results do not show any significant impact of the alternative explanatory factors: neither a public interest administrative tradition nor the tenure of right governments or a highly globalized economy has an effect on the implementation of incentives. The last section is Conclusions.

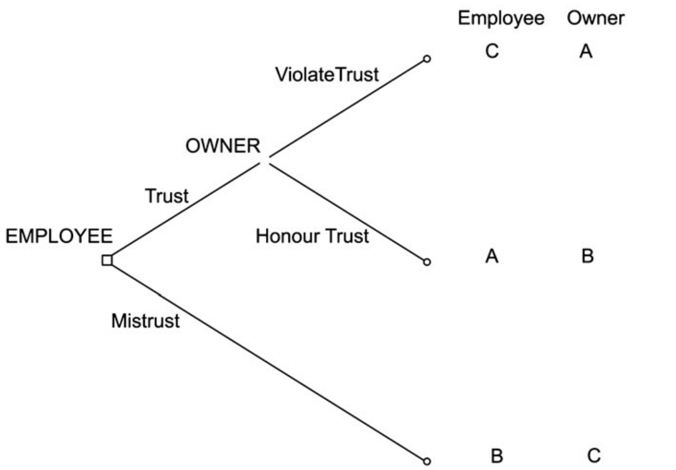
THEORY: WHEN DO INCENTIVES WORK?

This section argues that insights from TCE—developed for explaining the uneven introduction of incentives in what otherwise are very similar private sector organizations—may help us to understand the observed variations in incentive systems in the public sector better than the prevailing accounts in the literature discussed above. Unlike traditional principal agent theory, for which incentives will work if they are technically well designed in a contract, TCE considers that contracts—even the ones that carefully specify an incentive system—are inherently incomplete. There are always behaviors that cannot be specified ex ante. In general, the successful functioning of an organization does not depend so much on how properly designed formal contracts between employers and employees are but on the existence of "relational contracts" (Williamson 1975) or "psychological contracts" (Levi 2005) between them—that is, informal exchanges made possible by the accumulation of trust. In particular, the problem of trust that prevents a more frequent implementation of incentives is the standard time inconsistency or credible commitment problem.

Miller (1992) illustrates the time inconsistency problem inherent to incentives with the example of the piece rate system (figure 1). The employee moves first and has a choice of trusting the employer (working hard) or not trusting the employer (making a minimum effort). If the employee trusts the employer, the latter has the opportunity of honoring trust (e.g., paying the ex ante promised 10 USD per piece the employee produces) or violating trust (e.g., cutting the piece rate from the promised 10 USD to a mere 5 USD once he realizes how many pieces the employee is able to make). The employer may have incentives to violate trust because he obtains a direct benefit. Anticipating this violation, the employee does not trust the employer, which results in an outcome of minimum effort, a Pareto suboptimal Nash equilibrium (*B*, *C*).

Nevertheless, why have some firms succeeded in implementing incentive systems, whereas many others seem to be trapped in the Pareto suboptimal Nash equilibrium? The TCE literature has emphasized one factor that can explain the efficient introduction of incentives in some private firms: the existence of a separation of interests at the managerial structure of the firm (Miller and Falaschetti 2001, 403). If the owner of a firm (the one who obtains the benefits) at the same time is the manager (the one who fixes the price of 10 USD or 5 USD per each piece produced), workers may lack incentives to work hard. The reason is that the owner has more temptations for opportunistic defections (such as

Figure 1
The Problem of Incentives in the Private Sector



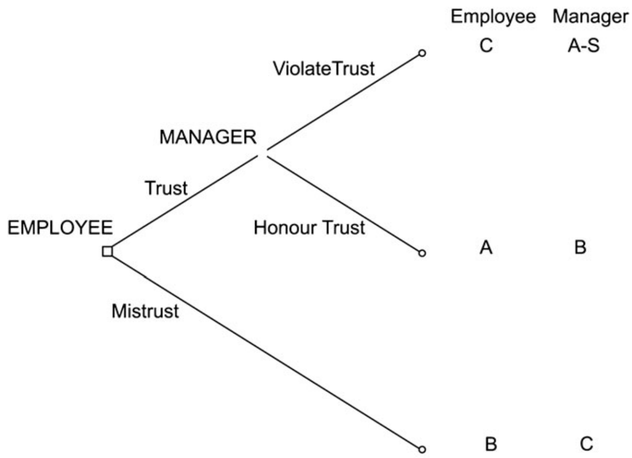
Owner's outcome ranking A > B > C. Employee's outcome ranking A > B > C
Mistrust (payoffs B and C represents a Pareto-suboptimal Nash equilibrium.
(Adapted from Miller 1992).

adjusting piece rates downward) since he/she is going to directly benefit from violating trust. Building on the theoretical work by Holmstrom (1982) and Eswaran and Kotwal (1984), Miller and Falaschetti (2001, 400–401) consider that "in a Madisonian way" managers and owners must act as mutual constraints. The owner of a company must act as a "passive owner" and rely on a manager whose preferences must be different from his/hers. The key issue is thus that, in the eyes of the employees, the managers possess *interests that are known to be different from the* owners' (Miller and Hammond 1994, 22).

We contend that, despite the multiple differences between private and public managers, the insights from TCE may help us understand the uneven introduction of incentives that we see across public organizations. To start with, the introduction of incentives in the public sector is subject to a level of uncertainty—and potential opportunistic defections—as high as, or even higher than, in the private sector. The main assumptions about incentives are more difficult to uphold in the public sector than in the private one due to the relative lack of objective measures of output and the complexities of the tasks at hand. It is difficult to assume that public organizations can accurately measure individual, team/unit, or even organization outputs and that pay can be administered in a way that capitalizes on its expected value for potential recipients (OECD 2005, 10). Performance assessment is inherently difficult in the public sector (OECD 1997, 2003) and it requires a large element of managerial judgment (OECD 2005, 12).

These elements increase the likelihood of opportunistic defections by politicians in their relations with public employees. Research shows that governments have frequent temptations to ex post modify a given incentive system and divert the resources to other ends. For example, according to the OECD (2004a, 36) surveys regarding the failure of incentive systems in several countries, it is common to see "disappointed expectations

Figure 2
The Problem of Incentives in the Public Sector



Managers's outcome ranking A > B > C. Employee's outcome ranking A > B > C
Mistrust (payoffs B and C represents a Pareto-suboptimal Nash equilibrium.

of employees who have been promised money for improved performance and then find it is funded by means of smaller increases in base pay.'' The OECD admits, very similarly to what TCE authors state for the private sector, that incentives in the public sector create uncertainty among employees (OECD 2004a, 34) and the lack of trust is one of the most serious obstacles to the implementation of incentive schemes (OECD 2004a, 44). The OECD addresses this uncertainty through the development of organizational trust. In particular, the OECD claims that ''PRP [systems] should be applied in an environment that maintains and supports a trust-based work relationship'' (2004a, 7) and that ''certain preconditions are essential before introducing a PRP system: transparency within the organization, clear promotion mechanisms, and trust in top and middle management'' (2004a, 70).

Taking these observations into account, the interaction between governments and public employees could be modeled as a two-person game such as the one depicted in figure 2. Following previous studies in organizational economics dealing with problems of credible commitment, we simplify organizations to two sets of actors. As the literature emphasizes, there is always a basic problem of credibility between superiors and subordinates (Gibbons 2001, 334; Miller 2000, 317), irrespective of the existence of intermediate layers or third parties like courts or unions. The game is identical to Miller's, with the only difference being that it endogenizes the solution to the problem of trust—the existence of a separation of interests at the top of the organization—with the parameter *S*, which reduces the value of violating trust for the manager. Put simply, the payoff for the public manager may vary. As a result, this version of the game does not have a unique solution (the Pareto suboptimal one), but it depends on the value of *S.* This parameter captures the extent to which there is a separation of interests between those who mostly benefit from reneging ex post on promises of incentives (i.e., the public equivalent of ''owners'') and those who manage the incentive system (i.e., the public equivalent of ''managers'').

Although the ultimate owners or shareholders in a democracy are the voters, we argue here that governments—and, in particular, the ministers or cabinet members—are the de facto owners. In the case of presidential regimes, like the United States, the legislators may also be considered as owners, as the extensive literature on the Congressional control of bureaucracy has emphasized (Miller 2005). Unlike private sector owners, members of government are not entitled to the *residual* produced by public employees, but, as Miller and Hammond (1994) remark, there are many ways through which politicians benefit from the residual generated by the provision of public policies. For example, as the OECD reports mentioned above show, governments frequently seem to have incentives to disappoint public employees by means of smaller increases in pay than the originally promised ones.

With regard to the managers in the public sector, it is difficult to establish a clear-cut classification, given the existence of many cross- and within-country differences. We base our definition here on previous work by public administration scholars who use the concept of "mandarins" for referring to the managerial ranks of civil service (e.g., Pollitt and Bouckaert 2004, 50–2). Mandarins or managers of the administration would be the senior civil servants or high officials, including, among others, positions like permanent secretaries in the United Kingdom or *directores generales* in Spain—that is, those who are responsible for the day-to-day management of public administrations.

Before developing this model, it is important to emphasize that, similar to previous TCE approaches such as Miller's (1992) or Gibbons' (2001) games between employees and managers, we focus on one particular trust relationship—the one between employees and their managers. The relationships between public managers or mandarins and elected politicians are outside the scope of analysis here. Therefore, the inferences on PRP systems of this theoretical model must be restricted to those public employees who are not mandarins. The incentive systems designed for the managerial ranks of civil service are outside the analysis of this article.

When there is no "separation" at all between ministers and mandarins, the parameter S in figure 2 would be zero. That would happen when ministers, or very close political appointees, manage the incentive system. In general, using the terminology of organizational economics, the more *common knowledge* it is that the manager is fully responsive to all demands by the minister, the closer the parameter S will be to zero. One plausible assumption along these lines is that the more the careers of mandarins depend on ministers (e.g., mandarins are political appointees or mandarins may be offered political positions in the future), the lower the value of S will be. On the contrary, if it is common knowledge that the manager is not fully responsive to all of the minister's demands, the parameter S will be higher, because the manager values her reputation as a committed-to-employees, long-term manager, for example. Similarly, it is plausible to assume that the more independent the careers of ministers and mandarins are (e.g., mandarins are not politically appointed or mandarins are banned from becoming politicians in the future), the higher the value of parameter S.

In institutional settings with high integration of minister–mandarin careers (S close to 0), public managers will obtain a higher payoff for violating trust than for honoring trust $[(A - S) > B]$. Conversely, in those polities with a high separation of minister–mandarin careers $[S > (A - B)]$, the public manager will prefer honoring trust rather than violating trust. The intuition behind this is that a *relatively separated* public manager values the long-term reputation of being a manager who honors trust more than the short-term political perquisites that would accrue in case he/she violates trust. When facing a manager with relatively separated interests, the choice for the public employee in the previous model changes in comparison to Miller's trust game. Now minimum effort gives the public employee a sure payoff of B, whereas maximum effort gives him/her the highest payoff (A). In other words, public employees have more incentives to undertake higher efforts in institutional settings of separation of interests between ministers and mandarins. The hypothesis that can be derived from this adaptation of Miller's game to the public sector could thus be stated as follows: ceteris paribus, the more separation between ministers' and mandarins' careers in a given polity, the closer the link between performance and pay for public employees.

ALTERNATIVE EXPLANATIONS

As mentioned earlier, general explanations of NPM reforms, such as the introduction of PRP systems in the public sector, fall mainly into three categories. Scholars have suggested that cross-country variations are dependent on administrative traditions, party politics, and economic globalization. However, when suggesting these categories we limit the discussion to explanations of cross-country differences. It is important to note that there are other approaches, specially within sociological or historical institutionalism, that have been used for explaining reforms in particular cases, such as Parrado's (2008) application of the concept of "layering" to Spanish public agencies (for a good summary, see Bezes and Lodge 2007).

Administrative Tradition

According to OECD reports and scholarly writing, the reasons for cross-country differences in incentive systems lie in countries' administrative traditions (OECD 2004a, 6; Peters 1997, 86). A country's administrative tradition "brings together several characteristics of administrative systems and demonstrates how these elements fit together to create more or less coherent institutions" (Peters 2008, 18), and should be separated from the much broader and more value-oriented concept of organizational culture (Hofstede 1991). The most prevalent division of administrative traditions in the literature is the dichotomy of public interest traditions, that is, mostly Anglo-Saxon countries, on the one hand, and "*Rechtsstaat*" traditions, which would include continental European and Scandinavian countries, on the other (Pollitt and Bouckaert 2004). Taking mostly the early reforms of the 1980s in the United Kingdom and the United States into account, several authors have attempted to explain NPM as characteristic of a public interest administrative tradition (Castles and Merrill 1989, 181; Pollitt 1990). It is a common practice among scholars within this field of research to state that *Rechtsstaat* administrative traditions—that is, "closed" civil service systems—would develop more "collectivist" incentives for employees, whereas public interest traditions—that is, "open" civil service systems—would foster more "individualistic" incentives such as PRP. Hence the literature has, generally speaking, emphasized that NPM reforms—such as PRP systems—are mainly introduced in countries with a public interest tradition, such as the United Kingdom, Canada, and New Zealand (Castles and Merrill 1989; Peters 1997; Pollitt 1990).

It should however be noted that even if the dichotomy between public interest and *Rechtsstaat* traditions is the most widespread division, several other finer graded categorizations of administrative traditions have been suggested. These categorizations have several advantages over the public interest/*Rechtsstaat* dichotomy, not the least being that it includes several different non-Western administrative traditions (see, e.g., Painter and Peters, forthcoming). Still, there are at this point no clear suggestions in the literature for how we should expect the finer graded administrative traditions to effect NPM reforms, which leave us with the hypothesis already discussed above.

Party Politics

Regarding political explanations, some scholars see NPM reforms as the result of the ascension to power of the "New Right" in the late 1970s and early 1980s (Bach 1999; Barlow et al. 1996; Pollitt 1993). It is argued that neoliberal and pro-market regimes would engender NPM reforms as they are ideologically motivated both to roll back big government and to introduce more market-oriented solutions, such as PRP, in the public sector. This ideological bias should to a large extent foster NPM reforms in countries with governments dominated by the political right. This argument is often backed by case studies of NPM reforms in the United Kingdom and the United States in the 1980s, where the reforms are attributed to the Thatcher government in the United Kingdom and the Reagan presidency in the United States (ibid.).

Globalization

One of the most prevailing accounts for NPM reforms in general and HR management changes in particular is the one that sees them as the consequence of the competitive pressures from globalization (Farazmand 1999). It is argued that the competitive pressure created by economic globalization causes the public sector to strive for a more efficient organization. And in line with this argument, public sector reforms would thus be the result of the challenges created by an open economy (Cope, Leishman, and Starie 1997, 448). One example often mentioned is that the convergence criteria of the European Monetary Union placed pressure on European governments to introduce reforms in the public sector (Thompson 2007, 50).

METHODS AND DATA

In theory, all OECD countries have some kind of PRP system (OECD 2004a, 4). In practice, only a few OECD countries can be considered to possess PRP that functions as a real incentive—that is, that the payment is linked to a performance evaluation that has an outcome, not known ex ante. In many OECD countries, on the contrary, performance rewards are frequently distributed without any formal assessment of individual performance. Instead, the assessment of performance is based on inputs such as the number of employees of a given unit, the funding of the agency, the goods and services received, or even the equipment and facilities possessed (OECD 2004a, 5). In addition, PRP systems have often simply been grafted onto existing pay systems (Ingraham 1996, 260). Consequently, as a dependent variable, we focus on the extent to which there is a link between public servants' performance appraisal and pay.

We obtain this data from the OECD's (2004a, 2005) Survey on Strategic Human Resources Management, answered by 25 member countries and which attempts to provide a comprehensive overview of the trends in PRP policies across countries. The survey represents the first exercise of data collection on PRP policies of such magnitude at comparative level. The data set covers PRP systems for civil servants in both managerial and nonmanagerial positions, scrutinizing the degree up to which performance appraisals are connected to output measures. For our purpose, it is not ideal that PRP systems also for the highest managerial positions are included in the data. However, as the country reports accompanying the data reveal, the measures are based on how PRP incentives work for public employees in general (OECD 2005, 93–180). As a result, the OECD classifies its member states into four main groups according to the depth of their PRP systems or the degree up to which public employees' pay is linked to performance assessments. Performance appraisal and pay can be: *very much linked* (4), *somewhat linked* (3), *slightly linked* (2), or *not linked* (1).

Self-reports by government officials, such as the Survey on Strategic Human Resources Management, are inherently problematic because of their subjective nature. Alternatively, we could have used observable data on the adoption of incentive systems in the OECD countries. For example, there is information about the year of adoption and extent of the legal changes that introduce incentive systems for most OECD countries (OECD 2004a). Yet, we cannot rely on it since these observable indicators are merely capturing the formal existence of PRP systems and do not tell us anything about the nature of the performance evaluation. As mentioned above, all countries appear to have highly developed PRP systems when one simply looks at the legal introduction of incentives and not to their real implementation. Nevertheless, the subjective perceptions from top civil servants in different countries exhibit a large variation. Whereas in some countries (e.g., Japan, Spain) top civil servants systematically report that there is no link between pay and an output-based performance appraisal, in other countries (e.g., Korea, Sweden) they report a strong link. These notable cross-country differences cast doubts on the possibility that this perception-based measure is merely representing wishful thinking by top civil servants or that it is only capturing the formal PRP system. If there are errors reflecting wishful thinking among the respondents, or formalities, they should be evenly distributed within the sample. As a consequence, the importance of PRP systems could generally be overrated, but one should not see these notable variations within the sample. To claim the opposite, one would need a theory on why the Swedish or Korean top civil servants are less honest in their reports than their Japanese or Spanish counterparts. Furthermore, it might also be noted that the perception-based measure is correlated with other recent reforms in HR practices in OECD countries (OECD 2004b, 17).

Regarding our main independent variable, it is important to remark that scholars have failed to agree on one single dimension to capture the essentials of minister–mandarin relations (Pollitt and Bouckaert 2004, 50–52). Some of the suggested dimensions are careers integration, politicization, and "bargains" between politicians and senior public officials (Hood 2002, 321; Peters and Pierre 2001, 3–8; 2004, 4–8; Pollitt and Bouckaert 2004, 51). Out of the available alternatives, careers integration is the closest proxy for the independent variable of our theoretical model: how intertwined interests of ministers and mandarins are.

We use a dichotomy suggested by Pierre (1995, 208) and used by Pollitt and Bouckaert (2004). They distinguish between separated and integrated careers. Pollitt and Bouckaert provide assessable data for 11 countries of our sample (2004, 51). We have coded the remaining 14 cases using available scholarly studies. We have examined academic literature as well as OECD reports covering the relations between ministers and mandarins and coded each country on the basis of the assertions made in those studies regarding the integration of careers of politicians and senior civil servants. Each country observation is backed by a minimum of 2 studies and a maximum of 15.

For the cases covered by Pollitt and Bouckaert (2004), the most clear examples of separated careers are those countries where civil servants are formally forbidden to be active members of political parties, such as the United Kingdom and Ireland (Van der Meer, Steen, and Wille 2007, 41). However, formal rules are not the only element determining the separation/integration of minister–mandarin careers. It also depends on the informal rules of acceptability in a given political administrative context. Although countries like the Netherlands, Denmark, and Norway may experience some particular political appointments, their public administrations are generally considered as nonpoliticized (Van der Meer, Steen, and Wille 2007, 42).

For the additional cases, we have searched for scholarly analyses of the extent of separation/integration and if none were available then for references to the existence or not in a given country of two types of politicization pointed out by Peters and Pierre (2004): top-down politicization (i.e., the extent of political appointees in administrative posts) and bottom-up politicization (i.e., the extent of political activities by civil servants). The careers of civil servants and ministers will be more integrated the more civil servants can be removed by politicians and the more civil servants can be appointed for top political positions. For example, in the Greek case (codified as *integrated*), Sotiropoulos (2004b, 258) explicitly refers to both the extensive penetration of the civil service by successive incoming governments (top-down politicization) and the strong involvement of civil servants in party politics (bottom-up politicization). An overview of the dependent and independent variables is presented in table 1 along with information on the sources for each country.

Concerning the administrative tradition variable, we use the category public interest tradition from Pollitt and Bouckaert (2004, 41) for the 11 cases of their sample and different standard sources on the same category for the additional 14 countries. The dummy administrative tradition has value 1 for public interest countries and 0 for all other administrative traditions. Because this is a crude measure, we have also used different specifications for administrative traditions in the empirical analysis, using the finer graded categorization from Painter and Peters (forthcoming). Yet, this does not affect the results. It should also be mentioned that in order to validate our coding, we have replicated the analyses shown in the next section, using the 11-country sample from Pollit and Bouckaert (2004). When excluding all the cases that we have coded the results remain the same, although no further inference should be made because of the low number of observations.

Regarding the influence of party politics on PRP, we use the number of years with right party dominance in the government for the time period from 1985 to 2004. Data on the largest government party comes from the Database of Political Institutions, available in the Quality of Government database (http://www.qog.pol.gu.se/).

We test the globalization hypothesis by introducing a standard proxy for the level of globalization experienced by each country: the degree of *trade openness*. To disregard the possibility that either this variable or any other variable would simply be capturing the effects of the level of economic development, we control for the *gross domestic product* (GDP) *per capita* as well. The economic variables come from the Gleditsch Expanded Trade and GDP Data and the Penn World Tables, which can also be found in the Quality of Government database (http://www.qog.pol.gu.se/).

There is one additional factor that should be taken into consideration. This is the possibility that separating minister and mandarin careers and the introduction of PRP are both part of the same reform package. As already mentioned, NPM is a very broad concept, and the introduction of PRP and the separation between politics and bureaucracy could both be seen as part of this concept. Thus, the relationship between the separation of minister and mandarin careers and PRP could be spurious—both driven by a third unknown variable.

Table 1
Minister–Mandarin Relations, Administrative Tradition, Right Dominance, and PRP Systems

Country	Link between Performance Appraisal and Pay[a]	Minister–Mandarin Relations	Administrative Tradition	Years of Right Party Dominance, 1985–2004
Australia[b]	Very much linked	Separate	Public interest	8
Austria[1]	Not linked	Integrated	Not public interest	5
Belgium[b]	Not linked	Integrated[c]	Not public interest	20
Canada[b]	Somewhat linked	Separate	Public interest	9
Czech Republic[2]	Very much linked	Integrated	Not public interest	6
Denmark[3]	Somewhat linked	Separate	Not public interest	12
France[b]	Slightly linked	Integrated	Not public interest	8
Finland[b]	Somewhat linked	Separate	Not public interest	0
Germany[b]	Somewhat linked	Separate	Not public interest	14
Greece[4]	Not linked	Integrated	Not public interest	3
Hungary[5]	Slightly linked	Integrated	Not public interest	4
Iceland[6]	Slightly linked	Separate	Not public interest	17
Ireland[7]	Slightly linked	Separate	Public interest	6
Italy[b]	Slightly linked	Integrated[c]	Not public interest	5
Japan[8]	Not linked	Integrated	Not public interest	19
Korea[9]	Very much linked	Separate	Not public interest	12
Luxembourg[10]	Not linked	Integrated	Not public interest	0
Mexico[11]	Not linked	Integrated	Not public interest	4
New Zealand[b]	Very much linked	Separate	Public interest	9
Norway[12]	Somewhat linked	Separate	Not public interest	10
Portugal[13]	Slightly linked	Integrated	Not public interest	12
Spain[14]	Slightly linked	Integrated	Not public interest	8
Sweden[b]	Very much linked	Separate	Not public interest	3
United Kingdom[b]	Very much linked	Separate	Public interest	13
United States[b]	Somewhat linked	Separate	Public interest	12

[a]Data on the link between performance appraisal and pay are from OECD (2004b, 17) Human Resources Management Party.
[b]Data on minister–mandarin relations from Pollitt and Bouckaert (2004, 42).
[c]Data missing on integration/separation dimension. Politicization is used as a proxy (Pollitt and Bouckaert 2004, 42).

1 Müller (2007, 41); Liegl and Müller (1999).
2 Vidaláková (2001, 99); Bertelsmann Stiftung (2007a, 18); Goetz (2001); Grzymala-Busse (2003).
3 Grönnegard Christensen (2001, 130; 2006, 1006). See also Nexö and Knudsen (1999); Grönnegard Christensen (1997); SIGMA (2007).
4 Lyrintzis (1984, 99); Spanou (1996, 107); Sotiropoulos (1996; 2004b, 258, 260, 17).
5 Gajduschek (2007, 354); Vass (2001, 166–69); Goetz (2001); Meyer-Sahling (2001); Grzymala-Busse (2003).
6 OECD (2004a, 17).
7 Connaughton (2006, 56); Chubb (1992).
8 Muramatsu and Krauss (1984, 128–29); Schneider (1993, 339); Nakamura (2001, 176–78).
9 Mathesen et al. (2007, 15, 25); Bertelsmann Stiftung (2007c).
10 OECD (2004a, 17).
11 Schneider (1993, 339, 344); Matheson et al. (2007, 12, 25); Bertelsmann Stiftung (2007b).
12 Laegreid and Pedersen (1996, 1998); Laegreid (2001).
13 Oliveira Rocha (1998, 219); Puhle (2001, 320); Sotiropoulos (2004a, 409); SIGMA (2007).
14 Alba (2001, 103); Puhle (2001, 320); Baena del Alcazar (2002, 326); Parrado (2000, 266; 2004, 231, 236–37); Sotiropoulos (2004a, 409); SIGMA (2007).

In order to test for this possibility, we would ideally need data on the evolution of these variables over time, showing that the separation of ministers and mandarins careers was already in place when PRP was first introduced. Since data are only available at the cross-sectional level, we deal with this problem at the end of the following section by undertaking an analysis of when PRP was first introduced and comparing it to the references in the literature regarding the separation of minister–mandarin careers in each country. This analysis is based on data from the OECD (2004b) Human Resources Management Working Party and scholarly case studies.

MINISTER AND MANDARIN RELATIONS AND PRP: EVIDENCE FROM 25 OECD COUNTRIES

In order to estimate the effect of minister–mandarin relations on the implementation of incentives in the public sector (developed in the section "Theory: When Do Incentives Work?"), we conduct the multivariate analyses as shown in table 2. In the different models, we control for alternative factors (explained in the section "Alternative Explanations"): the administrative tradition of the country, the influence of right parties in the government, and the degree of economic globalization (trade openness) and of economic development (GDP per capita). Given the potential problems of a large influence of single observations, we have tested the robustness of the results in two ways. First, we have identified cases where the minister–mandarin variable (our main independent variable) has the largest influence

Table 2
OLS and Ordered Logit Estimates for the Link between Performance Appraisal and Pay in the Public Sector

		OLS Regression Estimates		Ordered Logit Estimates	
	Predicted Direction	Minister–Mandarin Model	Minister–Mandarin Model (jackknifed estimates)	Minister–Mandarin Model	Minister–Mandarin Model (jackknifed estimates)
Minister–mandarin relations	Positive	1.65**** (0.406)	1.65**** (0.349)	5.0**** (1.54)	5.0**** (1.19)
Administrative tradition	Positive	0.27 (0.451)	0.27 (0.502)	0.93 (1.07)	1.34 (0.93)
Years of right party government, 1985–2004	Positive	−0.02 (0.033)	−0.02 (0.029)	−0.06 (0.093)	−0.06 (0.11)
GDP per capita	Positive	−0.00004 (0.00002)	−0.00004 (0.00003)	−0.0002* (0.00009)	0.0002 (0.0001)
Trade openness	Positive	−0.0002 (0.004)	−0.0002 (0.006)	−0.014 (0.013)	−0.014 (0.022)
Constant		2.7* (0.62)	2.7*** (0.81)		
R^2		0.59	0.59		
Pseudo-R^2				0.34	0.34
N		25	25	25	25

Note: The model is estimated with OLS and ordered logit estimates. In addition, all models have been tested with "jackknifed" estimates in order to assess the robustness of the results. To do so, we compute 25 new equations, deleting one country each time. The mean of the 25 new coefficients becomes the jackknifed coefficient for the variable and the SD of these 25 estimates becomes the SE. SEs are reported in parentheses.
*$p < .10$, **$p < .05$, ***$p < .01$, ****$p < .001$.

on the PRP level (the dependent variable), and we have then rerun the regressions. Excluding the five most influential cases from the analysis, the results do not change. In addition, we have excluded one country at a time from all regressions, using the standard technique of "jackknifed" estimates. The jackknifed estimate also reproduces the same results (reported in two columns in table 2, and further discussed below).

Table 2 reports ordinary least squares (OLS) regression results as well as ordered logit results, given that our dependent variable, with four categories, does not properly qualify as a continuous variable. The first and second columns show the OLS regressions with and without using jackknifed estimates, respectively. The minister–mandarin variable is the only significant factor—and at very high levels: 0.001—trumping the effects of the four control variables. The proxy for the administrative tradition variable goes in the predicted direction, but, intriguingly, the party variable and the two economic variables go in the opposite direction. The observation that left parties—and not right parties, as commonly argued—are associated with NPM reforms is consistent with some observations made by Peters (1997, 85). However, our findings do not empirically support that left governments implement more incentive systems due to the lack of significance of the coefficients, but they definitely speak against the prevailing hypothesis that right governments foster incentives in the public sector. The direction of the effects and the size of the coefficients are stable also in jackknifed estimates using OLS regression.

As already mentioned, our dependent variable is categorical and not well suited for using normal OLS regression. In column 3 we correct for this using ordered logit, and column 4 reports the ordered logit with jackknifed estimates. Nonetheless, as we can see, even with different empirical specifications, we obtain almost identical results. The only difference is that now GDP per capita—paradoxically the only control variable that has not been explicitly listed by scholars as relevant for understanding NPM variations and that was slightly insignificant with the OLS regression ($p = .109$)—becomes slightly significant ($p = .066$). Nevertheless, given its lack of theoretical support, its low and unstable significance as well as its poor bivariate correlation with the dependent variable ($-.05$), we cannot conclude any relevant (negative) effect of economic development on PRP systems. In the jackknifed ordered logit estimates, reported in column 4, the coefficients and significance levels are stable with this one exception.

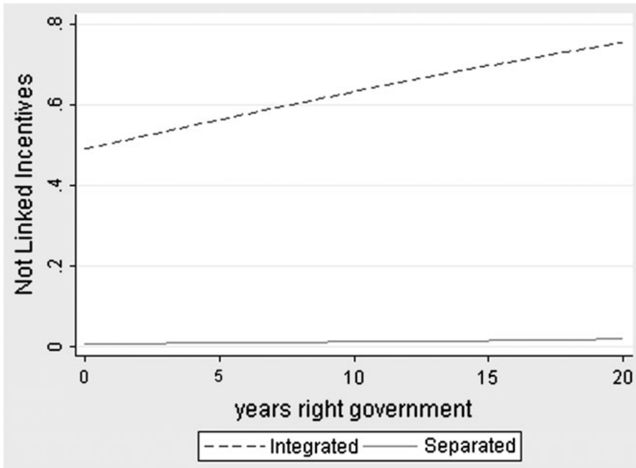
Since ordered logit coefficients cannot be interpreted directly, table 3 reports the predicted probabilities that the four different values of the dependent variable take under the two alternative categories of our independent variable. As standard in the literature, we keep the other independent variables at their mean (Long 1997, 135). One may thus see that, ceteris paribus, countries with integrated minister–mandarin relations have a 61% probability of having the lowest level of incentives (i.e., performance appraisal and pay are

Table 3
Predicted Probabilities of PRP Levels

Minister–Mandarin Relations	Link between Performance Appraisal and Pay			
	Not Linked	Slightly Linked	Somewhat Linked	Very much Linked
Integrated	.61	.35	.03	.005
Separated	.01	.13	.43	.43

Note: The table shows the predicted probabilities of different PRPs when the minister–mandarin relations are integrated or separated, and all other variables are kept at their mean.

Figure 3
Probabilities of Types of Incentives as a Result of Minister-Mandarin Relations and Government Party: *Not Linked* Incentives



not linked) and a mere 0.05% chance of developing the most sophisticated PRP system (*very much linked*). Quite the opposite, countries with a separation of careers between ministers and mandarins have very high probabilities of implementing the two most advanced incentive systems (43% for both cases), and almost negligible probabilities of having the two least developed types of PRP.

Similarly, figures 3–6 graph the probabilities of each one of the four possible outcomes of the dependent variable as a result of both minister–mandarin relations and the years under right government. In the first place, graphs help us visualize how countries with

Figure 4
Probabilities of Types of Incentives as a Result of Minister-Mandarin Relations and Government Party: *Slightly Linked* Incentives

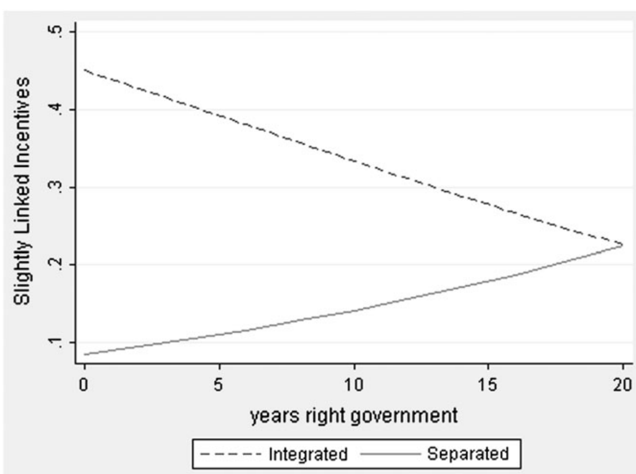
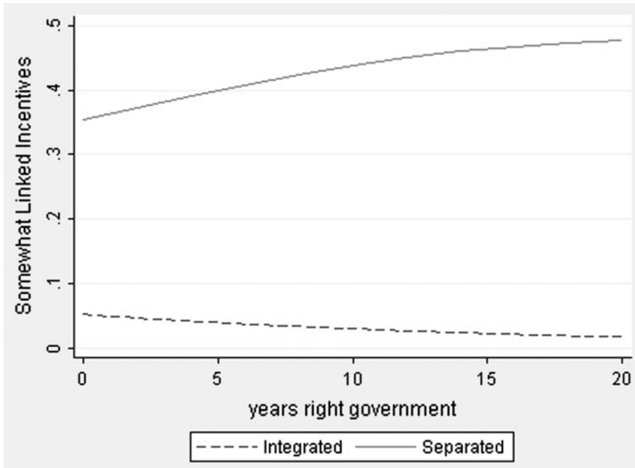


Figure 5
Probabilities of Types of Incentives as a Result of Minister-Mandarin Relations and Government Party: *Somewhat Linked* Incentives



a separation of careers always have lower probabilities of implementing the two least advanced PRP systems (*not linked* and *slightly linked*) and higher probabilities of introducing advanced PRP systems (*somewhat linked* and *very much linked*). At first sight, long tenures of right governments during the past 20 years do not seem to exert a systematic effect on incentives. Nevertheless, at least for the most extreme cases (*not linked* and *very much linked*), graphs show how the more years under a right government, the poorer the prospects of implementing advanced PRP systems a country has—that is, a higher probability that pay is not linked at all to performance appraisal and a lower probability that pay and

Figure 6
Probabilities of Types of Incentives as a Result of Minister-Mandarin Relations and Government Party: *Very Much Linked* Incentives

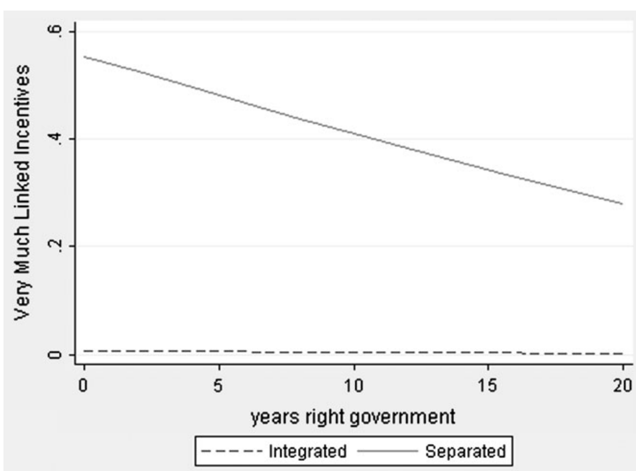


Table 4
Minister and Mandarin Relations, PRP Systems, and the Year of First PRP Reform in 25 OECD Countries

Country	Link between Performance Appraisal and Pay[a]	Year of First PRP Reform[b]
Integrated minister–mandarin relations		
Austria	Not linked	Missing data
Belgium	Not linked	Missing data
Czech Republic	Very much linked	Missing data
France	Slightly linked	2004
Greece	Not linked	No reform
Hungary	Slightly linked	2002
Italy	Slightly linked	1993
Japan	Not linked	Missing data
Luxembourg	Not linked	No reform
Mexico	Not linked	Missing data
Portugal	Slightly linked	Missing data
Spain	Slightly linked	1984
Separate minister–mandarin relations		
Australia	Very much linked	1997
Canada	Somewhat linked	1964
Denmark	Somewhat linked	1987
Finland	Somewhat linked	1992
Germany	Somewhat linked	1997
Iceland	Slightly linked	No reform
Ireland	Slightly linked	1995
Korea	Very much linked	1999
New Zealand	Very much linked	1988
Norway	Somewhat linked	Missing data
Sweden	Very much linked	1989
United Kingdom[a]	Very much linked	1985
United States[a]	Somewhat linked	1978

[a]Data on the link between performance appraisal and pay are from OECD (2004b, 17) Human Resources Management Party.
[b]Data on the year of the first PRP reform are from OECD (2004b, 12) Human Resources Management Party.

performance are very much linked. Again, it is important to bear in mind that the variable years of right government is not statistically significant in any of the models presented in table 2.

We now turn to the time sequence of our main independent and dependent variables in order to disregard the possibility that the separation of minister–mandarin relations and the introduction of PRP in the public sector are both part of a larger NPM reform package. As is evident from table 4, in 9 of the 15 countries where data are available on the year of the first PRP reforms, these incentives were mostly introduced during the past two decades. On the contrary, references to the degree of separation of minister–mandarin careers can be found in the literature from long before, which speaks against the possibility that they are both part of the same reform package (e.g., Pierre 1995). In addition, the literature emphasizes that minister–mandarin relations have been fairly stable during the same period (e.g., see the similarities in the statements on politicization among the authors within each country in footnotes 1–14). What is more, if we have a closer look at scholarly writing on countries that have introduced PRP systems in the public sector, we can see that they have a long tradition of separation between minister and mandarin careers.

Three countries often used as examples of NPM reform forerunners are Sweden, the United Kingdom, and Korea. In all these cases, the separation of minister and mandarin careers are products of long historical processes, and they were not introduced during the past decades (Pierre 1995). For example, the division between policymakers and civil servants in Sweden has a long history. This dualistic structure of the administration is in fact often considered the backbone of the Swedish administrative model (Premfors 1991; Ruin 2001). The same is true for the Korean and UK examples. Korea is one of the few OECD countries where political nonpartisanship of civil servants is entrenched in the 1948 constitution (Matheson et al. 2007, 14)—that is, long before the adoption of a PRP system. Regarding the United Kingdom, the country is *the* historical example of a clear difference between administration and party politics (Sausman and Locke 2004).

If, on the contrary, we have a closer look at one of the less successful cases in terms of implementation of incentives, and a country frequently considered as a ''laggard'' in the introduction of NPM reforms in human resources (Thompson 2007, 53), namely, France, we can see how the mechanisms of the theory may play a role. To start with, as we have seen above, there is only a slight link between performance appraisal and pay. In addition, France exclusively uses bonuses and not merit increments as PRP (OECD 2004a, 32). According to the OECD, it could even be argued that ''there is no real PRP system in France'' (OECD 2003: France). As mentioned in the theory, the lack of a clear delimitation between the careers of politicians and civil servants may help us understand the limited introduction of incentives within the French civil service system. Under conditions of mixture of interests, there will be frequent temptations for managers of the administration to opportunistically distort the incentive systems with ad hoc and subjective performance appraisals.

A 2004 report of a French committee of enquiry into the cost and efficiency of public services outlines the flaws of the appraisal process in France and clearly points out a failure of organizational trust. The report states that ''the adjustments made are not all based on an objective appraisal process. Individual appraisals with systematic annual interviews are by no means the rule. The opacity of the bonus system and the lack of rigor in the methods for individual and collective staff appraisal, [which are not] based on explicit criteria, lessen the legitimacy of bonus adjustments'' (OECD 2004a, 38). Likewise, the OECD country report on the implementation of PRP in France denounces its ''lack of transparency,'' that it is ''complex and obscure for most civil servants'' and, finally, that ''bonuses are usually distributed according to other criteria than performance'' (OECD 2003). Obviously, it is difficult to identify the exact mechanisms of our theory—blurred lines of demarcation between the careers of senior bureaucrats and ministers—as the main drivers of the widespread subjectivism detected in the French appraisal system.

Nevertheless, the OECD itself, when analyzing the failure of the French and other PRP systems, recognizes that politicization is one of the main impediments for developing objective performance appraisal systems. The OECD (2004, 34) considers that PRP systems create uncertainty in terms of who the ''winners'' and ''losers'' will be, and they can only work when they are perceived as mechanisms of ''procedural justice.'' Public employees are more likely to accept PRPs—even if they know that incentives could sometimes be disadvantageous to them when they do not manage to perform appropriately—if they feel that the process of distribution of incentives is ''fair.'' The OECD explicitly states that politicization impedes this: "where the level of political appointments is high, 'procedural justice' mechanisms [i.e., PRP systems] may be harder to set" (2004, 39). In presence of extensive politicization of the managers of the administration, PRP systems will likely have a "demotivating impact" on public employees (OECD 2004a, 39). This can be especially true if we take into account another significant difference between the British and the French incentive systems pointed out by the literature: Whereas the management of British PRP is delegated to autonomous agencies, pay setting is highly centralized in France (Thompson 2007, 53).

The findings shown here may also illuminate some empirical puzzles in cross-country comparisons of NPM reforms. Japan and Korea are similar in almost all aspects that scholarly literature has regarded as key for understanding the adoption of NPM reforms: Both come from a Confucian administrative tradition with highly closed civil service systems, they have mostly been ruled by right-wing governments for the latest decades, and they have faced an economic crisis in the 1990s that put on the political agenda the need for introducing incentive systems in the public sector. Nevertheless, Korea has shown more receptivity to NPM reforms than Japan, and, particularly, they end up in extreme positions in the continuum of implementation of PRP in the public sector—almost nonexistent in Japan and highly developed in Korea (OECD 2005, 36).

We provide an explanation for that difference: Whereas in Japan there is a clear integration of careers between politicians and high civil servants, in Korea there is a clear separation. The Korean civil service system is ranked among the countries where appointments of higher civil servants are "more administrative" (vs. "more political"), right after the United Kingdom, Denmark, and New Zealand (OECD 2005, 139). Korea is also one of the OECD countries with more legal restrictions on civil servants' involvement in political activities. Korean civil servants cannot stand for public office or exert high-profile party political activity, and they also face limits for other minor party activities (Matheson et al 2007, 19). On the contrary, there is a strong integration of politicians' and mandarins' careers in Japan. To start with, the relationships with politicians have large effects on the prospects for promotion and postretirement employment, the so-called *amakudari* positions, for bureaucrats. In addition, it is not uncommon that elite bureaucrats become involved in politics—and, for example, through the 1970s a majority of the Japanese Cabinet were former bureaucrats. Today, the new deputy ministers are often former bureaucrats and it is not uncommon that bureaucrats, after their retirement, become members of the Diet as the Liberal Democratic Party representatives (Connors 2000, 113).

CONCLUSIONS

This article has provided a parsimonious explanation to a puzzle that the prevailing cultural, political, and economical explanations of NPM reforms have been unable to account for. How can we explain that such widely differing societies as Japan, Mexico, France, or Ireland end up possessing similar NPM incentive systems that, in turn, are different from those of countries like the United States, the United Kingdom, Korea, or Sweden?

The theory of this article comes from developments in TCE, which consider that the main obstacle for the implementation of high-powered incentives in an organization is the lack of trust—and, more particularly, the systematic failure of managers in some organizations to provide credible commitments. The problem with incentives is mostly a problem of trust within organizations. Therefore, the challenge in any social organization is not to find an efficient incentive system—this is relatively easy to design—but to find an efficient system that members believe will not be opportunistically subverted by the superiors (Miller 2000, 6). The article has offered theoretical arguments and empirical evidence showing that this managerial credibility problem may be decisively reduced in public organizations when the interests of ministers and mandarins are separated.

Unlike common wisdom in the literature, this article does not argue that PRP requires a certain cultural legacy or "a mature and well established civil service culture and a stable political and policy environment" (OECD 2004a, 8). What PRP simply requires is a suitable institutional design: an organizational structure with relative separations of interests at the top. Moreover, it is commonly argued that PRP systems always involve trade-offs and thus "there is no 'best' solution" (OECD 2004a, 8). In contrast, we contend that, despite incentives inherently entailing costs in terms of higher risks than flat payments, there are in fact *better* and *worse* solutions depending on the institutional setting where incentives are applied. Incentives are *more* of a trade-off in some institutional contexts than in others.

Our argument is backed by a quantitative analysis of 25 OECD countries. Even after controlling for alternative cultural, political, and economic explanations, the findings show that PRP systems are significantly more used in countries with an administrative setting that separates ministers' and mandarins' careers.

It is important to note that this article has explained variations in the adoption of a particular component—PRP systems—within the wide package of reforms known as NPM. The question thus remains as to which extent we can generalize the results of this article to other NPM reforms. On the one hand, as stated above, we contend that, due to the inherent difficulties in scientifically tackling a concept as broad as NPM as a single unit, research should analyze observable components of NPM independently. On the other hand, there are two main reasons for why the findings here may be valid for explaining broader cross-national differences in the adoption of NPM—although, again, this cannot be assessed until each particular NPM reform is subjected to an independent analysis. First, as also argued before, the particular NPM element that this article addresses—the real implementation of PRP in the public sector—is a paradigmatic one since it exemplifies the main underlying values behind NPM as well as several of its main doctrinal components. Secondly, literature is increasingly pointing out one beneficial collateral effect of PRP: They are a window of opportunity for the introduction of many other significant NPM reforms (OECD 2004a, 42). In other words, wherever PRP incentives seem to work, other NPM reforms also seem to work.

Assuming that many governments may be interested in implementing efficient incentive systems that "increase and maintain their competitiveness as an employer" (Coleman Selden 2007, 40; OECD 2000), which could be the policy implications of this article? In order to make incentives feasible for the public sector, policy advisors have traditionally tended to recommend an "improved design" of PRP—including aspects such as developing a simple performance appraisal framework, consultation with staff, or the use of quotas (OECD 2004a, 34–35). Nevertheless, as TCE has shown for private firms and this article for public bureaucracies, the successful implementation of incentives does not seem to critically depend on their specific technical design. Instead of focusing on the specific design of incentives, reformers in both private and public organizations should devote their efforts to address a more basic organizational question: up to which extent do employees trust managers?

FUNDING

Bank of Sweden Tercentenary Foundation.

REFERENCES

Alba, Carlos. 2001. Bureaucratic politics in Spain. In *Politicians, bureaucrats and administrative reform*, eds. B. Guy Peters and Jon Pierre, 93–105. London: Routledge.

Bach, Stephen. 1999. Changing public service employment relations. In *Public service employment relations in Europe, transformation, modernization and inertia*, eds. Bach Stephen, Lorenzo Bordogna, Giuseppe Della Rocca, and David Winchester, 1–21. London: Routledge.

Baena del Alcazar, Mariano. 2002. On the nature of power: An examination of the governing elite and institutional power in Spain, 1939–1992. *Public Administration* 80:323–38.

Barlow, John, David Farnham, Sylvia Horton, and F. F. Ridley. 1996. Comparing public managers. In *New public managers in Europe: Public servants in transition*, eds. David Farnham, Sylvia Horton, John Barlow, and Annie Hondeghem, 3–25. London: Macmillan.

Bertelsmann Stiftung. 2007a. *BTI. 2008—Czech Republic country report*. Gütersloh, Germany: Bertelsmann Stiftung.

———. 2007b. *BTI 2008—Mexico country report*. Gütersloh, Germany: Bertelsmann Stiftung.

———. 2007c. *BTI 2008—South Korea country report*. Gütersloh, Germany: Bertelsmann Stiftung.

Bezes, Philippe, and Martin Lodge. 2007. Historical legacies and dynamics of institutional change in civil service systems. In *The civil service in the 21st century*, eds. Jos C. N. Raadschelders, Theo A. J. Toonen, and Frits M. Van der Meer, 121–36. Basingstoke, UK: Palgrave Macmillan.

Castles, Francis G., and Vance Merrill. 1989. Towards a general model of public policy outcomes. *Journal of Theoretical Politics* 1:177–212.

Chubb, Basil. 1992. *The government and politics of Ireland*. London: Longman.

Christensen, Tom, and Per Lægreid. 2001. New public management: The effects of contractualism and devolution on political control. *Public Management Review* 3 (1): 73–94.

Coleman Selden, Sally. 2007. Innovations and global trends in human resource management practices. In *The Handbook of Public Administration*, eds. Guy Peters B and Jon Pierre, 39–48. London: Sage.

Connaughton, Bernadette. 2006. Reform of politico-administrative relations in the Irish system: Clarifying or complicating the doctrine of ministerial responsibility? *Irish Political Studies* 21:257–76.

Connors, Lesley. 2000. Next steps for Japan: Administrative reform and the changing polity. *Asia-Pacific Review* 7:109–29.

Cope, Stephen, Frank Leishman, and Peter Starie. 1997. Globalization, new public management and the enabling state: Futures of police management. *International Journal of Public Sector Management* 10:444–60.

Eswaran, Mukesh, and Ashok Kotwal. 1984. The moral hazard of budget breaking. *Rand Journal of Economics* 15:578–81.

Farazmand, Ali. 1999. Globalization and public administration. *Public Administration Review* 59:509–22.

Gajduschek, György. 2007. Politicisation, professionalization, or both? Hungary's civil service system. *Communist and Post-Communist Studies* 40:343–62.

Gibbons, Robert. 2001. Trust in social structures: Hobbes and Coase meet repeated games. In *In Trust in society*, ed. Karen S. Cook, 332–53. New York: Sage.

Goetz, Klaus. 2001. Making sense of post-communist central administration: Modernization, Europe-anization or Latinization? *Journal of European Public Policy* 8:1032–51.

Grönnegard Christensen, Jörgen. 1997. Interpreting administrative change: Bureaucratic self-interest and institutional inheritance in government. *Governance* 10:143–74.

———. 2001. Bureaucratic autonomy as a political asset. In *Politicians, bureaucrats and administrative reform*, eds. Peters B. Guy and Jon Pierre, 119–31. London: Routledge.

———. 2006. Ministers and mandarins under Danish Parliamentarism. *International Journal of Public Administration* 29:997–1019.

Grzymala-Busse, Anna. 2003. Political competition and the politicization of the state in East Central Europe. *Comparative Political Studies* 36:1123–47.

Hofstede, Geert. 1991. *Cultures and organizations: Software of the mind: Intercultural cooperation and its importance for survival*. New York: McGraw-Hill.

Holmstrom, Bengt. 1982. Moral hazard in teams. *Bell Journal of Economics* 13:324–40.

Hood, Christopher. 1996. Exploring variations in public management reform of the 1980s. In *Civil service systems in comparative perspective*, eds. Hans Bekke, James Perry, and Theo Toonen, 268–87. Bloomington: Indiana Univ. Press.

———. 2002. Control, bargains, and cheating: The politics of public service reform. *Journal of Public Administration Research and Theory* 12:309–32.

Ingraham, Patricia W. 1996. The reform agenda for national civil service systems: External stress and internal strains. In *Civil service systems in comparative perspective*, eds. Hans Bekke, James Perry, and Theo Toonen, 247–67. Bloomington: Indiana Univ. Press.

Keller, Berndt. 1999. Germany: Negotiated change, modernization and the challenge of unification. In *Public service employment relations in Europe, transformation, modernization and inertia*, eds. Stephen Bach, Lorenzo Bordogna, Giuseppe Della Rocca, and David Winchester, 56–93. London: Routledge.

Laegreid, Per. 2001. Administrative reforms in Scandinavia—Testing the cooperative model. In *Public Sector Reform. An International Perspective*, ed. B. C. Nolan. London: Palgrave Macmillan.

Laegreid, Per, and Tom Christensen. 1998. Administrative reform policy: The case of Norway. *International Review of Administrative Sciences* 64:457–75.

Lægreid, Per, and Ove K. Pedersen, eds. 1996. *Integration og decentralisering. Personale og förvaltning i Skandinavien*. Copenhagen: Jurist- og økonomforbundet.

Levi, Margaret. 2005. Inducing preferences within organizations. In *Preferences and situations: Points of intersection between historical and rational choice institutionalism*, eds. Ira Katznelson and Barry R. Weingast, 219–46. New York: Sage.

Liegl, Barbara, and Wolfgang Müller. 1999. Senior officials in Austria: A first mapping exercise. In *Bureaucratic elites in Western European states*, eds. Edward C. Page and Vincent Wright, 90–120. Oxford, UK: Oxford Univ. Press.

Long, Scott J. 1997. *Regression models for categorical and limited dependent variables*. Thousand Oaks, CA: Sage.

Lyrintzis, Christos. 1984. Political parties in post-junta Greece: A case of bureaucratic clientelism? *West European Politics* 7:99–118.

Matheson, Alex, Boris Weber, Nick Manning, and Emmanuel Arnould. 2007. Study on the political involvment in senior staffing and on the delineation of responsibilities between ministers and senior civil servants. OECD Working Paper on Public Governance 2007/6. Paris: OECD.

Meyer-Sahling, Jan-Hinrik. 2001. Getting on track: Civil service reform in post-communist Hungary. *Journal of European Public Policy* 8:960–79.

Miller, Gary J. 1992. *Managerial dilemmas: The political economy of hierarchy*. Cambridge: Cambridge Univ. Press.

———. 2000. Above politics: Credible commitment and efficiency in the design of public agencies. *Journal of Public Administration Research and Theory* 10:289–328.

Miller, Gary J. 2005. The political evolution of principal-agent models. *Annual Review of Political Science* 8:203–25.

Miller, Gary J., and Dino Falaschetti. 2001. Constraining leviathan: Moral hazard and credible commitment in institutional design. *Journal of Theoretical Politics* 13:389–411.

Miller, Gary J., and Thomas Hammond. 1994. Why politics is more fundamental than economics. *Journal of Theoretical Politics* 6:5–26.

Muramatsu, Michio, and Ellis Krauss. 1984. Bureaucrats and politicians in policymaking: The case of Japan. *American Political Science Review* 78:126–46.

Müller, Wolfgang. 2007. The changing role of the Austrian civil service: The impact of politicisation, public sector reform, and Europenisation. In *From the active to the enabling state*, eds. Edward C. Page and Vincent Wright, 38–62. London: Palgrave Macmillan.

Nakamura, Akira. 2001. Party members, elite bureaucrats and government reform in Japan's changing political landscape. In *Politicians, bureaucrats and administrative reform*, eds. B. Guy Peters and Jon Pierre, 169–79. London: Routledge.

Naschold, Frieder. 1996. *New frontiers in new public management*. Berlin: Walter de Gruyter.

Nexö Jensen, Hanne, and Tim Knudsen. 1999. Senior officials in the Danish central administration: From bureaucrats to policy professionals and managers. In *Bureaucratic elites in Western European states*, eds. Edward C. Page and Vincent Wright, 229–48. Oxford, UK: Oxford Univ. Press.

OECD. 1997. *Performance pay schemes for public sector managers: An evaluation of the impacts*. Paris: OECD.

———. 2000. *Trust in government: Ethics measures in OECD countries*. Paris: OECD.

———. 2003. *Country reports on performance-related pay from France, Germany, the UK and Sweden.* Unclassified document.

———. 2004a. *Performance-related pay policies for government employees: Main trends in OECD member countries.* Unclassified document.

———. 2004b. *Trends in human resources management policies in OECD member countries: An analysis of the results of the OECD survey on strategic human resources management.* Unclassified document.

———. 2005. *Performance-related pay policies for government employees*. Paris: OECD.

Oliveira Rocha, Jose A. 1998. La fin de l'etat administratif au Portugal. *Revue Francaise d'Administration Publique* 86:219–27.

Painter, Martin, and B. Guy Peters. Forthcoming. Administrative traditions in comparative perspective. In *Tradition and public administration*, eds. Martin Painter and B. Guy Peters. New York: Palgrave Macmillan.

Parrado, Salvador. 2000. The development and current features of the Spanish civil service system. In *Civil services systems in Western Europe*, eds. Hans Bekke and Frits M. van der Meer, 247–74. London: Edward Elgar.

———. 2004. Politicisation of the Spanish civil service: Continuity in 1982 and 1996. In *Politicization of the civil service in comparative perspective*, eds. Peters, B. Guy and Jon Pierre. London: Routledge, 227–56.

———. 2008. Failed policies but institutional innovation through 'layering' and 'diffusion' in Spanish central administration. *International Journal of Public Sector Management* 21:230–52.

Peters, B. Guy. 1997. Policy transfers between governments: The case of administrative reforms. *West European Politics* 20:71–88.

———. 2008. The Napoleonic tradition. *International Journal of Public Sector Management* 21:230–52.

Peters, B. Guy, and Jon Pierre. 2001. Civil servants and politicians: The changing balance. *Politicians, bureaucrats and administrative reform*, eds. Peters, B. Guy and Jon Pierre. London: Routledge. 1–10.

———. 2004. Politicization of the civil service: Concepts, causes, consequences. In *Politicization of the civil service in comparative perspective*, eds. Peters, B. Guy and Jon Pierre. London: Routledge. 1–13.

Pierre, Jon. 1995. Conclusions: A framework of comparative public administration. In *Bureaucracy in the modern state*, ed. Jon Pierre, 205–18. London: Edward Elgar.

Pollitt, Christopher. 1990. Performance indicators: Root and branch. In *Output and performance measurements in government: The state of the art*, eds. Martin Cave, Maurice Kogan, and Robert Smith, 167–78. London: Jessica Kingsley.

———. 1993. *Managerialism and the public service*. Oxford, UK: Blackwell.

Pollitt, Christopher, and Geert Bouckaert. 2004. *Public management reform. A comparative analysis*. Oxford, UK: Oxford Univ. Press.

Premfors, Rune. 1991. The 'Swedish model' and public sector reform. *West European Politics* 14:83–95.

Puhle, Hans-Jürgen. 2001. Modernizers and late modernizers: Socialist parties in the New Southern Europe. In *Parties, politics, and democracy in the New Southern Europe*, eds. Nikiforos P. Diamandouros and Richard Gunther, 270–328. Baltimore: Johns Hopkins Univ. Press.

Ruin, Olof. 2001. The duality of the Swedish central Administration: Ministries and central agencies. In *Handbook of comparative and developmental public administration*, ed. Ali Farzmand, 175–86. Basel, Switzerland: Marcel Dekker.

Sausman, Charlotte, and Rachel Locke. 2004. The British civil service. Examining the question of politicisation. In *Politicization of the civil service in comparative perspective*, eds. B. Guy Peters and Jon Pierre, 101–24. London: Routledge.

Schneider, Ben Ross. 1993. The career connection: A comparative analysis of bureaucratic preferences and insulation. *Comparative Politics* 25:331–50.

SIGMA. 2007. *Political advisors and civil servants in European countries.* SIGMA paper no 30. Unclassified document.

Sotiropoulos, Dimitri A. 1996. *Populism and bureaucracy: The case of Greece under PASOK, 1981–1989*. London: Notre Dame Univ. Press.

———. 2004a. Southern European public bureaucracies in comparative. Perspective. *West European Politics* 27:405–22.

———. 2004b. Two faces of politicization of the civil service: The case of contemporary Greece. In *Politicization of the civil service in comparative perspective*, eds. Peters, B. Guy and Jon Pierre. London: Routledge. 257–82.

Spanou, Calliope. 1996. Penelope's suitors: Administrative modernization and party competition in Greece. *West European Politics* 19:97–124.

Teorell, Jan, Sören Holmberg, and Bo Rothstein. 2008. *The quality of government dataset, version May 15, 2008*. Quality of Government Institute, Univ. of Gothenburg. http://www.qog.pol.gu.se.

Thompson, James R. 2007. Labor-management relations and partnerships: Were they reinvented? *The handbook of public administration*, eds. Peters, B. Guy and Jon Pierre, London: Sage, 49–62.

Van der Meer, Frits M., Trui Steen, and A. Anchrit Wille. 2007. Western European civil service systems. A comparative analysis. In *The civil service in the 21st century*, eds. Jos C. N. Raadschelders, Theo A. J. Toonen, and Frits M. Van der Meer, 34–49. Basingstoke, UK: Palgrave Macmillan.

Vass, László. 2001. Civil service development and politico-administrative relations in Hungary. In *Politico-administrative relations: Who rules?*, ed. Tony Verheijen, 45–63. Budapest, Hungary: NISPAcee.

Vidaláková, Olga. 2001. Politico-administrative relations in the Czech Republic. In *Politico-administrative relations: Who rules?*, ed. Tony Verheijen, 86–108. Budapest, Hungary: NISPAcee.

Williamson, Oliver E. 1975. *Markets and hierarchies*. New York: Free Press.